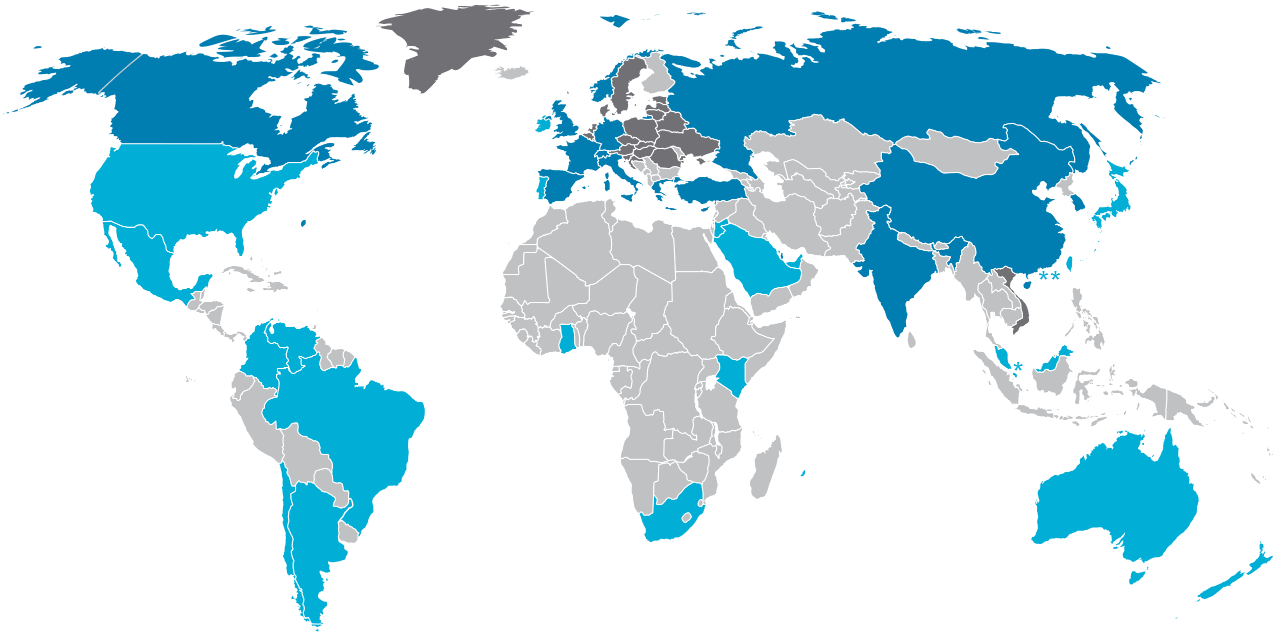
Group Annual Report 2012
Munich Re

2012

WE ADVANCE AS ONE

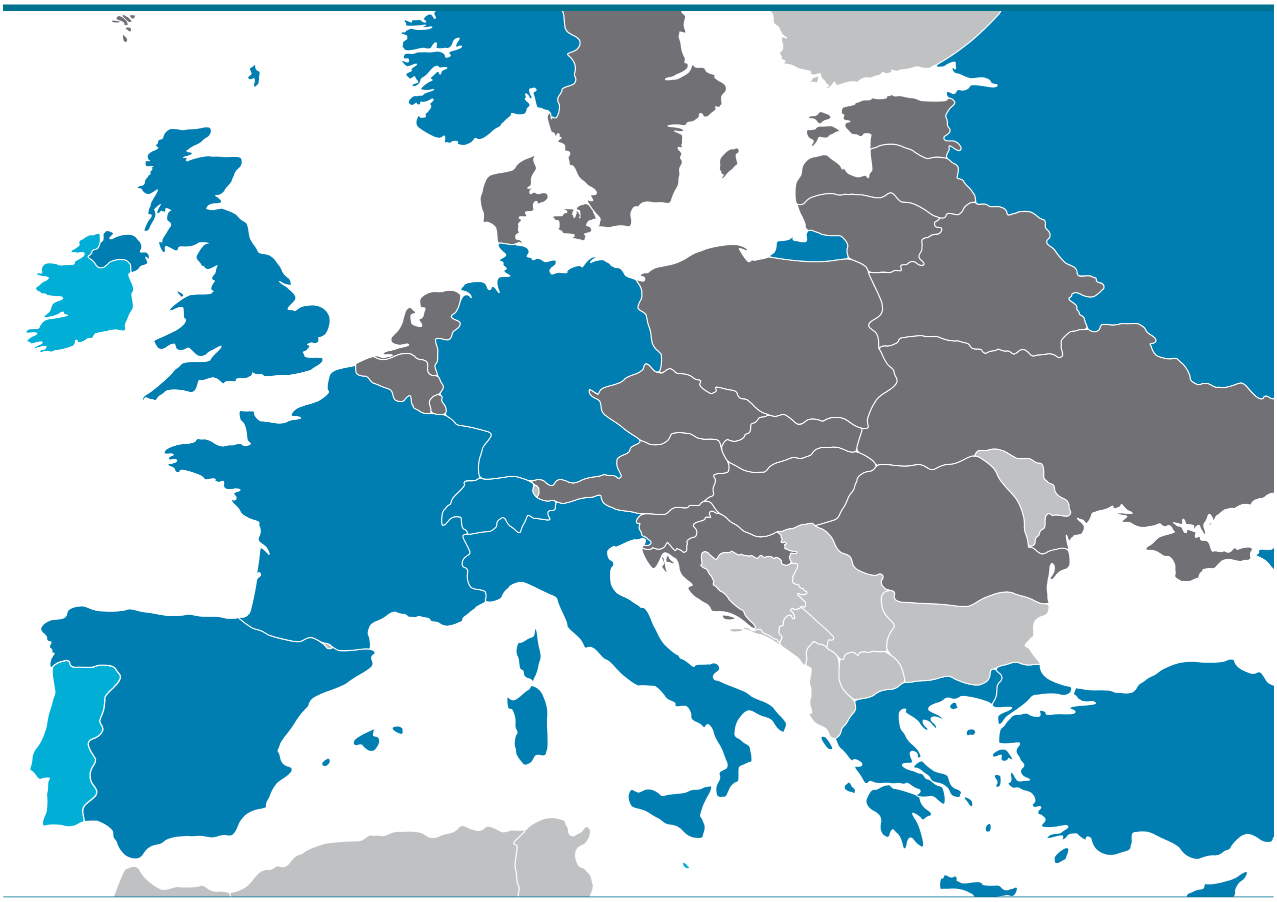
Munich Re's global presence[1]

Munich Re's presence – Worldwide



* Singapore ** Hong Kong

Munich Re's presence – Europe-wide



- Reinsurance
- Primary insurance
- Reinsurance and primary insurance

1 Including Munich Health's primary insurance and reinsurance activities in the health market as at 31 December 2012.

Key figures (IFRS)[1, 2]

Munich Re at a glance

» Key figures (IFRS) – Munich Re (XLS, 20 KB)

		2012	2011	2010	2009	2008
Gross premiums written	€bn	52.0	49.5	45.5	41.4	37.8
Net earned premiums	€bn	50.5	47.3	43.1	39.5	35.7
Net expenses for claims and benefits	€bn	41.0	40.9	36.6	32.4	28.7
Net operating expenses	€bn	12.6	12.0	11.1	10.2	9.1
Operating result	€m	5,350	1,180	3,978	4,721	3,834
Taxes on income	€m	866	-552	692	1,264	1,372
Consolidated result	€m	3,211	712	2,430	2,564	1,579
Attributable to non-controlling interests	€m	16	10	8	43	24
Earnings per share	€	17.98	3.94	13.06	12.95	7.74
Dividend per share	€	7.00	6.25	6.25	5.75	5.50
Amount distributed	€m	1,254	1,110	1,110	1,072	1,073
Share price at 31 December	€	136.00	94.78	113.45	108.67	111.00
Munich Re's market capitalisation at 31 December[3]	€bn	24.4	17.0	21.4	21.5	22.9
Book value per share	€	152.25	129.86	126.31	114.89	106.42
Investments	€bn	213.8	201.7	193.1	182.2	174.9
Equity	€bn	27.4	23.3	23.0	22.3	21.1
Return on equity	%	12.6	3.3	10.4	11.8	7.0
Off-balance-sheet unrealised gains and losses[4]	€bn	11.0	5.7	3.6	3.2	2.5
Net technical provisions	€bn	186.1	181.2	171.1	163.9	157.1
Balance sheet total	€bn	258.4	247.6	236.4	223.4	215.4
Staff at 31 December		45,437	47,206	46,915	47,249	44,209

Reinsurance

» Key figures (IFRS) – Reinsurance (XLS, 20 KB)

		2012	2011	2010	2009	2008
Gross premiums written	€bn	28.2	26.0	23.6	21.8	21.9
Investments	€bn	83.8	79.5	83.7	76.8	78.4
Net technical provisions	€bn	61.1	62.7	56.6	53.4	55.8
Large and very large losses (net)	€m	1,799	5,048	2,228	1,157	1,507
Natural catastrophe losses	€m	1,284	4,538	1,564	196	832
Combined ratio property-casualty[5]	%	91.0	113.8	100.5	95.3	99.4

Primary insurance

» Key figures (IFRS) – Primary insurance (XLS, 16 KB)

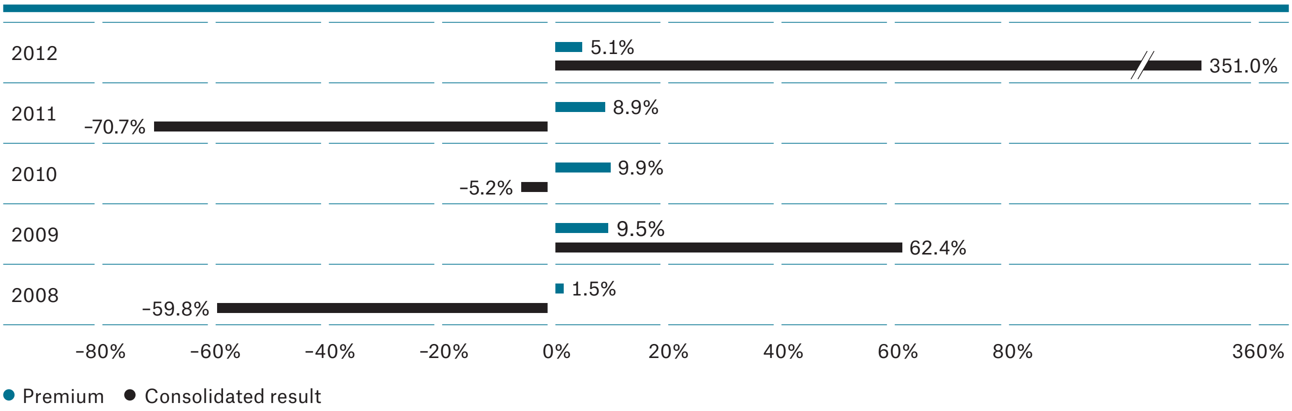
		2012	2011	2010	2009	2008
Gross premiums written	€bn	17.1	17.4	17.5	16.6	17.0
Investments	€bn	124.9	117.0	121.8	118.4	114.0
Net technical provisions	€bn	122.7	116.1	111.2	107.7	101.4
Combined ratio property-casualty	%	98.7	99.1	96.8	93.2	90.9

Munich Health

		2012	2011	2010	2009	
Gross premiums written	€bn	6.7	6.0	5.1	4.0	
Investments	€bn	4.2	4.6	4.1	3.1	
Net technical provisions	€bn	2.2	2.4	3.3	2.9	
Combined ratio[6]	%	100.2	99.5	99.7	99.4	

1 Previous years' figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
2 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.
3 Up to and including 2010, this contains own shares earmarked for retirement.
4 Including those apportionable to minority interests and policyholders.
5 The figures for 2011 are not adjusted for relief of 1.4 percentage points from economic risk transfer to the capital markets.
6 Excluding health insurance conducted like life insurance.

Premium/result development



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Group Annual Report 2012

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are provided on the pages
separating the individual sections.

To our shareholders

1

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Dr. Nikolaus von Bomhard
Chairman of Munich Reinsurance
Company's Board of Management

Dear Shareholders,

We live in a world that has become more uncertain and thus less predictable, less calculable. This makes our job as providers of insurance and reinsurance more challenging, but at the same time it increases demand for insurance solutions.

Allow me to elaborate on these thoughts a little. What uncertainty am I referring to, and where and how does this affect us?

To begin with, there are major political upheavals, such as those witnessed most recently in North Africa, but also the conflicts that have troubled us for many years, like those in the Middle East. Other sources of uncertainty are the sovereign debt crisis and the future handling of systemic risk in the financial sector. Besides this, it still remains unclear how politicians propose to address the ever more urgent challenges facing humankind: the increasing gap between rich and poor; the problem of providing a continually growing global population with food, water and energy; or the deep-seated demographic changes, such as the ageing of the population in industrialised nations, which is putting immense pressure on social security systems in those countries. And then there is the issue which in our view has been pushed far too much into the background by the financial crisis: climate change, with the pressing need to reduce or at least restrict CO_2 emissions and adapt to the already altered climatic conditions.

Even this far-from-complete list clearly illustrates the enormity of the challenges and related uncertainties. What does this mean for us as insurers? What are the implications for our business strategy?

It is the core business of insurers to assume risks from their clients and give them security – for us, therefore, uncertainty means not only risk but also opportunity.

With our risk knowledge, we play our part in offering solutions for a few of the challenges I have just mentioned – solutions that can relieve individuals and companies of some of the uncertainty. The spectrum ranges from life insurance for old age to assistance services after accidents and protection against business interruption. And in reinsurance, we fulfil our economic function by providing primary insurers with cover against peak risks, such as those from large natural catastrophes. Whether primary insurance or reinsurance – what we offer has to be constantly adjusted to reflect the latest developments. Take life insurance, for example, where in the current environment of persistently low interest rates we intend to present a completely new product generation by the middle of this year. These products will take into account the wishes of many of our clients for more flexibility, geared to the different phases in their lives.

In our day-to-day business, we deal with a vast number of very different risks and, in covering them, we aim to make the world a little more secure by means of creative and tailor-made solutions. The "pacemaker" function of our insurance covers becomes evident in the context of responses to climate change. Here, we are partnering the introduction of new technologies in the field of renewable energy with innovative products. A good example is our performance guarantee insurance for photovoltaic modules, which provides manufacturers with balance sheet relief for a portion of the long-term technical guarantee risk. As a result, this solution also reduces risks for investors and offers additional security for buyers. And as investors ourselves, we naturally also support a broad range of entrepreneurial activities that are essential for managing the major challenges of our time.

Our task of assuming and covering risks has not been made any easier by the challenges I have described. It is imperative for our business that we understand the risks we take onto our balance sheet in insurance or reinsurance, and that we identify new trends in good time and respond appropriately. The uncertainty in the financial markets also has a significant impact on the assets side of our balance sheet, on our investments. How do we cope with this high measure of uncertainty?

The main tool we use is our strict and disciplined risk management, which is firmly embedded in all our business operations. We monitor and assess all the identifiable risks holistically, that is for both sides of the balance sheet. This begins with a dedicated unit for "emerging risks", by which we mean new types and combinations of risk whose implications are still uncertain. And it ends with the active management of diversification – the conscious mixing of risks that have little or no correlation. In all this, we use models based on assumptions and parameters that are continually checked for plausibility and comprehensibility, also by us on the Board of Management. Common sense is indispensable in these considerations, as is the readiness to challenge the results of calculations by means of stress tests and scenario analyses. It is not possible, of course, to properly identify every risk or to always assess the correlations between different risks correctly. But as recent years show, we have succeeded relatively well – also during the financial crisis – in taking sensible decisions on the basis of our risk management systems.

On this note, I am glad to report that against this background we achieved a very pleasing result in the past financial year, with a profit of €3.2bn. Besides our rigorous risk management, the foundation of this result was our disciplined underwriting policy and the realisation of profitable business opportunities, including in particular the provision of innovative solutions for new risk situations. Our core business in insurance and reinsurance is healthy, while the claims burden from major losses in 2012 was slightly below average. On top of this, we posted a good investment result. We want you, our shareholders, to participate in last year's success through a higher dividend. Subject to your adoption of our proposal at the Annual General Meeting, the dividend will increase to €7 per share.

Ladies and gentlemen, you again placed your trust in us in 2012, for which I would like to expressly thank you, also on behalf of my colleagues on the Board of Management and the staff in our Group. We will continue to make every effort to fulfil the expectations you have of your investment in Munich Re shares.

Yours sincerely,

Nikolaus von Bomhard

Q1/2012

18 January 2012
To complement the performance guarantee cover for photovoltaic manufacturers, Munich Re launches a new product that provides protection against the risk of manufacturers' insolvency, thus strengthening our position in the renewables market. The new insurance covers the risk borne by plant operators that solar module output may, in the course of time, fall below the level guaranteed by a manufacturer that can no longer be held liable under its warranties due to insolvency.

18 March 2012
Hartford Steam Boiler (HSB) announces the launch of contractors errors and omissions (E&O) coverage targeted specifically at small "artisan-type" contractors. Although small contracting projects face many of the same risks and liabilities as larger ones, contractors E&O coverage has not been widely and affordably available to small businesses.

20 March 2012
HSB introduces the first cyber-risk cover combining protection against device failure with optional coverage for data loss and identity theft.

Q2/2012

13 April 2012
ERGO enters the Chinese insurance market, launching a joint venture together with a local partner. The joint-venture company will mainly offer life insurance products for private clients in the economically attractive province of Shandong.

14 May 2012
ERGO publishes its first-ever customer report, presenting in a clear and understandable way what ERGO is doing to implement its brand proposition "To insure is to understand". The report focuses on customers and their questions and suggestions.

16 May 2012
MEAG invests in the German natural gas grid. The investment is part of the infrastructural investment programme with which Munich Re plans to place up to €1.5bn in this segment over the coming years.

19 June 2012
Munich Re signs the "Principles for Sustainable Insurance" (PSI) of the United Nations Environmental Programme Finance Initiative. The PSI are intended to serve insurers as a guideline for considering sustainability criteria in conducting their core business. As one of the initial signatories, Munich Re commits itself to applying the principles consistently in planning and implementing its strategy of sustainable, long-term value creation.

Q3/2012

19 July 2012
Munich Re again transfers US hurricane and European windstorm risks with a total volume of €100m to the capital market.

13 August 2012
On behalf of Munich Re, MEAG acquires three wind farms in the United Kingdom connected to the UK grid, with a total installed capacity of 102 megawatts. The investment in the low three-digit million range is part of the RENT programme (Renewable Energy and New Technologies) with an envisaged volume of €2.5bn.

10 September 2012
Nikolaus von Bomhard, Chairman of Munich Re's Board of Management, is chosen as the 2012 Insurance Leader of the Year by St. John's University's School of Risk Management in New York. The prestigious award is presented to him on 16 January 2013.

25 September 2012
Munich Re celebrates the 100th anniversary of Munich Re's first reinsurance treaty in Japan and the 50th anniversary of our reinsurance branch in Hong Kong.

Q4/2012

1 November 2012
ERGO signs a joint-venture agreement with the Avantha Group in India. The new company will offer life insurance products for private clients. ERGO thus strengthens its presence in the emerging Asian markets.

6 November 2012
Munich Health, Munich Re's health specialist, and the underwriting agency International Reinsurance Managers, LLC agree to cooperate in the Latin American health reinsurance market. Their aim is to offer cedants their global pricing know-how, and services specifically geared to Latin American customers' challenges.

31 December 2012
The Chairman of the Munich Re Supervisory Board, Hans-Jürgen Schinzler, retires from office on age grounds. He joined Munich Re in 1968, becoming a member of the Board of Management in 1981 and holding the office of Chairman of the Board of Management from 1993 to 2003. He had been a member of the Supervisory Board and its Chairman since 2004. He is succeeded as Chairman by Bernd Pischetsrieder, a member of the Supervisory Board since 2002. Ann-Kristin Achleitner is selected as a new member of the Supervisory Board.

Members of the Board of Management from left to right

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

Peter Röder
Global Clients and North America

Nikolaus von Bomhard
Chairman of the Board of Management, Chairman of the Group Committee
Group Development; Group Investments; Group Communications; Group Compliance; Group Audit

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

Georg Daschner
Europe and Latin America

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

Joachim Wenning
Life

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

Ludger Arnoldussen
Germany, Asia Pacific and Africa; Services

Munich Re shares

- Financial markets impacted by sovereign debt and banking crisis
- Munich Re shares prove an attractive investment: rise in share price of 43.5% and return of 51.6% including the dividend
- Our shares clearly outperform the DAX 30 and the DJ Euro STOXX Insurance
- Board of Management and Supervisory Board to propose payment of an increased dividend of €7.00 per share at the Annual General Meeting

Munich Re shares with convincing performance

The sovereign debt and banking crisis in Europe continued to impact the capital markets in 2012. Our share price recorded its year low of €91.39 at the start of the year, on 9 January. The global economy soon showed signs of stabilising, however, and there was a recovery on the stock markets. Yet following worsening problems in the eurozone, global economic development lost momentum in the further course of the year. It was not until the European Central Bank announced that under certain circumstances it would buy up unlimited government bonds of crisis countries on the secondary market, and the ESM (European Stability Mechanism) rescue fund was set up, that the financial markets became calmer again. With the alleviation of the situation in Europe, investors regained confidence: in the second half of the year, the stock markets profited from a growing investor risk appetite, fuelled by the low yields on the bond markets. Insurance stocks also benefited from this development. Our share price reached its year high of €137.95 on 27 December.

The stocks of European insurers performed better than the stock market as a whole

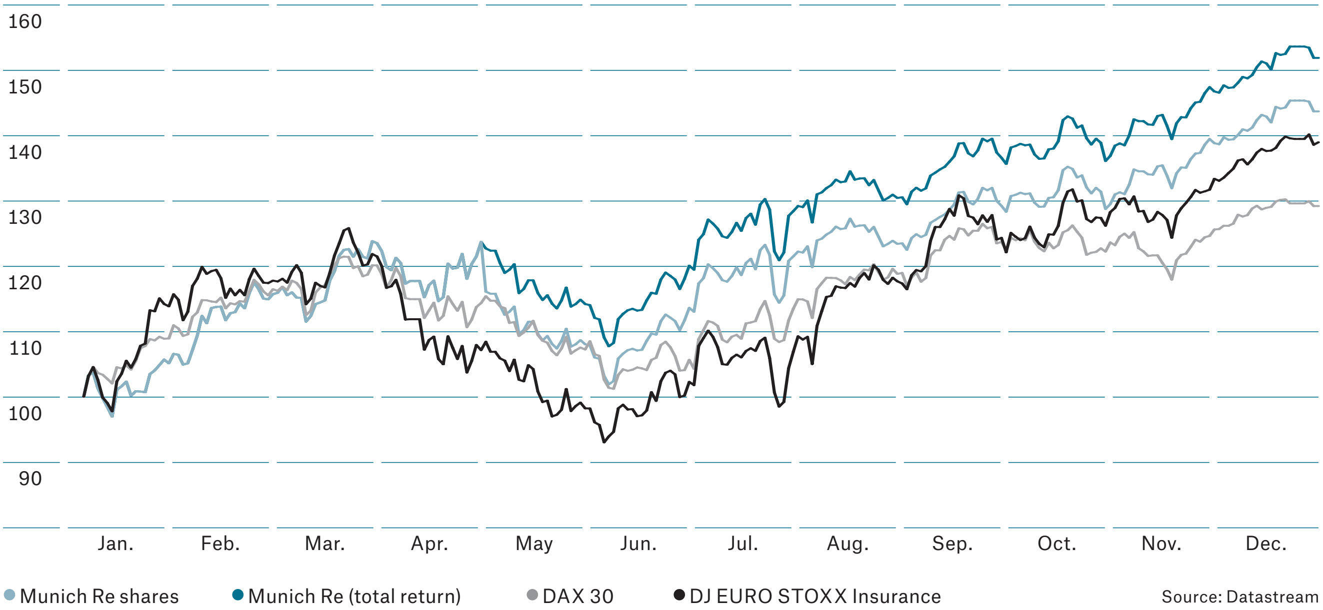
Compared with many other sectors, the insurance industry again showed itself to be robust and stable in the year under review: the DJ EURO STOXX Insurance performed significantly better than the DJ Euro STOXX 600 and even surpassed the DJ Euro STOXX Banks. Although falling interest rates increasingly exerted pressure on the running yield from investments, insurers were still able to realise substantial gains on disposals. Moreover, despite Windstorm Sandy, their overall bill from major losses was comparatively low.

Within the insurance sector, the persistently low interest-rate environment posed considerable challenges, particularly for life primary insurers, which have to meet interest-rate guarantees. By contrast, reinsurers benefited in 2012 from much lower expenditure for natural catastrophes than in the previous year and from the lower interest-rate sensitivity of their risk and profitability profile. Given the reinsurance industry's strong capitalisation, the prospect of rising dividends played a significant role in investment decisions. As a consequence, reinsurers' stocks increased strongly in price.

Against this background, Munich Re shares proved themselves to be a very attractive investment. We benefited primarily from the pleasing development of our core operational business. The exceptional accumulation of natural catastrophes in the previous year led to rising rates in property-casualty reinsurance. Additional positive factors were slightly below-average costs for major losses, and an investment result that was good in the light of the low interest-rate environment, thanks to our prudent investment decisions and active duration management. We succeeded in surpassing our original result target for the year by the end of the third quarter and were therefore able to announce the prospect of a dividend increase to our shareholders at an early stage.

Munich Re shares closed the year at €136.00, once again having demonstrated the attractiveness of their clear and dependable investment profile. With a rise in price of 43.5% in the year under review, they outperformed both the DAX 30 (+29.1%) and the DJ EURO STOXX Insurance (+34.1%). Taking into account the dividend paid for the financial year 2011, the performance was even better, with a total return on Munich Re shares of +51.6%. The medium- and long-term performance of Munich Re shares is also convincing: over the last three- and five-year periods, their price performance (in terms of total return) has bettered that of the benchmark indices DAX 30 and DJ EURO STOXX Insurance.

Share price performance 1.1.2012 = 100



More than 40 analysts from banks and brokerage houses regularly evaluate our shares. At the end of December 2012, some 36% of the analysts gave our shares a positive assessment, 45% a neutral one, and only 19% a negative rating.

Weighting of Munich Re shares[1]

	%
DAX 30	3.3
DJ EURO STOXX 50	1.4
DJ EURO STOXX Insurance	12.1
MSCI EURO	1.2
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.3

1 Status: 31 December 2012.

Active capital management remains an integral part of Munich Re's business policy. We pursue a policy of stable dividends with increases where possible, the payout essentially being based not only on the result for the year but also on our capital requirements. Bearing this in mind, we generally aim to pay out at least 25% of the annual result to our shareholders as a dividend.

Proposed increase in the dividend to €7.00

For the financial year 2012, the Board of Management and the Supervisory Board intend to propose a dividend of €7.00 at the Annual General Meeting on 25 April 2013. Altogether, this would mean a total payout of just under €1.3bn (previous year: €1.1bn). Subject to approval by the Annual General Meeting, the dividend will be paid on 26 April 2013. With an increase in the dividend, we are again underlining the sustained profitability of our business model and the solidity of our capital position.

With a dividend yield of approximately 5.2% (in relation to the year-end share price), Munich Re shares remain an attractive equity investment, which is also included in the DivDAX, a subindex of Deutsche Börse AG featuring the 15 DAX companies with the highest dividend yields.

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

Securities reference numbers

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

The average daily turnover of Munich Re shares in Xetra and floor trading on the German stock exchanges was €90.0m in the year under review, putting our shares in 14th place among the DAX stocks at year-end 2012. In terms of free-float market capitalisation, we ranked 13th with around €21bn.

Key figures for our shares

		2012	2011
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	179.3	179.3
Year high	€	137.95	125.20
Date		27.12.2012	17.2.2011
Year low	€	91.39	79.55
Date		9.1.2012	12.9.2011
Year-end closing price	€	136.00	94.78
Annual performance (excluding dividend)	%	43.5	-16.5
Beta 250 relative to DAX (daily, raw)	%	0.9	0.9
Market capitalisation at 31 December	€bn	24.4	17.0
Market value/equity at 31 December[1]		0.9	0.7
Average trading volume	'000	796	1,157
Earnings per share	€	17.98	3.94
Dividend per share	€	7.00	6.25
Dividend yield at 31 December	%	5.2	6.6
Dividend payout (status at 26 Feb. 2013)	€bn	1.3	1.1

1 Including minority interests.

At the end of December 2012, a total of 143,000 shareholders were entered in our share register. The vast majority of shares were held by institutional investors such as banks, insurers or investment companies; approximately 11.4% were in the hands of private investors. At around 74%, the percentage of international investors was slightly higher than in the previous year.

Our largest shareholder at the end of 2012 continued to be Warren E. Buffett who, according to the voting rights notification of October 2010 and the information published in the annual report of Berkshire Hathaway Inc., holds a stake of around 11.2% in Munich Reinsurance Company via several companies in his group, Berkshire Hathaway Inc., OBH Inc., National Indemnity Co. Warren E. Buffett and the aforementioned companies in his group also informed us in October 2010 that the objective of their investment is to generate trading profits, not to implement strategic objectives. They do not seek to exercise an influence on the composition of Munich Re's management or supervisory boards or to fundamentally change the Company's capital structure. Second-largest shareholder is asset manager BlackRock with around 6.2%, followed by the People's Republic of China, represented by the People's Bank of China/SAFE, China, with around 3%.

Regional distribution[1]

- 30.3% Rest of Europe
- 29.6% North America
- 25.6% Germany
- 13.9% UK
- 0.6% Other countries

1 Percentage of share capital. Status: 31 December 2012. Source: Munich Re share register

Open communication with all capital market participants

Our corporate strategy geared to a sustained increase in value is accompanied by ongoing and open communication with all capital market participants. The main task of Investor and Rating Agency Relations at Munich Re is to cultivate contact with existing shareholders and attract new ones. At the same time, we ensure that due account is taken of our investors' opinions and preferences in internal decision-making processes. We chiefly use roadshows and investor conferences to initiate and intensify dialogue with institutional investors, our main focus being on financial centres in Europe and the USA. We regularly supplement our investor relations activities with special events. Last September, for example, we gave a presentation on the divisional units of our Special and Financial Risks Division at an investor briefing in London.

Our shareholder portal can be accessed at www.munichre.com/shareholderportal

Our investor relations work continues to meet with a positive response. In several cross-sector analyses of the quality of investor dialogue, Munich Re once more achieved leading positions in 2012, with our business partners particularly appreciating the consistency and transparency of our reporting. All the presentations we use in our meetings with analysts and investors and in our conferences and roadshows are published on the internet, and are sent to interested shareholders on request. Many of these events are transmitted live via webstreaming. Enquiries reaching us via our shareholder hotline or by e-mail are answered promptly by our team. Additionally, the service pages of our shareholder portal on the internet provide our registered shareholders with a wide range of information and communication options.

Our 125th Annual General Meeting was held at the ICM – International Congress Center – in Munich on 26 April 2012. Some 47.1% of the voting share capital was represented in the votes. With online participation in the Annual General Meeting and (electronic) postal voting, Munich Reinsurance Company again offered its shareholders all the facilities for casting their votes on agenda items.

→ An overview of the ratings from the leading rating agencies can be found on page 99

For many years, Munich Re has been awarded consistently excellent ratings by the leading rating agencies. In the financial year 2012, the outlook for all Munich Re's ratings remained stable at a high level.

The confidence in our financial strength is reflected in trading in credit default swaps (CDSs), which are used on the capital market to hedge against the risk of an issuer's default – the lower the CDS spread, the higher the assessment of the issuer's security. By both national and international standards, Munich Re continues to be among the companies with a very low spread.

Our strategy

- Group's business model covers the relevant sections of the insurance industry's value chain
- Disciplined financial management ensures appropriate capitalisation at all times
- New insurance solutions secure competitive edge, generate growth and win clients' loyalty

Turning risk into sustainable value

Our business as an insurer and reinsurer is the professional handling of risk. We create value by using our extensive risk knowledge and sophisticated underwriting techniques to make risks from many different areas of private and economic life manageable – for our clients and for us.

Risk diversification reduces capital requirements

We combine primary insurance and reinsurance in one group. This set-up allows us to cover the relevant sections of the insurance industry's value chain. It benefits our clients, because we can offer them customised solutions that draw on our full spectrum of knowledge. As a Group, we are also less dependent on cycles in individual lines of business and regional markets, or on developments in the capital markets.

The risks that we cover differ greatly in nature. Their partial non-correlation in terms of potential loss occurrence enables us to balance the risks over time, across regions and across fields of business – a diversification benefit that is key for our success. The size and mix of our risk portfolio mean we can cover comparatively more risks with the risk capital available.

Disciplined financial management as the foundation

Our business model is supported by disciplined financial management based on Group-wide risk management, an investment policy geared to the structure of our liabilities, and active capital management.

Our risk management considers much more than just the risks from our insurance business. It includes investments, for example, and also models interactions between the different risks. It is firmly embedded Group-wide and actively practised. Our selection of investments takes into account the due dates, the currencies and the inflation intensity of our underwriting liabilities, thus reducing reinvestment, currency and inflation risks. With our active capital management, we ensure that Munich Re's capitalisation is always appropriate. Our economic equity, calculated on a market-consistent basis, covers the capital requirement derived from our internal risk model and takes into account the stipulations of regulators and rating agencies. Excess capital is returned to our shareholders in the form of dividends and share buy-backs.

Details of our RORAC calculation can be found on page 38

An important success factor is the constant improvement of the value-based methods and processes we use to write, control and manage our business. Our most important performance indicator in this context is return on risk-adjusted capital (RORAC), which relates the profit earned to the required risk capital, allowing the management of all activities in the Group to be geared to economic value added.

Tapping earnings potential through innovations

New, previously unknown risks pose a particular challenge. We have to identify and evaluate these as swiftly as possible, with a view to maintaining our competitive advantage. In so doing, we aim to expand the boundaries of insurability, correctly structure the conditions, and calculate technically adequate prices. Essential prerequisites for this are our broad risk knowledge, our experience in the markets, and intensive dialogue with our clients. With new insurance solutions, we aim to generate profitable growth, clearly set ourselves apart from the competition, and win our clients' loyalty.

Primary insurance – To insure is to understand

Munich Re's primary insurance operations are concentrated in the ERGO Insurance Group. ERGO offers a comprehensive range of insurances, provision products and services, and is one of the leading insurance groups in Germany and Europe. It is represented in over 30 countries, focusing mainly on Europe and Asia.

ERGO gears itself consistently to the needs and wants of its clients, and aims to constantly improve through close communication with them. This encompasses needs-oriented, customer-centric sales advice, clear and comprehensible communication, innovative services and rapid assistance in the event of a loss. In combination with its solid financial strength, this makes ERGO and its specialists reliable partners for insurance and provision product needs.

ERGO offers the appropriate sales channel for every client. Self-employed agents service private clients and firms. These are supplemented by direct sales staff, brokers and strong cooperation partners in Germany and abroad. ERGO also has a range of sales partnerships with banks in Germany, various other European countries, and India.

Reinsurance – Knowing risks, taking opportunities

Munich Re operates in virtually all classes of reinsurance. Our products range from traditional reinsurance, extensive services and consultancy to complex individual solutions for assuming risks and optimising our clients' capital. In our business, we pursue an underwriting policy consistently based on risk-commensurate prices, terms and conditions. The transfer of risks to the capital markets is another service we offer to clients.

We write our business directly with primary insurers and also via brokers. In addition to traditional reinsurance business, we participate in insurance pools, public-private partnerships, and business in specialist niche segments, also as a primary insurer. Through our operating field Risk Solutions, we offer our clients in industrial and major-project business a wide range of specialised products, customised insurance solutions and services, which we manage from within our reinsurance organisation. These clients thus have direct access to the expertise and capacity of a leading global risk carrier.

Our extensive knowledge in identifying and assessing risks and in structuring insurance solutions enables us to create value in a highly dynamic and global environment and to stand out from our competitors. Thanks to our capital management expertise, we are also a sought-after partner for products geared to our clients' balance-sheet, solvency and rating-capital requirements, as well as their risk models. Our reputation in the market and our global, client-focused set-up give us quick and direct access to all clients.

Munich Health – Pioneer in the healthcare market

The international healthcare market will continue to grow at an above-average rate. The ageing of societies in many countries and medical advances are leading to rising healthcare costs, often putting immense pressure on social security systems and increasing the need for private insurance solutions. We tap this profitable growth potential in our business field Munich Health, where our specialists for international health business from primary insurance and reinsurance are pooled in a separate organisation. We support our clients with needs-based products and innovative solutions in risk management. To this end, we frequently collaborate closely with those in charge of social security systems, together making it possible for high-quality medical care to remain affordable.

Responsibility for clients, shareholders, employees and society

The common aim of all our activities is to create long-term value for our clients, shareholders, employees and society as a whole. For us, a forward-looking and responsible approach is axiomatic. As one of the world's leading insurance groups, we give our clients the promise that we will always fulfil the obligations we assume under insurance contracts.

Corporate governance

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Contents

Dr. Bernd Pischetsrieder
Chairman of the
Supervisory Board

Ladies and gentlemen,

In the year under review, the Supervisory Board fulfilled all the tasks and duties incumbent upon it by law and under the Articles of Association and rules of procedure. We constantly and carefully monitored the management activities of the Board of Management, providing advice to the best of our knowledge and ability. Inspection measures in accordance with Section 111 para. 2 sentence 1 of the German Stock Companies Act were at no time required.

Collaboration between Supervisory Board and Board of Management

Cooperation between the Supervisory Board and the Board of Management was based on open and constructive dialogue, with the Supervisory Board being consulted on all decisions of fundamental significance for the Group. The Board of Management informed us regularly both verbally and in writing about all important business transactions, thereby satisfying its reporting obligations to the Supervisory Board in all respects.

In the year under review, the full Supervisory Board held six meetings, at which it dealt in detail with the orientation and development of business and matters concerning the Board of Management. We conferred with the Board of Management on all questions of importance for Munich Re, especially strategy, corporate planning, risk situation, risk management and compliance. We examined the information presented by the Board of Management and – where necessary – critically questioned it. The Board of Management participated in the meetings insofar as the topics discussed did not require its absence.

Between meetings, the Board of Management informed us promptly about important issues in the Group, including the first loss estimate for the Costa Concordia accident, a capital management transaction, and developments with regard to the incidents involving ERGO published in the media.

The Chairman of the Supervisory Board kept in regular contact with the Chairman of the Board of Management between meetings, the focus being on individual questions of strategic development and risk management, as well as Munich Re's current business situation. Besides this, he was kept informed by the Chairman of the Board of Management about important events in the Group. Also between meetings, the Chairman of the Audit Committee, Professor Dr. Henning Kagermann, conferred with Dr. Jörg Schneider, member of the Board of Management responsible for Group reporting, about significant developments. In addition, the shareholder representatives and the employee representatives regularly met separately before the meetings for separate discussions in which they considered important topics with the Chairman of the Board of Management.

Focal points of the meetings of the full Supervisory Board

The business development of Munich Re (Group) was on the agenda of five of the six Supervisory Board meetings, being debated at length on each occasion. We discussed the strategic considerations of the Board of Management and looked at the risks in the individual fields of business. As in the previous years, we kept track of the situation on the capital markets and concerned ourselves with the impact of the sovereign debt and banking crisis on the Group's assets and earnings. The Board of Management kept us up to date on the performance of the Company's investments. We continued to monitor the measures taken by ERGO to investigate the aforementioned incidents, which remained the subject of sometimes intensive media coverage in 2012, and obtained information on the individual steps to remedy any irregularities. The Board of Management also reported to us regularly on the latest position regarding the introduction of the planned new European supervisory regime Solvency II and the debate on the potential systemic importance of insurers, whose impacts for Munich Re we discussed in detail.

The meeting in March 2012 focused on the Company and Group financial statements for 2011 and the motions for resolution by the 2012 Annual General Meeting. We gave details of this in our report for the financial year 2011. Besides this, we resolved to extend the appointments of two members of the Board of Management, including the Chairman. As a further point, we adopted resolutions to adapt pensions to take account of changes in the statutory age limits for company pension schemes. We also established the individual objectives for the Board members' variable remuneration components for 2012 and took regular reports on compliance and anti-fraud management. And finally, we appointed the external auditors for the 2012 financial year.

A meeting in April was devoted solely to matters involving the Board of Management: we evaluated the extent to which its members' financial and individual annual objectives had been achieved and determined their bonus payments for 2011. We also decided on the degree to which objectives had been achieved under the value-based Mid-Term Incentive Plan 2009–2011 and on the resultant bonus payments for the Board of Management. At another meeting in April, directly prior to the Annual General Meeting, we obtained the customary report on the status of business development in 2012.

At the meeting in July, the CEO of ERGO Direkt Versicherungen presented his company's business model to us. We discussed the focal points of human resources work in the Group and were briefed on the 2011 compensation report in accordance with the German Insurance Compensation Regulation. Moreover, we altered the distribution of responsibilities on the Board of Management so that the compliance function became a separate central division reporting directly to the Chairman of the Board of Management.

At the October meeting, we looked closely at topics of corporate governance (see the relevant section later in this annual report). We also altered the rules of procedure for the Audit Committee in two respects: firstly, we added the Head of the Actuarial Function to the list of people who report to the Audit Committee; secondly, we specified procedure regarding the choice of external auditor for the financial statements and the explanation of the audit planning. Lastly at this meeting, we were given a special presentation on business in Latin America, which we followed with a detailed discussion on reinsurance strategy in these countries.

At the December meeting, routinely attended by two representatives of the German Federal Financial Supervisory Authority (BaFin) as guests, we dealt in depth with matters relating to the Supervisory Board. Owing to the retirement of Dr. Hans-Jürgen Schinzler as Chairman of the Supervisory Board with effect from 31 December 2012, we elected his successor and decided on the other changes required as a result of his leaving the Board. We also addressed a proposal to adjust the remuneration of the Supervisory Board and looked at issues involving the personal risk management of members of the Supervisory Board. After a detailed consultation, the Supervisory Board adopted changes in the remuneration system for the Board of Management with effect from 1 January 2013 and in that Board's remuneration as from 2013. We also decided on the assessment bases for the 2013 financial objectives for annual and multi-year remuneration. On the basis of the report by the Group's Chief Risk Officer (CRO) on the Group's risk situation and risk-bearing capacity, we discussed the Group's risk strategy with him at length. In connection with the Group planning for 2013–2015 presented by the Board of Management, we queried deviations in actual business performance from the planning for the year under review. Finally, we were given a presentation that enabled us to obtain a picture of the status and development of ERGO International.

Details of the tasks of the individual committees and their composition can be obtained from the corporate governance statement and our website at www.munichre.com/supervisory-board

Work of the committees

The main tasks of the five committees established by the Supervisory Board include preparing items to be dealt with and resolved by the full Supervisory Board. At each Supervisory Board meeting, the Chairs of the committees reported to the full Board about the matters discussed by the committees and the outcome of their considerations.

The Personnel Committee held six meetings in the period under review. At the beginning of the year, it prepared the proposals to be submitted to the full Supervisory Board regarding the individual variable remuneration objectives for the members of the Board of Management in 2012. In addition, it agreed to propose to the Supervisory Board that the contracts of two members of the Board of Management, including the Chairman, be extended. Also on the agenda was the preparation of the proposals for the full Supervisory Board to adjust the pension scheme to take account of the altered statutory age limits. The Committee discussed the proposals to be submitted to the full Supervisory Board for evaluation of the annual performance for 2011 with regard to the individual and financial objectives of the members of the Board of Management and their bonus payments. At the same time, it decided on the proposal to the full Supervisory Board for evaluation of the degree to which objectives had been achieved under the Mid-Term Incentive Plan 2009–2011. The committee obtained extensive reports on the fringe benefits and remuneration in kind for the Board of Management as disclosed in the 2011 Annual Report. It also closely considered information on the succession planning process for members of the Board of Management and prepared the proposal for altering the distribution of responsibilities on the Board of Management. At various meetings, the committee approved changes in the memberships of supervisory and advisory boards and comparable offices held by members of the Board of Management. The members of the committee obtained detailed information and intensively discussed changes in the remuneration system for the Board of Management with effect from 1 January 2013, prior to recommending the relevant proposal to the full Supervisory Board for decision. At the end of the reporting period, the committee considered the proposal to be submitted to the full Supervisory Board regarding the Board of Management's remuneration from 2013 onwards. It also prepared submissions to the full Supervisory Board on the weightings of the individual target categories and measurement bases for the financial objectives in connection with the variable remuneration for 2013.

The Standing Committee held four meetings, each of which primarily served to prepare meetings of the full Supervisory Board. Substantial attention was given to corporate governance topics. Thus, the Standing Committee decided to review the efficiency of the Supervisory Board's work in the year under review on the basis of an extensive questionnaire. After evaluating the responses to this survey, it discussed the results and agreed on a number of measures for improvement, which were presented to the full Supervisory Board by the Chairman. At one meeting, the committee also took delivery of a report on expenditure for donations and sponsoring in 2011. It was regularly briefed on the current status of the share register.

The Audit Committee held six meetings in the period under review, two of which were attended by the external auditor. The committee closely considered the Company and Group financial statements, the Company and Group management report, the auditor's report and the Board of Management's proposal for the appropriation of the net retained profits for the financial year 2011. It also concerned itself in detail with the quarterly financial reports in 2012 and – in the presence of the auditor – with the half-year financial report for 2012.

The Head of Group Audit provided information on the result of the 2011 audits and the audit planning for 2012. As usual, the Compliance Officer also reported to the committee. The Audit Committee regularly dealt with compliance topics beyond this. In particular, it continued to monitor the measures taken in response to the allegations levelled against ERGO in the media and considered possible consequences in connection with a fraud case in the reinsurance business. The development of embedded values in life reinsurance business and in life and health primary insurance business was also an item of discussion.

In the past financial year, the Audit Committee again concerned itself with the impact of the continuing sovereign debt and banking crisis, especially on Munich Re's asset management. The committee monitored the Group's risk situation: alongside quarterly written reports, it had the opportunity at three meetings to obtain information in person from the CRO, with whom the members of the Audit Committee gave detailed consideration to developments in risk management and the risk strategy. The CRO also provided a detailed insight into the internal control system and the status of its implementation in the Group. The committee additionally requested a report on the main innovations and adjustments of the core elements of the Group's risk model. Besides this, the Audit Committee took a fundamental look at the form and content of the reporting.

It reviewed and monitored the auditor's independence. In this connection, the committee obtained reports from the auditor on the latter's auditing and non-audit-related services. Likewise, the Audit Committee prepared for the full Supervisory Board the appointment of the external auditor for the financial year 2012, determined the main points of the audits, and set the auditor's fees. Following a resolution by the full Supervisory Board, the Chairman of the committee commissioned the audit for the financial year 2012 and also commissioned the auditor's review of the 2012 half-year financial report. The committee specified procedure regarding the choice of auditor and information regarding the audit planning. These two changes, as well as the addition of the "Head of the Actuarial Function" to the list of persons reporting to the Audit Committee, were incorporated in a proposal submitted to the full Supervisory Board to adjust the rules of procedure for the Audit Committee.

In the second half of the year under review, the Nomination Committee devoted itself to considerations regarding the successor to the Chairman of the Supervisory Board and – taking into account the criteria catalogue and the objectives determined by the Supervisory Board for its composition – suitable candidates to fill the ensuing vacancy on the Board. It reached agreement that Professor Dr. Dr. Ann-Kristin Achleitner, Scientific Director of the Center for Entrepreneurial and Financial Studies (CEFS) at the Technical University of Munich, be proposed as a candidate to the shareholders. At the suggestion of the committee and with the consent of the shareholders' representatives, the Board of Management applied for the appointment of Professor Achleitner by the Registration Court. Under item 5.4.3 of the German Corporate Governance Code, this appointment is limited until the next Annual General Meeting. The Supervisory Board is proposing that she be elected by the 2013 Annual General Meeting for the remaining term of office.

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

→ Details of this can be found in the corporate governance report on page 26 f.

Corporate governance and declaration of conformity

The Supervisory Board closely considered the changes to the German Corporate Governance Code adopted in the year under review, particularly the topic of Supervisory Board members' independence, and added this criterion to the objectives for the future composition of the Board already decided on in 2010.

The Standing Committee informed the full Supervisory Board about the outcome of the efficiency review. On the basis of the responses to the survey, the Supervisory Board concluded that the Board of Management's reporting and the work of the Supervisory Board are appropriate and efficient.

Nearly all the members of the Supervisory Board took advantage of the internal information event offered again in 2012, which this time dealt with the topics of reinsurance, accounting and – quite explicitly – the relevance of the interest-rate level in primary insurance and reinsurance.

In November 2012, the Board of Management and Supervisory Board submitted their compulsory annual declaration of conformity with all the recommendations of the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and their intention to continue complying with it in future.

→ Further information on corporate governance in general is available in the joint report of the Board of Management and Supervisory Board on page 26 f.

Changes on the Supervisory Board

The Chairman of the Supervisory Board, Dr. Hans-Jürgen Schinzler, retired from the Company's Supervisory Board at the end of the year under review. We wish to thank Dr. Schinzler for his great commitment in responsibly and prudently chairing our Board over the past eight years. He was a very experienced counsellor to the Board of Management, of which he himself had been a member for many years, ten of these as Chairman. Dr. Schinzler played a substantial role in shaping Munich Re's development over a long period, for which he deserves great gratitude and recognition. As a tribute to his achievements, the Supervisory Board has appointed him Honorary Chairman.

To fill the vacancy on the Supervisory Board, the Registration Court appointed Professor Dr. Dr. Ann-Kristin Achleitner as a new member of the Board on 3 January 2013.

Company and Group financial statements for 2012

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft duly audited the Company and Group management reports and financial statements as at 31 December 2012 and gave them an unqualified auditor's opinion. The respective reports and the Board of Management's proposal for appropriation of the net retained profits were subsequently submitted directly to the members of the Supervisory Board. At its meeting on 4 February 2013, the Audit Committee had the opportunity to confer in detail about the preliminary year-end figures as at 31 December 2012. On 10 March 2013, it prepared the Supervisory Board's resolution on the adoption of the Company financial statements and the approval of the Group financial statements. To this end, the Audit Committee examined the Company and Group financial statements, the management reports and the Board of Management's proposal for appropriation of the net retained profits. It discussed these at length with the auditor present at the meeting and gave detailed consideration to the auditor's reports. On the following day, at the balance sheet meeting, the Chairman of the Audit Committee briefed the full Supervisory Board about the outcome of its consultations.

The full Supervisory Board also checked the Company and Group financial statements and management reports and the proposal of the Board of Management for appropriation of the net retained profits. On the basis of this examination and having heard the auditor's report, the Supervisory Board had no objections and agreed to the outcome of the external audit. It approved the Company and Group financial statements on 11 March 2013. The financial statements were thus adopted. Having carefully weighed all the relevant aspects, the Supervisory Board agreed with the proposal of the Board of Management for appropriation of the net retained profits.

Words of thanks to the Board of Management and employees

The Supervisory Board wishes to thank all the members of the Board of Management and staff for their outstanding work, which resulted in a very gratifying business performance in 2012.

Munich, 11 March 2013

For the Supervisory Board

Dr. Bernd Pischetsrieder
Chairman

Corporate governance report

Corporate governance report[1]

The corporate governance report and the corporate governance statement can also be found on our website at www.munichre.com/cg-en

Good corporate governance creates lasting value. We therefore apply the highest standards to our operations and activities, complying with all the recommendations and proposals of the German Corporate Governance Code. Beyond this, we have our own Munich Re Code of Conduct specifying high-level ethical and legal requirements that must be met by employees. Further information on Munich Re's corporate governance can be obtained from the corporate governance statement. In accordance with Section 289a of the German Commercial Code, the corporate governance statement is part of Munich Reinsurance Company's management report.

How we view corporate governance

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

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

What rules apply to Munich Re?

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

1 In accordance with item 3.10 of the German Corporate Governance Code.

Also applicable to Munich Reinsurance Company is the German Act on the Co-Determination of Employees in Cross-Border Mergers (MgVG) and a co-determination agreement.

The declaration of conformity is published at www.munichre.com/cg-en

The German Corporate Governance Code contains the main legal rules to be observed by listed German companies. In addition, it includes recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Every year, Munich Reinsurance Company's Board of Management and Supervisory Board state how far the Code's recommendations have been and will be complied with.

Corporate legal structure

The Articles of Association and the co-determination agreement can be viewed at www.munichre.com/cg-en

Munich Reinsurance Company is a joint-stock company ("Aktiengesellschaft") within the meaning of the German Stock Companies Act. It has three governing bodies: the Board of Management, the Supervisory Board and the Annual General Meeting. Their functions and powers are derived from the Act, the Articles of Association and the co-determination agreement. The principle of parity co-determination on the Supervisory Board has been upheld in the co-determination agreement, and strengthened by taking into account staff employed in the rest of Europe.

Board of Management

→ An overview of the composition of the Board of Management and the distribution of responsibilities can be found on page 42

The Board of Management is responsible for managing the Company, setting objectives and determining strategy. In doing so, it is obliged to safeguard Company interests and endeavour to achieve a long-term increase in the Company's value. The Board of Management is responsible for effecting adequate risk management and risk control in the Company. It must ensure compliance with statutory requirements and internal company directives. In mid-2012, we strengthened the Company's compliance function, establishing a separate unit that reports directly to the Chairman of the Board of Management.

→ Information on the Board of Management's work is available in the corporate governance statement

Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. Munich Reinsurance Company's Board of Management has nine members.

Collaboration between Board of Management and Supervisory Board

Board of Management and Supervisory Board cooperate closely to the benefit of the Company. The Board of Management reports regularly to the Supervisory Board about all questions relevant to the Company. Certain types of transaction require the consent of the Supervisory Board.

Supervisory Board

→ An overview of the composition of the Supervisory Board can be found on page 42 ff. More details of the Supervisory Board's work are provided in the corporate governance statement and the report of the Supervisory Board on page 21 ff.

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

In compliance with the Articles of Association, the Supervisory Board has 20 members. Half are representatives of the shareholders, elected by the Annual General Meeting. The other half are elected representatives of the Company employees in the European Economic Area (EEA).

Objectives of the Supervisory Board for its composition, diversity and independence
In accordance with item 5.4.1 para. 2 of the German Corporate Governance Code, the Supervisory Board has set itself the following objectives for its composition:

- The main criteria for selecting future members of the Supervisory Board are sustained corporate profitability, personal abilities, talents, experience (especially of an international nature), independence, professional knowledge and enterprise of the nominated persons.
- The Supervisory Board should have at least 16 independent members within the meaning of item 5.4.2 of the German Corporate Governance Code, including at least eight shareholder representatives. All members of the Supervisory Board should be free of relevant conflicts of interest.
- In selecting candidates for membership, the Supervisory Board should pay due regard to diversity, especially in terms of age, internationality and gender. By the beginning of the next term of office (scheduled for 2014), at least 20% of the members should be female, with this figure increasing to at least 30% by the start of the following term of office (scheduled for 2019).

The aforementioned objectives apply to the Supervisory Board as a whole. Shareholder and employee representatives will each contribute their share to meeting them, and the bodies responsible under the co-determination agreement for election proposals to the European Electoral Board are requested to take due consideration of the objectives within the framework of the current rules.

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

In the period under review, as in the previous reporting period, four members of the Supervisory Board were women: two representatives of the employees and two shareholder representatives. As from 3 January 2013, the Supervisory Board will have five female members, three representatives of the shareholders and two employee representatives.

The Supervisory Board is of the opinion that currently all 20 of its members are to be regarded as independent within the meaning of item 5.4.2 of the German Corporate Governance Code. The Supervisory Board is not aware of any business or personal relationship between a member and the Company, its governing bodies, a controlling shareholder or an entity affiliated with such a shareholder, as a result of which a major and not only temporary conflict of interest could arise. The Supervisory Board assumes that the members elected in accordance with the Act on the Co-Determination of Employees in Cross-Border Mergers and the co-determination agreement are independent as a matter of principle.

Annual General Meeting

The regular responsibilities of the Annual General Meeting include reaching a resolution on the appropriation of profits and approving the actions of the Board of Management and Supervisory Board. Besides this, the Annual General Meeting elects the shareholder representatives on the Supervisory Board and, in particular, votes on changes to the Articles of Association and certain capital measures. Also, certain Company contracts require the approval of the Annual General Meeting to become effective.

At the Company's Annual General Meeting, the principle of "one share, one vote" applies. With the aim of making it easier for shareholders to take part and exercise their rights, the Company provides the option of online participation and a postal vote (also in electronic form).

Management report

3

Munich Re

- Reinsurance offers the full range of products, from traditional reinsurance to innovative solutions
- ERGO continues expansion in the growth region of Asia
- Munich Health combines health primary insurance outside Germany and health reinsurance worldwide

Group structure

Current information on Munich Re is also provided on our website at www.munichre.com

Munich Re combines primary insurance and reinsurance under one roof. This enables the Group to cover the entire value chain in the risk market. At the same time, the Group leverages synergies in revenue and costs, whilst reducing the risk-based capital required through better diversification. All reinsurance units operate worldwide under the uniform brand of Munich Re. The ERGO Insurance Group (ERGO) is active in nearly all lines of life, health and property-casualty insurance. Our international health reinsurance business and health primary insurance outside Germany are combined under the Munich Health brand. Munich Re is also active in the field of asset management.

The reinsurance companies of the Group operate globally and in virtually all classes of reinsurance. We offer a full range of products, from traditional reinsurance to innovative solutions for risk assumption. Our companies conduct their business from their respective headquarters and via a large number of branches, subsidiaries and affiliated companies. The reinsurance group also includes specialty primary insurers in niche segments, whose business requires special competence in finding appropriate solutions.

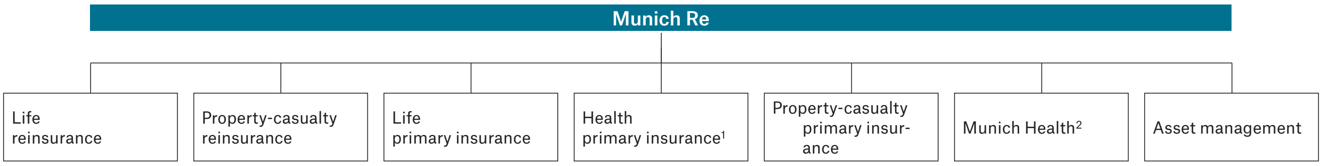
Domination and profit-transfer agreements are in place with many Group companies, especially between ERGO Versicherungsgruppe AG and its subsidiaries.

All Munich Re's primary insurance business is combined in ERGO with the exception of health insurance business outside Germany, which is handled by Munich Health. ERGO is active in nearly all lines of life, health and property-casualty insurance. Some 77% of gross premiums written derive from Germany, and 23% from international business, mainly from central and eastern European countries. ERGO has also been looking to extend its activities to Asian markets such as India, China and Vietnam.

Munich Health operates on a global basis in reinsurance and exploits business opportunities in the field of health primary insurance outside Germany in selected growth markets such as the Gulf region, India and the USA.

Munich Reinsurance Company and ERGO Versicherungsgruppe AG are under unified control within the meaning of the German Stock Companies Act. The relevant statutory regulations, domination agreements and Group directives govern the distribution of responsibilities and competences for key decisions between Group management and ERGO.

Segmentation



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

Reinsurance

In reinsurance, we operate in life and property-casualty business. Under reinsurance, we include specialised primary insurance activities that are handled by the divisions of the reinsurance organisation, and business from managing general agencies (MGAs).

As reinsurers, we write our business in direct collaboration with primary insurers, but also via brokers and increasingly within the framework of exclusive, strategic partnerships. In addition to traditional reinsurance business, we participate via our operating field Risk Solutions in the primary insurance business of industrial clients, insurance pools, public-private partnerships, and business in specialist niche segments. Our risk expertise and solution-focused approach under the motto “NOT IF, BUT HOW” are key to our success.

The reinsurance divisions

Our international life business is written in the Life Division.

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

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

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

Global Clients and North America handles our accounts with major international insurance groups and globally operating Lloyd’s syndicates as well as Bermuda companies. It also pools our know-how in the North American market. It is responsible for our property-casualty subsidiaries there and for international special lines business such as workers’ compensation, marine and our participating interests in the London Lloyd’s market via the Watkins Syndicate and MSF Pritchard.

The reinsurance units at a glance[1]

Division	Selected subsidiaries and branch offices outside Germany[2]
Life	Munich American Reassurance Company, Atlanta, Georgia Munich Re, Tokyo (Life Branch) Munich Re, Toronto (Life Branch) Munich Reinsurance Company of Australasia Limited – New Zealand Branch, Auckland Munich Reinsurance Company of Australasia Ltd., Sydney Munich Re, London (Life Branch)
Europe and Latin America	Bell & Clements (London) Ltd., London Munich Re do Brasil Resseguradora S.A., São Paulo[3] Munich Re, Madrid[3] Munich Re, Milan[3] Munich Re, Paris Munich Re, London (General Branch)
Germany, Asia Pacific and Africa	Great Lakes Australia Branch, Sydney Great Lakes Reinsurance (UK) PLC New Zealand Branch, Auckland Munich Re, Sydney Munich Holdings of Australasia Pty. Ltd., Sydney Munich Mauritius Reinsurance Co. Ltd., Port Louis Munich Re, Kuala Lumpur Munich Re, Kuala Lumpur (Retakaful Branch) Munich Re, Beijing[3] Munich Re, Hong Kong[3] Munich Re, Seoul[3] Munich Re, Auckland Munich Reinsurance Company of Africa Ltd., Johannesburg Munich Re, Singapore[3]
Special and Financial Risks	Great Lakes Reinsurance (UK) Plc., London[3] Great Lakes Switzerland Branch, Zurich Great Lakes Reinsurance Ireland Branch, Dublin Great Lakes Reinsurance Italia Branch, Milan Munich Re of Malta p.l.c., Ta' Xbiex[3] New Reinsurance Company Ltd., Zurich[3]
Global Clients and North America	American Alternative Insurance Corporation, Wilmington, Delaware[3] American Family Home Insurance Company, Jacksonville, Florida American Modern Home Insurance Company, Amelia, Ohio American Modern Insurance Company of Florida, Inc., Jacksonville, Florida American Modern Insurance Group, Inc., Amelia, Ohio American Modern Select Insurance Company, Amelia, Ohio American Modern Surplus Lines Insurance Company, Amelia, Ohio American Southern Home Insurance Company, Jacksonville, Florida

American Western Home Insurance Company, Oklahoma City, Oklahoma
Beaufort Underwriting Agency Ltd., London
First Marine Insurance Company, Amelia, Ohio
Global Standards, LLC, Wilmington, Delaware
Groves, John & Westrup Limited, London
HSB Engineering Insurance Limited, London
HSB Group, Inc., Hartford, Connecticut
HSB Solomon Associates LLC, Wilmington, Delaware
HSB Professional Loss Control, Inc., Tennessee
MSP Underwriting Ltd., London
Munich Re Capital Limited, London
Munich Re Holding Company (UK) Ltd., London
Munich Reinsurance America, Inc., Wilmington, Delaware[3]
Munich Reinsurance Company of Canada, Toronto
N.M.U. Group Limited, London
The Roanoke Companies Inc., Schaumburg, Illinois
Temple Insurance Company, Toronto
The Boiler Inspection and Insurance Company of Canada, Toronto
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware
The Midland Company, Cincinnati, Ohio
Watkins Syndicate Hong Kong Limited, Hong Kong
Watkins Syndicate Middle East Limited, Dubai
Watkins Syndicate Singapore Pte. Limited, Singapore

1 A detailed list of shareholdings can be found on page 276 ff. in the notes to the consolidated financial statements.
2 Only subsidiaries and branches outside Germany with equity capital generally exceeding €5m are listed by name.
3 Units that also transact business in Munich Health and are therefore allocated proportionately to reinsurance.

Primary insurance

Current information is also provided at www.ergo.com

Munich Re's second pillar is primary insurance business, which is conducted by ERGO. Via ERGO, we offer products from all the main classes of insurance. These products, in combination with the provision of assistance, other services and individual consultancy, cover the needs of private and corporate clients. ERGO's many different sales channels include not only its companies' own successful intermediary organisations and direct selling but also broker relationships and marketing cooperations, such as the extensive collaboration with the UniCredit Group.

In international business, ERGO has been pursuing its expansionary path in the growth region of Asia. In spring 2012, ERGO launched a joint venture for selling life insurance products with a local partner in the Chinese province of Shandong. ERGO China Life Insurance Company Ltd. is scheduled to commence operations in 2013 once approval has been granted by the authorities. A joint life insurance venture with the Avantha Group was launched in India in November 2012. We already provide property insurances in India through the joint-venture company HDFC ERGO. In the difficult South Korean market, ERGO has sold the property insurer ERGO Daum Direct General Insurance Co. Ltd. (ERGO Daum).

The primary insurance group at a glance[1]

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

1 A detailed list of shareholdings can be found on page 276 ff. in the notes to the consolidated financial statements.
2 Only subsidiaries with premium volume exceeding €50m are listed.

Munich Health

Current information is also provided at www.munichhealth.com

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

The growth dynamics of the healthcare market and Munich Health's good positioning provide the segment with access to new markets. In 2012, Munich Health expanded its primary insurance activities with Daman Health Insurance – Qatar LLC, Doha, Qatar, which will operate in the young market of the MEA (Middle East and Africa) region with its very promising growth prospects. Munich Health also intends to tap into local primary insurance business in Saudi Arabia via the Saudi Enaya Cooperative Insurance Company, established as a joint venture.

Munich Health at a glance[1]

Companies fully allocated to Munich Health

Apollo Munich Health Insurance Co. Ltd., Hyderabad
Daman – National Health Insurance Company, Abu Dhabi
Daman Health Insurance – Qatar LLC, Doha, Qatar
DKV Belgium S.A., Brussels
DKV Luxembourg S.A., Luxembourg
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa
ERGO Generales Seguros y Reaseguros, S.A., Madrid
ERGO Vida Seguros y Reaseguros, Sociedad Anónima Española, Saragossa
Globality S.A., Luxembourg
Marina Salud S.A., Alicante
MedNet Holding GmbH, Munich
Munich Health Holding AG, Munich
Munich Health North America, Inc., Wilmington, Delaware
Munich Re Stop Loss, Inc., Wilmington, Delaware
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa
Windsor Health Group, Inc., Brentwood, Tennessee

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

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

1 A detailed list of shareholdings can be found on page 276 ff. in the notes to the consolidated financial statements. Only Group companies with equity capital generally exceeding €5m are listed.

Asset management

Current information is also provided at www.meag.com

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) handles the investment activities of Munich Re and ERGO. It also offers its comprehensive know-how to external institutional investors and private clients. MEAG is present in Europe, Asia and North America and manages all important asset classes such as fixed-interest securities, equities and real estate.

Important tools of corporate management

Munich Re's value-based management philosophy

Details of our capital management are provided on page 101

Munich Re's objective is to analyse risks from every conceivable angle and to assess and diversify them, creating lasting value for shareholders, clients, and staff with high profits in relation to the risks assumed. A guiding principle of our entrepreneurial thinking and activity is to increase Munich Re's share price on a sustained basis. This is the aim of our active capital management and the consistent application of value-based management systems.

More details on our risk strategy are available on page 116 ff.

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

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

- We assess business activities not only according to their earnings potential but also relative to the extent of the risks assumed. Only the risk-return relationship reveals how beneficial an activity is from the shareholder point of view.
- With value-based performance indicators, we ensure an economic valuation and the comparability of alternative initiatives.
- We clearly assign responsibilities and make the levers for adding value transparent for both management and staff.

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

At Group level, we measure economic value added using a single metric: economic earnings. In our business segments, however, we use specific performance indicators such as value added (property-casualty insurance, health reinsurance) and Market Consistent Embedded Value (life insurance, the majority of our health primary insurance business), which take into consideration the specific features of the business concerned and factor in the effects of asset-liability management. In property-casualty business and health reinsurance we also take account of the combined ratio.

Economic earnings and return on risk-adjusted capital

Information on how the economic capital is calculated is provided on page 129 ff.

We calculate the value we have created at Group level in a given period – largely in harmony with the future Solvency II supervisory regime – using economic earnings, although we are still working on improving and refining the methodology and data bases. The starting point in determining economic earnings is the change in economic capital during a given period. This is adjusted for capital inflows and outflows, including dividend payouts.

Information regarding the internal risk model can be found on page 124 ff.

In order to also give more emphasis in external communication to Munich Re's value orientation – as implemented through our internal management tools – we take as our Group target the return on risk-adjusted capital (RORAC) after tax. We derive this risk-based performance measure by placing the consolidated result in relation to the necessary economic risk capital, the amount of which we determine using our internal risk model. We thus take into account the economic standards currently underlying (at least to some extent) the requirements of supervisory authorities and rating agencies – standards that are set to play a role in future. The connection to the IFRS consolidated result is consequently preserved.

RORAC is defined as follows:

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

We explain how the additional available economic equity is calculated on page 130 f.

The numerator in the formula comprises the published IFRS net income after deduction of risk-free interest after tax (interest rate x [1 – tax rate]) generated on capital not subject to risk within the given risk tolerance. The basis for the adjustment is the capital exceeding the necessary risk-based capital, which is referred to as additional available economic equity. This may be necessary in certain cases for rating and solvency purposes, as well as for profitable growth. The additional available economic equity in the system presented here earns a risk-free interest rate because all the risk components of the investments and underwriting are covered with risk-based capital by the internal risk model, and assigned return requirements. If the risk capital exceeds the available economic equity, we set the adjustment item in the RORAC formula to zero.

RORAC is a pragmatic mixture of accounting ratios and economic indicators, which are not mutually consistent. Only when the requirements of Solvency II for capital resources and performance calculation have been reliably established do we intend to gear our targets to these performance measures. Irrespective of the risk-based perspectives we emphasise, we always aspire to meet the high, but fair, expectations of our investors with regard to the return on total capital placed at our disposal (return on equity).

Combined ratio

The combined ratio is regularly posted for property-casualty business and health reinsurance. Calculated as the percentage ratio of the sum of expenses for claims and benefits plus operating expenses to earned premiums (all of which net, i.e. after reinsurance cessions), the combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio of 100% means that premium income was exactly sufficient to cover claims and costs. Expenses for claims and benefits mainly include paid claims, the change in claims provisions, and the bulk of other underwriting expenses – with relatively unimportant exceptions such as German fire brigade tax. Operating expenses chiefly comprise the costs arising in the acquisition of new business and for the ongoing administration of insurance contracts.

Interpreting the combined ratio

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

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

This is why the combined ratio is not our only target. This figure is also only of limited suitability for comparing the financial performance of competitors owing to differing calculation methods and portfolio mixes. Generally, however, we aim to keep the combined ratio as low as possible by means of good underwriting and claims management.

Value added

Calculation of value added is used in our economic management system for property-casualty business and health reinsurance. The respective value added (adjusted for random fluctuation for this purpose) is determined as follows:

Adjusted result – Cost of equity = Value added

The adjusted result is derived from the income statement and consists primarily of the technical result , the normalised investment result and the remaining non-technical result. It contains value-based adjustments, including the smoothing of expenditure for major losses over time and the recognition of future claims expenses at their present value.

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

Market Consistent Embedded Value

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

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

MCEV relates to the portfolio existing at the valuation date. It encompasses 100% of our life reinsurance business and 97% of our life primary insurance and German health primary insurance business. By contrast, MCEV does not include the value of future new business. However, the valuation is made under the assumption of continued operations. 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 2012. Assets that are traded on the capital markets are valued on the basis of the market values observed at the valuation date. Currently, we refrain from applying high interest margins, e.g. illiquidity premiums and adjustments in the value of assets, even after the occurrence of capital market upheavals, at least until the definitive stipulations for Solvency II are available, thus opting for a deliberately conservative methodology for valuing our primary insurance portfolio.

The development of the insurance portfolio is modelled by applying the current expectations for biometrics (e.g. mortality and morbidity), lapses and costs. In primary insurance, the participation of policyholders in surplus is modelled according to the current planning and in line with 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 costs of investment management and taxes, but also the not explicitly modelled risks of the business and, for health primary insurance, the participation of policyholders in surplus from equity-matching investments.

A detailed presentation of MCEV is provided at www.munichre.com/embeddedvalue/en

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. This performance indicator can be broken down into parameters including "change in value of new business" and "value of in-force business".

1 © Stichting CFO Forum Foundation 2008.

Asset-liability management

We mirror important features of our underwriting liabilities on the assets side of the balance sheet

The main focus of Munich Re's investment strategy is asset-liability management (ALM), which is a fundamental pillar of our value-based management system, and in which we take into account key characteristics of underwriting and other liabilities in structuring our investment portfolio and measure investment risks not only in absolute terms but also in relation to changes of values in our liabilities. With ALM, we aim to ensure that economic factors influence the value of our investments and that of our technical provisions and liabilities in the same way, which reduces our vulnerability to the effect of capital market fluctuations and stabilises our equity. For this purpose, we mirror important features of the liabilities, such as maturity patterns, currency structures and inflation sensitivities, on the assets side of the balance sheet by acquiring investments with similar characteristics if possible. In terms of currency positioning, exchange-rate fluctuations thus affect assets and liabilities in equal measure. Currency translation losses on assets are largely offset economically by currency translation gains on underwriting liabilities, although this relationship is not always adequately reflected in the financial statements owing to economically imperfect accounting regulations. In this approach, any deviations from the structure of our liabilities are made consciously, taking due account of our risk tolerance and the risk spreads achievable. To a limited extent, we also align our investment portfolio in such a way that it increases in value in line with rising inflation rates. To achieve this, we invest in inflation-sensitive asset classes such as inflation-linked bonds and inflation-linked swaps, as well as in real assets.

→ In the notes to the consolidated financial statements, we provide information on the derivative financial instuments on page 204 ff.

To configure our economic ALM as effectively as possible, we also use derivative financial instruments to hedge against fluctuations on the interest-rate, equity and currency markets. Under IFRS accounting, we recognise these in profit or loss, i.e. as income or expense in our income statement. However, such recognition in the income statement is not usually possible with regard to the related underlying transactions themselves. Despite our economically well-balanced underwriting and investment portfolios, accounting inconsistencies of this kind and other differences between the economic and balance-sheet perspectives can give rise to considerable fluctuations in our IFRS investment, currency and consolidated result, particularly in times of greater volatility on the capital markets.

Non-financial performance measures

In addition to these purely financial performance factors, non-financial performance measures like innovation, speed of processes, staff-training level and client satisfaction play a part. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented qualitative factors. On the basis of a comprehensive understanding of value creation with short-term and long-term, financial and non-financial parameters, we closely link strategy and operative planning by defining our strategies in structured overviews or "scorecards", from which we derive initiatives, performance measures and responsibilities. The scorecards have four perspectives: "financial", "market and client", "process" and "employee". We promote an entrepreneurial culture among our staff through the clear allocation of responsibility and accountability, recognising wherever possible how much the individual, unit or field of business contributes to increasing long-term value. Our incentive systems for staff, executives and Board support this orientation: in general, the higher the hierarchical level, the more strongly remuneration is based on performance.

Governing bodies of Munich Re

Board of Management

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

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

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

Georg Daschner
Europe and Latin America

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

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

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

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

Dr. oec. publ. Joachim Wenning
Life

Supervisory Board

Dr. jur. Hans-Jürgen Schinzler
(Honorary Chairman,
Chairman until 31 December 2012)

Dr. Ing. e.h. Dipl.-Ing. Bernd Pischetsrieder
(Chairman since 1 January 2013)
Member since 17 April 2002,
last re-elected 22 April 2009
Former Chairman of the Board of Management of Volkswagen AG

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

Prof. Dr. oec. Dr. jur. Ann-Kristin Achleitner
Member since 3 January 2013
Scientific Director of the Center for Entrepreneurial and Financial Studies (CEFS) at the Technical University of Munich

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

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

Annika Falkengren
Member since 20 April 2011
President and Chief Executive Officer of Skandinaviska Enskilda Banken AB (publ)

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

Dr. jur. Benita Ferrero-Waldner
Member since 12 February 2010
Member of the Board of Governors and President of the EU-LAC Foundation

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

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

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

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

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

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

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

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

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

Andrés Ruiz Feger
Member since 22 April 2009
Employee of Munich Re, Sucursal en España

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

Dr. phil. Ron Sommer
Member since 5 November 1998,
last re-elected 22 April 2009
Chairman of the Supervisory Board of MTS OJSC, Russia

Membership of the Supervisory Board Committees

Standing Committee
Dr. jur. Hans-Jürgen Schinzler
(Chairman until 31 December 2012)
Dr. Ing. e.h. Dipl.-Ing. Bernd Pischetsrieder
(Chairman since 1 January 2013)
Herbert Bach
Hans Peter Claußen
Prof. Dr. rer. nat. Dr.-Ing. e.h. Henning Kagermann
(since 1 January 2013)
Wolfgang Mayrhuber

Personnel Committee
Dr. jur. Hans-Jürgen Schinzler
(Chairman until 31 December 2012)
Dr. Ing. e.h. Dipl.-Ing. Bernd Pischetsrieder
(Chairman since 1 January 2013)
Herbert Bach
Wolfgang Mayrhuber
(since 1 January 2013)

Audit Committee
Prof. Dr. rer. nat. Dr.-Ing. e.h. Henning Kagermann
(Chairman)
Christian Fuhrmann
Marco Nörenberg
Dr. Ing. e.h. Dipl.-Ing. Bernd Pischetsrieder
(since 1 January 2013)
Anton van Rossum
Dr. jur. Hans-Jürgen Schinzler
(until 31 December 2012)

Nomination Committee
Dr. jur. Hans-Jürgen Schinzler
(Chairman until 31 December 2012)
Dr. Ing. e.h. Dipl.-Ing.
Bernd Pischetsrieder
(Chairman since 1 January 2013)
Prof. Dr. rer. nat. Dr.-Ing. e.h.
Henning Kagermann
Peter Löscher
(since 1 January 2013)

Conference Committee
Dr. jur. Hans-Jürgen Schinzler
(Chairman until 31 December 2012)
Dr. Ing. e.h. Dipl.-Ing.
Bernd Pischetsrieder
(Chairman since 1 January 2013)
Herbert Bach
Hans Peter Claußen
Prof. Dr. rer. nat. Dr.-Ing. e.h.
Henning Kagermann
(since 1 January 2013)

Other seats held by Board members

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

1 Status: 31 December 2012.
2 Own group company within the meaning of Section 18 of the German Stock Companies Act.

Supervisory Board[1]	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler (Honorary Chairman, Chairman until 31 December 2012)	METRO AG	UniCredit S.p.A., Italy (until 11 May 2012)
Dr. Ing. e. h. Dipl.-Ing. Bernd Pischetsrieder (Chairman since 1 January 2013)	METRO AG (until 23 May 2012)	Tetra-Laval International S.A. Group, Switzerland
Hans Peter Claußen (Deputy Chairman)	D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG[2] ERGO Versicherungsgruppe AG[2]	–
Herbert Bach	–	–
Dina Bösch	–	–
Annika Falkengren	Volkswagen AG	Securitas AB (publ), Sweden
Frank Fassin	ERGO Versicherungsgruppe AG[2] Provinzial NordWest Holding AG	–
Dr. jur. Benita Ferrero-Waldner	–	Gamesa Corporación Tecnológica S.A., Spain Alpine Bau Holding GmbH, Austria
Christian Fuhrmann	–	Munich Re Holding Company (UK) Ltd., United Kingdom[2]
Prof. Dr. rer. nat. Peter Gruss	Siemens AG	Actelion Ltd., Switzerland
Prof. Dr. rer. nat. Dr.-Ing. e. h. Henning Kagermann	Bayerische Motoren-Werke AG Deutsche Bank AG Deutsche Post AG Franz Haniel & Cie. GmbH	Nokia Corporation, Finland Wipro Ltd., India
Peter Löscher	Deutsche Bank AG	TBG Ltd. (Thyssen-Bornemisza Group), Malta
Wolfgang Mayrhuber	Bayerische Motoren-Werke AG Infineon Technologies AG (Chairman) Lufthansa-Technik AG	AUA Austrian Airlines, Austria Österreichische Luftverkehrs-holding GmbH, Austria Heico Corporation, USA UBS AG, Switzerland
Silvia Müller	ERGO Versicherungsgruppe AG[2]	–
Marco Nörenberg	ERGO Versicherungsgruppe AG[2]	–
Reinhard Pasch	–	–
Anton van Rossum	–	Credit Suisse Groupe AG, Switzerland Royal Vopak NV, Netherlands (Chairman) Solvay S.A., Belgium
Andrés Ruiz Feger	–	–
Richard Sommer	ERGO Versicherungsgruppe AG[2]	–
Dr. phil. Ron Sommer	–	JSFC Sistema, Russia (until 30 June 2012) Sistema Shyam Teleservices Ltd., India Tata Consultancy Services Ltd., India

1 Status: 31 December 2012.
2 Own group company within the meaning of Section 18 of the German Stock Companies Act.

Remuneration report

Structure of the remuneration system for the Board of Management

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

In accordance with item 4 of the German Corporate Governance Code, the remuneration system for the Board of Management is determined and regularly reviewed by the full Supervisory Board. The Personnel Committee of the Supervisory Board, comprising the Chairman of the Supervisory Board, one shareholder representative and one employee representative, prepares the resolutions for the full Supervisory Board.

The currently valid remuneration system for members of the Board of Management focuses strongly on long-term targets and thus creates a pronounced incentive for sustainable corporate development. No changes were made with effect from 1 January 2012.

Structure of the remuneration system for the Board of Management

Component	Share[1]	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration plus remuneration in kind/ fringe benefits (company car, healthcare, security measures, insurance)	**30%**	Function Responsibility Length of service on Board	Fixed	Contractual stipulations	Monthly
Variable remuneration	**70%**	Corporate performance Result contribution of organisational unit(s) Personal performance			
30% annual performance (for 100% achievement of objectives)		Group objective Company objective Divisional objectives Individual objectives	**0–200%** (fully achieved = 100%)	Achievement of annual objectives	In the **second** year, **on condition that 50% of the net amount paid out is invested by the Board member in Munich Re shares that must be held for at least a four-year period**
70% multi-year performance (for 100% achievement of objectives)		Objectives for the business fields – reinsurance – primary insurance – Munich Health Individual objectives	**0–200%** (fully achieved = 100%)	Achievement of three-year objectives	In the **fourth** year, **on condition that 25% of the net amount paid out is invested by the Board member in shares that must be held for at least a two-year period**
Pension				> Retirement > Insured event > Premature termination or non-extension of employment contract under certain circumstances	
a) Defined benefits plan (Board members appointed before 2009 who had reached the age of 55 in 2008)	–	Pensionable basic remuneration (= 25% of target overall direct remuneration[2]) Number of years on the Board	Fixed		–
b) Defined contribution plan (Board members appointed before 2009 who had not reached the age of 55 in 2008 and Board members appointed since 2009)	–	Target overall direct remuneration[2]	Pension contribution		–

1 For the variable remuneration, the share shown presupposes 100% achievement of the objectives.
2 Target overall direct remuneration comprises basic remuneration plus variable remuneration based on 100% achievement of objectives.

Fixed components

Basic remuneration

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

Remuneration in kind/fringe benefits

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

Variable remuneration

The variable remuneration component is geared to the overall performance of the Group and defined organisational units and to the personal performance of the individual members of the Board of Management. Its amount depends on the degree to which annually set objectives for annual and multi-year performance are met.

Compliance with the processes laid down for specifying objectives and assessing their achievement is reviewed by the external auditor, who checks the criteria for measuring the envisaged financial objectives and whether their achievement has been assessed in accordance with the guidelines established by the Company. The outcome of this review is rendered transparent for the Supervisory Board.

Achievement of objectives is measured at the end of the performance terms, there being no adjustment of the targets during these periods. Payouts are made at the end of the one- and three-year periods under consideration. With a view to promoting a management approach that takes due account of the Company's long-term interests, the members of the Board of Management are obliged to invest 50% and 25% of the paid-out variable remuneration in Munich Reinsurance Company shares.

Variable remuneration based on annual performance

Annual performance targets for the variable remuneration component geared to annual performance are set on the basis of divisional results and individual objectives as well as the Company result (property-casualty reinsurance) and Group result. 30% of the overall target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives.

Details of the assessment bases for the annual performance can be obtained from the following table:

Variable remuneration based on annual performance

Category of objective	Share[1]	Assessment basis	Parameters
Collective contribution to corporate success	35%–70%		
Group objective		Derived from key performance indicators in external reporting and other important portfolio and performance data	Return on risk-adjusted capital (RORAC[2])
Company objective (property-casualty reinsurance)		Value-based economic performance indicator	Value added[3]
Individual contribution to corporate success	30%–65%		
Divisional objectives		Value-based economic performance indicators: – Property-casualty reinsurance and Munich Health – Life reinsurance	 Value added[3] Value added by new business[4] Change in value of in-force business[4]
Individual objectives		Personal objectives per Board member	Special focal points such as – Pricing and cycle management – Client management – Costs

1 The objectives are weighted individually according to the responsibilities of the individual Board members.
2 RORAC is explained on page 37 f.
3 Information on value added is provided on page 39.
4 The indicators are determined on the basis of Market Consistent Embedded Value (MCEV) Principles. A detailed presentation of MCEV, with information on the parameters "value of new business" and "change in value of in-force business" (including "assumption changes" and "experience variances" as components of operating embedded value earnings), is provided in the Market Consistent Embedded Value Report on Munich Re's website.

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

Variable remuneration based on multi-year performance

For the multi-year performance remuneration component, three-year targets based on the financial results of the reinsurance, Munich Health and primary insurance segments and on individual objectives are fixed every year. 70% of the overall target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives.

Details of the assessment bases for the multi-year performance can be obtained from the following table:

Variable remuneration based on multi-year performance

Category of objective	Share[1]	Assessment basis	Parameters
Collective contribution to corporate success	75%		
Business field objectives (three-year average)			
Reinsurance		Value-based economic performance indicators: – Property-casualty reinsurance – Life reinsurance	 Value added[2] Value added by new business[3] Change in value of in-force business[3]
Primary insurance		Value-based economic performance indicator	Economic earnings[4]
Munich Health		Value-based economic performance indicator	Value added[2]
Individual contribution to corporate success	25%		
Individual objectives (three-year period)		Personal objectives per Board member	Special focal points such as – Staff development, including diversity – Strategy development – Sustainable development, social tasks

1 The objectives are weighted individually according to the responsibilities of the individual Board members.
2 Information on value added is provided on page 39.
3 The indicators are determined on the basis of Market Consistent Embedded Value (MCEV) Principles. A detailed presentation of MCEV, with information on the parameters "value of new business" and "change in value of in-force business" (including "assumption changes" and "experience variances" as components of operating embedded value earnings), is provided in the Market Consistent Embedded Value Report on Munich Re's website.
4 Economic earnings are explained on page 37 f.

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

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

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

Share-based remuneration agreements in force during the reporting period

Long-Term Incentive Plan

This remuneration component, with a long-term perspective, is linked to the sustained appreciation of Munich Re's share price. The Long-Term Incentive Plan, launched each year as from 1999, was set up for the last time in 2009 for members of the Board of Management and in 2010 for other eligible participants. The participants were granted a certain number of stock appreciation rights. These can only be exercised if, after a two-year vesting period, Munich Re's share price has risen by at least 20% since inception of the plan and the shares have outperformed the EURO STOXX 50 at least twice over a three-month period during the term of the plan.

→ Further information on the Long-Term Incentive Plan can be found on page 267 ff. in the notes to the consolidated financial statements

Whether the stock appreciation rights can be exercised and, if so, when, is not certain. The exercising and proceeds depend on the development of the share price and on fulfilment of the exercise conditions. The Company's future obligations arising from the long-term incentive plans are partially hedged in such a way that the expenses resulting from a growth in value of the stock appreciation rights are neutralised as far as possible by an increase in the value of the share portfolio. The amount of income from the stock appreciation rights is limited. Up to now, it has only been possible to exercise stock appreciation rights under the plans set up in 1999, 2003 to 2006, and 2009.

Weighting of remuneration components

In the case of 100% achievement of objectives (annual performance and multi-year performance), the weightings of the individual components in terms of total remuneration for 2012 were as follows: basic remuneration around 30% and variable remuneration around 70%, of which 30% was based on annual performance and 70% on multi-year performance. Annual objectives, multi-year objectives and investment in shares together form a well-balanced and economic, i.e. strongly risk-based, incentive system, with great importance being attached to ensuring that the targets set for the members of the Board of Management do not have undesirable effects. No guaranteed variable salary components are granted.

All in all, the remuneration system for members of the Board of Management was in conformity with the recommendations of the German Corporate Governance Code for 2012. In particular, it also complies with the German regulation of 6 October 2010 concerning the supervisory law requirements for remuneration schemes in the insurance sector (Insurance Compensation Regulation – VersVergV).

The level of target overall direct remuneration (= basic remuneration + variable remuneration on the basis of 100% achievement of objectives) for the individual members of the Board of Management is set by the full Supervisory Board, acting on recommendations from the Supervisory Board's Personnel Committee. Criteria include the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re. The consideration of what is appropriate remuneration takes into account data from peer-group companies and the relation to remuneration of other Munich Reinsurance Company employees. New Board members are generally placed at a level which allows sufficient potential for development of the remuneration in the first three years.

Continued payment of remuneration in the case of incapacity to work

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

Other remuneration

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

The members of the Board of Management have no contractual entitlement to severance payments. If the Board member's activities on the Board are terminated prematurely, payments due may not surpass the equivalent of two years' total remuneration (three years' total remuneration in the event of acquisition of a controlling interest or change of control within the meaning of Section 29 para. 2 of the German Securities Acquisition and Takeover Act) and may not cover more than the remaining period of the employment contract. If the employment contract is terminated for good cause on grounds within the Board member's control, no payments are made to the Board member. The calculation is to be based on the overall remuneration for the past financial year and, if necessary, on the probable overall remuneration for the current financial year.

In the event of a change of control, only the conditions of the Long-Term Incentive Plan provide for special exercise options.

Pensions

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

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

As of 2009, newly appointed members of the Board hence become members of a defined contribution plan. For this plan, the Company provides the Board members with a pension contribution, which in 2009 was related to basic remuneration and as of 2010 to target overall direct remuneration, for each calendar year (contribution year) during the term of their contract. The pension contribution is paid over to an external pension insurer. The insurer's guaranteed interest rate is 2.25% (or 1.75% for Board members newly appointed as from 2012). The insurance benefits that result from the contribution payments to the external insurer constitute the Company's pension commitment to the Board member. For Board members appointed as from 1 January 2009, a uniform pension contribution rate of 25.5% of the target overall direct remuneration is set.

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

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

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

Benefits on termination of employment

Occupational pension

Board members appointed before 1 April 2012 are entitled to an occupational pension on retiring from active service with the Company after reaching the age of 60 or, at the latest, at the end of the calendar year in which they turn 65.

Board members appointed as from 1 April 2012 are entitled to an occupational pension on retiring from active service with the Company after reaching the age of 62 or, at the latest, at the end of the calendar year in which they turn 67.

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

Disability pension

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

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

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

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

Vested benefits for occupational pension, disability pension and surviving dependants
Vested benefits are paid upon the Board member reaching the age of 60 or 62, in the case of incapacity to work, or in the event of the Board member's death.

Vested benefits under the German Employers' Retirement Benefits Act: Board members have vested benefits under the German Employers' Retirement Benefits Act if they leave the Company before reaching the age of 60 or 62 and the pension commitment has existed for at least five years before.

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

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

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

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

Provision for surviving dependants

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

Subsequently, surviving dependants of a Board member who dies during active service or after retirement receive the following benefits:
— Widow(er)'s pension or pension for registered civil partner amounting to 60% of the defined benefit or insured occupational pension. If the spouse or registered civil partner is more than ten years younger than the Board member, the surviving dependant's pension will be reduced by 2% for each year or part thereof of age difference, but by not more than 50%.
— Orphan's pension amounting to 20% of the defined benefit or insured occupational pension per orphan.
— Doubling of the orphan's pension if no widow(er)'s pension or pension for registered civil partner is payable.
— Surviving dependants' pensions together may not exceed the occupational pension of the Board member. If necessary, the orphans' pensions will be reduced proportionally.

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

Pension adjustment

In the case of Board members appointed before 2009, occupational pensions and pensions for surviving dependants are reviewed for adjustment if salaries payable under pay-scale agreements in the insurance industry have increased by more than 12% (based on the average final salary of all pay-scale categories) since the pensions were last fixed or more than three years have passed since that date. The adjustment made will at least be in line with the increase in the cost of living in the meantime according to the consumer price index for Germany. This arrangement also applies to Board members newly appointed in the period from 2009 to 31 March 2012 who received a pension commitment from the Company for the first time before 1 January 1999. For Board members appointed as from 2009 who did not receive a pension commitment from the Company before 1 January 1999, and for Board members appointed as from 1 April 2012, occupational pension and benefits for surviving dependants are adjusted by 1% annually from the date when the pension or benefit starts being drawn, in accordance with Section 16 para. 3 item 1 of the German Employers' Retirement Benefits Act. Vested benefits are not adjusted.

Total remuneration of the Board of Management

The basis for reporting the remuneration of Board members is German Accounting Standard No. 17 (DRS 17, revised 2010), according to which the amount shown as remuneration for annual performance is the provision established for that remuneration, since the performance on which the remuneration is based has been completed by the balance sheet date and the requisite Board resolution is already foreseeable. Under DRS 17, remuneration for multi-year performance is not recognised until the year of payment. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €13.3m (9.8m) for fulfilment of their duties in respect of the parent company and its subsidiaries in the financial year. Total remuneration thus shows an increase of €3.5m compared with the previous year. The main reason for this is that, according to current estimates, the overall achievement of objectives for the annual performance in 2012 was significantly higher than in the previous year.

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

Name	Financial year	Basic remuner-ation	Remuner-ation in kind/fringe benefits	Annual perform-ance[1]	Total
		€	€	€	€
Dr. Nikolaus von Bomhard	**2012**	**1,200,000**	**32,376**	**1,160,670**	**2,393,046**
	2011	1,140,000	34,205	525,294	1,699,499
Dr. Ludger Arnoldussen	**2012**	**570,000**	**47,975**	**706,440**	**1,324,415**
	2011	519,000	37,527	280,521	837,048
Dr. Thomas Blunck	**2012**	**570,000**	**33,340**	**642,281**	**1,245,621**
	2011	540,000	27,832	450,222	1,018,054
Georg Daschner	**2012**	**585,000**	**35,806**	**684,623**	**1,305,429**
	2011	585,000	32,296	507,762	1,125,058
Dr. Torsten Jeworrek	**2012**	**855,000**	**35,860**	**945,417**	**1,836,277**
	2011	780,000	33,682	532,658	1,346,340
Dr. Peter Röder	**2012**	**570,000**	**34,829**	**749,419**	**1,354,248**
	2011	519,000	33,308	274,137	826,445
Dr. Jörg Schneider	**2012**	**855,000**	**35,394**	**778,680**	**1,669,074**
	2011	810,000	36,426	369,180	1,215,606
Dr. Wolfgang Strassl	**2012**	**570,000**	**32,990**	**345,081**	**948,071**
	2011	540,000	30,276	289,341	859,617
Dr. Joachim Wenning	**2012**	**540,000**	**34,921**	**613,339**	**1,188,260**
	2011	480,000	26,083	325,382	831,465
Total	**2012**	**6,315,000**	**323,491**	**6,625,950**	**13,264,441**
	2011	5,913,000	291,635	3,554,497	9,759,132

1 At the time of preparation of this report, no Supervisory Board resolution had yet been adopted on the amounts to be paid for the 2012 annual performance. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted.

For the 2011 annual performance, a total of €542,129 more was paid out than had been reserved in the financial year 2011. The additional/reduced expenditure breaks down as follows: von Bomhard €51,870, Arnoldussen €86,593, Blunck €22,434, Daschner €48,464, Jeworrek €94,349, Röder €147,627, Schneider –€11,340, Strassl €4,574, Wenning €97,558. This results in the following actual bonus payments for 2011: von Bomhard €454,860, Arnoldussen €326,970, Blunck €415,800 €, Daschner €483,210, Jeworrek €584,220, Röder €392,364, Schneider €300,510, Strassl €257,040, Wenning €396,480.

The amounts shown for the annual performance 2012 comprise the respective provision for 2012 and the relevant extra expenditure for 2011.

The total expenditure recognised in 2012 (reserve allocations/releases due to the development in value of performance share units from the 2005–2009 plans) for the Long-Term Incentive Plans breaks down as follows: von Bomhard €556,542, Arnoldussen €104,454, Blunck €162,104, Daschner €597,881, Jeworrek €934,562, Röder €479,135, Schneider €1,120,157, Strassl €257,977, Wenning €326,388.

The following table shows the amounts payable for the variable remuneration.

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

Name	Set	for	Annual performance[1, 3] €	Multi-year performance[2, 3] €	Total amounts payable €
Dr. Nikolaus von Bomhard	**2012**	**2013**	**840,000**	**1,960,000**	**2,800,000**
	2011	2012	840,000	1,960,000	2,800,000
Dr. Ludger Arnoldussen	**2012**	**2013**	**399,000**	**931,000**	**1,330,000**
	2011	2012	399,000	931,000	1,330,000
Dr. Thomas Blunck	**2012**	**2013**	**399,000**	**931,000**	**1,330,000**
	2011	2012	399,000	931,000	1,330,000
Georg Daschner	**2012**	**2013**	**409,500**	**955,500**	**1,365,000**
	2011	2012	409,500	955,500	1,365,000
Dr. Torsten Jeworrek	**2012**	**2013**	**598,500**	**1,396,500**	**1,995,000**
	2011	2012	598,500	1,396,500	1,995,000
Dr. Peter Röder	**2012**	**2013**	**399,000**	**931,000**	**1,330,000**
	2011	2012	399,000	931,000	1,330,000
Dr. Jörg Schneider	**2012**	**2013**	**598,500**	**1,396,500**	**1,995,000**
	2011	2012	598,500	1,396,500	1,995,000
Dr. Wolfgang Strassl	**2012**	**2013**	**399,000**	**931,000**	**1,330,000**
	2011	2012	399,000	931,000	1,330,000
Dr. Joachim Wenning	**2012**	**2013**	**399,000**	**931,000**	**1,330,000**
	2011	2012	378,000	882,000	1,260,000
Total	**2012**	**2013**	**4,441,500**	**10,363,500**	**14,805,000**
	2011	2012	4,420,500	10,314,500	14,735,000

1 At the time of preparation of this report, no Supervisory Board resolution had yet been adopted on the amounts to be paid for 2012. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted in the table on page 56.
2 The remuneration set for multi-year performance for 2012 is payable in 2015, that for 2013 in 2016.
3 The information on the calculation bases and parameters on page 48 f. for the amounts set for 2012 also apply to the amounts set for 2013, with the exception of the changes with effect from 1 January 2013, described on page 59.

Pension entitlements

Personnel expenses of €5.0m (4.5m) were incurred in the financial year 2012 to finance the pension entitlements for active members of the Board of Management. Of these, €1.5m was apportionable to defined benefit plans and €3.5m to defined contribution plans. As a consequence of the risk transfer to an external insurer under the defined contribution system, the visible pension costs since 2009 are noticeably higher. The Company accepts this increase in order to avoid higher costs in future and to eliminate long-term pension-specific risks. The following defined benefits, present values, contribution rates and personnel expenses result for the individual members of the Board of Management:

Pension entitlements

			Defined benefit plan	
Name	Financial year	Defined benefit[1]	Present value of defined benefit as at 31 December	Personnel expenses for provisions[2]
		€/year	€	€
Dr. Nikolaus von Bomhard[3, 9]	**2012**	**407,100**	**10,424,872**	**398,602**
	2011	407,100	10,412,551	319,688
Dr. Ludger Arnoldussen[4, 9]	**2012**	**157,500**	**1,673,940**	**286,621**
	2011	157,500	1,502,957	226,720
Dr. Thomas Blunck[5, 9]	**2012**	**120,000**	**1,656,569**	**127,849**
	2011	120,000	1,630,021	100,102
Georg Daschner[6]	**2012**	**224,250**	**6,547,091**	**0**
	2011	214,500	6,756,582	0
Dr. Torsten Jeworrek[7, 9]	**2012**	**171,000**	**3,356,607**	**155,570**
	2011	171,000	3,356,026	122,991
Dr. Peter Röder[7, 9]	**2012**	**90,000**	**1,817,959**	**82,165**
	2011	90,000	1,827,576	64,825
Dr. Jörg Schneider[7, 9]	**2012**	**275,000**	**6,210,367**	**264,544**
	2011	275,000	6,215,238	210,611
Dr. Wolfgang Strassl[7, 9]	**2012**	**120,000**	**3,142,012**	**135,120**
	2011	120,000	3,117,191	108,982
Dr. Joachim Wenning[8, 9]	**2012**	**–**	**–**	**19,112**
	2011	–	–	16,169
Total	**2012**	**1,564,850**	**34,829,417**	**1,469,583**
	2011	1,555,100	34,818,142	1,170,088

See table on next page for footnotes.

Pension entitlements

Name	Financial year	Pension contribution rate for target total direct remuneration	Entitlement as at 31 December	Defined contribution plan: Present value of entitlement as at 31 December	Personnel expenses
		%	€/year	€	€
Dr. Nikolaus von Bomhard[3, 9]	**2012**	**17.00**	**104,839**	**3,329,161**	**680,000**
	2011	17.00	77,665	1,561,179	646,000
Dr. Ludger Arnoldussen[4, 9]	**2012**	**14.75**	**45,339**	**1,411,130**	**280,250**
	2011	14.75	33,315	601,565	255,175
Dr. Thomas Blunck[5, 9]	**2012**	**16.25**	**53,774**	**1,625,620**	**308,750**
	2011	16.25	39,903	664,197	292,500
Georg Daschner[6]	**2012**	**–**	**–**	**–**	**–**
	2011	–	–	–	–
Dr. Torsten Jeworrek[7, 9]	**2012**	**19.50**	**88,696**	**2,733,764**	**555,750**
	2011	19.50	64,975	1,161,020	507,000
Dr. Peter Röder[7, 9]	**2012**	**20.25**	**57,526**	**1,827,358**	**384,750**
	2011	20.25	41,499	793,720	350,325
Dr. Jörg Schneider[7, 9]	**2012**	**16.50**	**74,453**	**2,334,148**	**470,250**
	2011	16.50	55,273	1,580,633	445,500
Dr. Wolfgang Strassl[7, 9]	**2012**	**21.00**	**61,489**	**1,952,601**	**399,000**
	2011	21.00	45,544	915,466	378,000
Dr. Joachim Wenning[8, 9]	**2012**	**25.50**	**58,957**	**–**[10]	**459,000**
	2011	25.50	41,712	–	408,000
Total	**2012**		**545,073**	**15,213,782**	**3,537,750**
	2011		399,886	7,277,780	3,282,500

1 In the case of Board members transferred from the old system to the new, the amount corresponds to the value of the vested pension at 31 December 2008; in the case of Mr. Daschner, it corresponds to the defined benefit at 31 December of the reporting year.
2 Expenses for defined benefit plan, including provision for continued payment of salary for surviving dependants.
3 Entitled to a reduced occupational pension on early retirement and to an occupational pension in the event of regular termination of employment.
4 Entitled to vested benefits under the German Employers' Retirement Benefits Act in the event of premature termination of employment, and to a reduced occupational pension on early retirement in the event of regular termination of employment.
5 Entitled to vested benefits under the German Employers' Retirement Benefits Act in the event of premature termination of employment, and to improved vested benefits in the event of regular termination of employment.
6 No transfer to defined contribution system, as Board member had already reached 55 at the conversion date. Entitled to an occupational pension in the event of premature or regular termination of employment.
7 Entitled to a reduced occupational pension on early retirement in the event of premature or regular termination of employment.
8 Entitled to vested benefits under the German Employers' Retirement Benefits Act in the event of premature termination of employment up to 2 January 2015, and to a reduced occupational pension on early retirement in the event of premature termination of employment as from 3 January 2015 or regular termination of employment.
9 Entitled to occupational pension in the event of termination of employment owing to incapacity to work.
10 Defined contribution plan within the meaning of IAS 19, Employee Benefits, so no present value shown.

Outlook

With effect from 1 January 2013, the Board of Management's remuneration system has been adjusted with regard to the variable remuneration component. Particular attention was given to simplifying the incentivisation system while making sure that the systematic approach remained appropriate. In addition, the aim was to create the opportunity for the Supervisory Board to react flexibly to developments during the year.

Acting on the proposal of the Personnel Committee, the full Supervisory Board resolved that for the variable remuneration based on annual performance, the current Company objective (property-casualty reinsurance) be replaced as from 2013 with an overall objective for the business field of reinsurance (including life reinsurance). Depending on the responsibilities of the individual members of the Board of Management, an objective is also set on an annual basis for the result of the business field of primary insurance.

In the agreement of individual personal objectives, there is a stronger focus on fewer, particularly relevant targets. A new component introduced is "overall performance evaluation", which is relevant when assessing annual and multi-year performance. It allows the Supervisory Board greater discretionary scope, enabling more consideration to be given to the overall performance of individual members of the Board of Management and the Board as a whole in the period under review, including performance elements for which no concrete objectives have been set. This component is to be applied by the Supervisory Board taking into account Section 87 of the German Stock Companies Act and the German Corporate Governance Code.

Remuneration structure for senior executives

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

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

→ Information on RORAC is provided on page 37 f.

The Company result bonus gives employees a share in corporate success. The key indicator used for the Company result bonus is RORAC. The targets correspond to the Group objective for the variable remuneration of members of the Board of Management. Depending on the degree to which the RORAC target is met, an aggregate amount is calculated that can be distributed between all staff as a bonus. The higher the management level, the higher the share of the Company result bonus. The way this bonus works ensures that the performance of Munich Re as a whole is systematically reflected in the remuneration of all staff and that the bonus amount bears a reasonable relationship to overall corporate performance.

The Mid-Term Incentive Plan, with a duration of three years, is based on the same targets as the multi-year bonus of Munich Reinsurance Company's Board of Management. In addition, the development of the total shareholder return is taken into account. Besides the senior executives in Munich, selected executives in Munich Reinsurance Company's international organisation also participate in the Mid-Term Incentive Plan.

The individual variable components are granted – subject to different weightings – at all management levels. For the first management level below the Board of Management, the share of aggregate variable remuneration is more than 50% of total remuneration (fixed remuneration plus all variable components). Proceeding down the management hierarchy, this percentage decreases successively, making up around one-third at the lowest management level. There is a well-balanced combination of short- and long-term components. At the first management level below the Board of Management, the Mid-Term Incentive Plan makes up around 25% of total remuneration or more than 50% of overall variable remuneration, so that a longer-term incentive system is provided for. No guaranteed variable remuneration components are granted.

Total remuneration of the Supervisory Board

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

The variable result-related remuneration is based on the undiluted earnings per share from continuing operations, as shown in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs): each Supervisory Board member receives €4,000 for each full euro by which earnings per share exceed €12, but a maximum of €40,000. Based on earnings per share of €17.98, variable result-related remuneration of €20,000 is payable for the financial year 2012. The performance-related remuneration component with long-term incentivisation was introduced in accordance with the German Corporate Governance Code. It amounts to €10,000 and is paid out if earnings per share in the remuneration year exceed earnings per share in the third financial year preceding the remuneration year by at least 30%. This long-term remuneration component is payable for the remuneration year 2012.

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

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

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

Name	Financial year	Annual	Fixed remuneration For committee work[2]	Result-related remuneration Annual	Result-related remuneration with long-term incentive function Annual	Total
		€	€	€	€	
Dr. Hans-Jürgen Schinzler	**2012**	**125,000.00**	**139,000.00**	**50,000.00**	**25,000.00**	**339,000.00**
Chairman	2011	125,000.00	137,000.00	0.00	0.00	262,000.00
Hans Peter Claußen	**2012**	**75,000.00**	**25,000.00**	**30,000.00**	**15,000.00**	**145,000.00**
Deputy Chairman	2011	75,000.00	25,000.00	0.00	0.00	100,000.00
Herbert Bach	**2012**	**50,000.00**	**50,000.00**	**20,000.00**	**10,000.00**	**130,000.00**
	2011	50,000.00	50,000.00	0.00	0.00	100,000.00
Dina Bösch	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Annika Falkengren	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	35,068.49	–	0.00	0.00	35,068.49
Frank Fassin	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Dr. Benita F errero-Waldner	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Christian Fuhrmann	**2012**	**50,000.00**	**37,000.00**	**20,000.00**	**10,000.00**	**117,000.00**
	2011	50,000.00	37,000.00	0.00	0.00	87,000.00
Prof. Dr. Peter Gruss	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Prof. Dr. Henning Kagermann	**2012**	**50,000.00**	**64,000.00**	**20,000.00**	**10,000.00**	**144,000.00**
	2011	50,000.00	62,000.00	0.00	0.00	112,000.00
Peter Löscher	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Wolfgang Mayrhuber	**2012**	**50,000.00**	**25,000.00**	**20,000.00**	**10,000.00**	**105,000.00**
	2011	50,000.00	25,000.00	0.00	0.00	75,000.00
Silvia Müller	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Marco Nörenberg	**2012**	**50,000.00**	**35,000.00**	**20,000.00**	**10,000.00**	**115,000.00**
	2011	50,000.00	37,000.00	0.00	0.00	87,000.00
Reinhard Pasch	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Dr. Bernd Pischetsrieder	**2012**	**50,000.00**	**52,000.00**	**20,000.00**	**10,000.00**	**132,000.00**
	2011	50,000.00	50,000.00	0.00	0.00	100,000.00
Anton van Rossum	**2012**	**50,000.00**	**37,000.00**	**20,000.00**	**10,000.00**	**117,000.00**
	2011	50,000.00	37,000.00	0.00	0.00	87,000.00
Andrés Ruiz Feger	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Richard Sommer	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Dr. Ron Sommer	**2012**	**50,000.00**	**–**	**20,000.00**	**10,000.00**	**80,000.00**
	2011	50,000.00	–	0.00	0.00	50,000.00
Total	**2012**	**1,100,000.00**	**464,000.00**	**440,000.00**	**220,000.00**	**2,224,000.00**
	2011	1,085,068.49	460,000.00	0.00	0.00	1,545,068.49

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

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

		Fixed remuneration		Result-based remuneration	
Name	Financial year	Annual[2]	For committee work[2]	Annual	Total
		€	€	€	€
Hans Peter Claußen,	**2012**	**38,499.88**	**2,231.24**	**0.00**	**40,731.12**
Deputy Chairman	2011	49,777.00	6,750.00	0.00	56,527.00
Frank Fassin	**2012**	**27,000.00**	**–**	**0.00**	**27,000.00**
	2011	27,000.00	–	0.00	27,000.00
Silvia Müller	**2012**	**27,000.00**	**–**	**0.00**	**27,000.00**
	2011	27,000.00	–	0.00	27,000.00
Marco Nörenberg	**2012**	**27,000.00**	**6,750.00**	**0.00**	**33,750.00**
	2011	27,000.00	6,750.00	0.00	33,750.00
Richard Sommer	**2012**	**27,000.00**	**-**	**0.00**	**27,000.00**
	2011	27,000.00	-	0.00	27,000.00
Total	**2012**	**146,499.88**	**8,981.24**	**0.00**	**155,481.12**
	2011	157,777.00	13,500.00	0.00	171,277.00

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

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

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

Munich Reinsurance Company is obliged to publish information of this kind on its website without delay.

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

Business environment

- Global economic growth curbed by recession in the eurozone and cooling in China
- Financial markets and real economy still unsettled by sovereign debt and banking crisis in the eurozone
- Low interest rates place strain on insurance industry

General parameters

Our business environment is being shaped by a number of global trends with a long-term impact. Demographic shifts are posing enormous challenges for social security and healthcare systems, particularly in industrialised countries. By contrast, in many developing and emerging countries, we are witnessing not only rapid population growth but also a swift rise in prosperity among large sections of the population. As a result, the emerging economies in Asia especially are gaining in global economic and geopolitical importance. Technological progress and digitalisation are accelerating the globalisation of capital flows and supply chains, and increasing the complexity of the world economy.

Disproportionate increase in insured losses in some regions

In this environment, we are seeing a growing number of natural-catastrophe loss events in several regions, with a disproportionate rise in insured losses in relation to economic activity. The chief reasons for this are the growth in values in exposed areas and the increase in the density of insurance against natural catastrophes. It is also highly probable that climate change plays a certain role in weather-related natural catastrophes, as the frequency and intensity of weather extremes are changing in many regions. This is producing new risk potentials and accumulation risks that make it imperative to constantly refine our underwriting.

Economic parameters

The year 2012 was marked by the continuing sovereign debt and banking crisis in the eurozone and a further cooling of global economic growth. Monetary policy in the major industrialised countries remained expansive, yields on US and German government bonds fell further, and inflation rates stayed moderate worldwide, whilst the stock markets advanced.

Real gross domestic product (GDP)

Growth in %	2012 (Estimate)	2011	2010	2009	2008
World[1]	3.2	3.9	5.1	-0.6	2.8
Industrialised countries[1]	1.3	1.6	3.0	-3.5	0.1
Emerging and developing countries[1]	5.1	6.3	7.4	2.7	6.1
USA	2.3	1.8	2.4	-3.1	-0.3
Eurozone	-0.4	1.4	2.0	-4.4	0.4
Germany	0.9	3.1	4.0	-5.1	0.8
China	7.8	9.3	10.4	9.2	9.6
Japan	2.0	-0.6	4.5	-5.5	-1.0

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

Global economic growth was again only moderate. This was mainly due to the still-smouldering sovereign debt and banking crisis in the eurozone, which recurrently unsettled the financial markets and the real economy. The eurozone as a whole had already slid into a recession in late 2011 from which it was unable to free itself during the period under review. Budget consolidation measures curbed growth, and at the same time the rate of unemployment continued to rise, reaching a record level with an annual average of 11.4%. Even the economy in Germany, which had seemed barely affected by the crisis at the start of the year, flagged in the second half of the year.

Chinese economic growth slowed considerably, due in part to receding export demand. The performance of the Japanese economy also weakened over the course of the year. The impetus provided by reconstruction activities following the earthquake in 2011 dried up and the lower export demand from Europe and China left its mark. Meanwhile, the moderate economic growth of the USA buttressed the global economy. Initial indications of improvement were apparent on the housing market, and private consumption also rose. However, the rate of unemployment fell only slightly, averaging 8.1% for the year. This led the Federal Reserve to continue its expansionary monetary policy.

Change in consumer price index

%	2012 (Estimate)	2011	2010	2009	2008
World	4.0	4.9	3.7	2.4	6.0
Industrialised countries	2.0	2.7	1.5	0.1	3.4
Emerging and developing countries	6.1	7.2	6.1	5.1	9.3
USA	2.1	3.2	1.6	-0.4	3.8
Eurozone	2.5	2.7	1.6	0.3	3.3
Germany	2.0	2.3	1.1	0.4	2.6
China	2.6	5.4	3.3	-0.7	5.9
Japan	–	-0.3	-0.7	-1.4	1.4

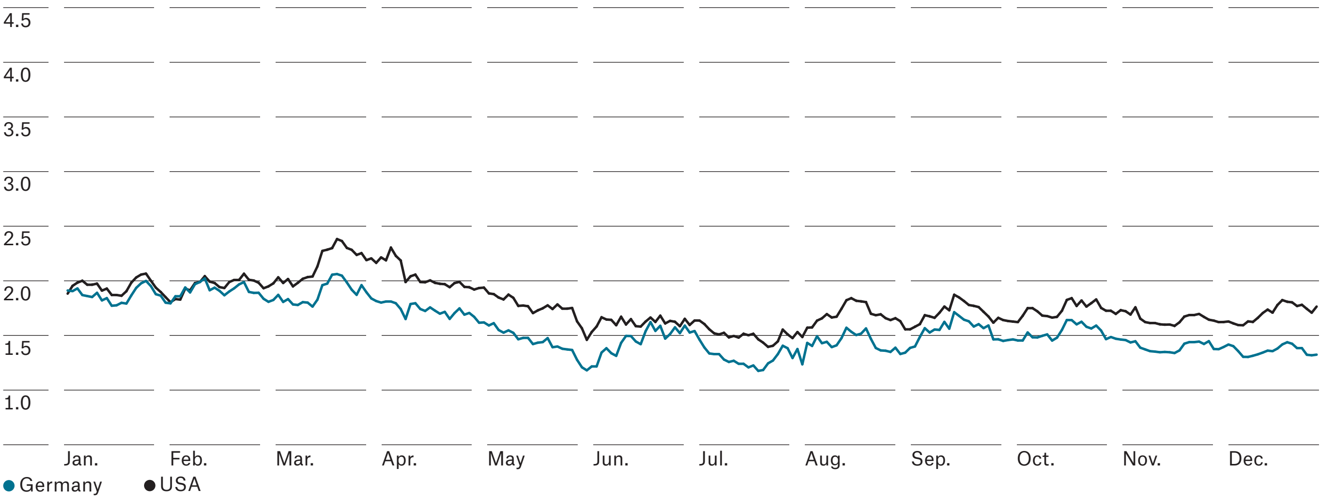
Source: International Monetary Fund, national statistical institutes and European Statistical Office

Capital markets

The development of the capital markets over the course of the year reflected the ups and downs of the sovereign debt and banking crisis in the eurozone. In the first few months of the year, a number of crisis-management measures initially brought relief, e.g. the establishment of the European Stability Mechanism (ESM) as a permanent rescue fund, and the successful EU negotiations on the Fiscal Compact. In March, Greece's private creditors approved a haircut of over €100bn. The European Central Bank (ECB) also again made liquidity available to European banks at low interest rates on a large scale in the first quarter of 2012.

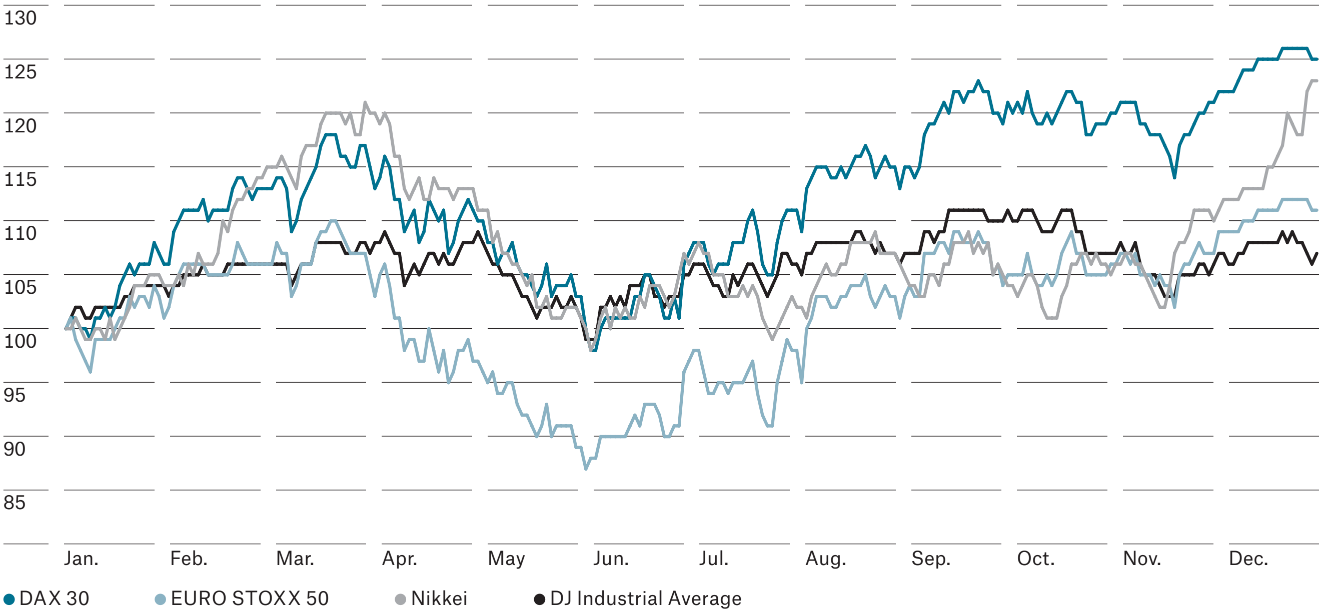
Investor confidence diminished when, several weeks after the Greek elections in April, the coalition negotiations were declared a failure and new elections were announced. Furthermore, difficulties in the Spanish banking sector had again fostered doubts as to the sustainability of the debt position, and led to increased fears of contagion involving other countries. Major share price indices fell considerably, the euro lost ground against the majority of currencies, and investors fled back to US and German government bonds. In July, yields on securities with periods to maturity of ten years sank to below 1.4% (USA) and 1.2% (Germany).

Development of yields on ten-year government bonds



Investors' confidence returned in the second half of the year, primarily due to the ECB announcement that under certain circumstances it would buy up unlimited short-maturity government bonds of crisis-afflicted countries on the secondary market. Yields on German and US government bonds consequently rose somewhat, but were still below their beginning-of-the-year level at the close of 2012, and continued to display a negative real interest rate, i.e. remained below inflation rates. The euro regained ground against the US dollar, Japanese yen and pound sterling in the second half of the year. The stock markets in the USA, Japan, Germany and even the eurozone showed clear improvements at year-end 2012.

Share price performance 1.1.2012 = 100



Monetary policy in the major industrialised countries remained very expansive. The US Federal Reserve and the Japanese central bank maintained key interest rates in the range of 0% to 0.25% and 0% to 0.1% respectively, while the Bank of England adhered to a rate of 0.5%. The European Central Bank lowered its reference interest rate from 1.0% to 0.75% at the start of July. In addition, the aforementioned central banks resolved further measures, chief among them being the purchase of bonds to stimulate the economy and stabilise the financial markets.

Insurance industry

Adjusted for inflation, global non-life premium income grew more strongly in 2012 than in the previous years. Although insurance demand in Europe was curbed by the weakness of the economy, premium growth was sustained by a slight increase in prices in property-casualty insurance and by further burgeoning demand for insurance cover in many emerging markets. Global premium income in life insurance showed a slight fall after adjustment for inflation. The main reasons for this were the shrinking premium volume in Europe and weak growth in the USA and China.

The continuing low-interest-rate environment poses considerable challenges for insurers owing to the decline in investment returns. Life insurers needing to meet interest-rate guarantees are particularly affected.

The low interest-rate level also put pressure on margins in the liability and property segments and necessitated premium increases, especially in long-tail business.

Meanwhile, the shareholders' equity of most insurers and reinsurers grew in 2012 due in part to low interest rates, because current accounting practice resulted in higher values for fixed-interest investments, whereas changes in market interest rates have scarcely influenced the valuation of liabilities. This apparent capital strengthening had a curtailing effect on demand for reinsurance cover, yet stimulated its supply. Whilst in the first half-year reinsurance prices had risen significantly, owing partially to the exceptional accumulation of major losses in the previous year, the average price increases realised in the 1 July renewals were already only marginal. In the renewals at 1 January 2013, prices remained almost the same on average.

According to provisional estimates, inflation-adjusted premium income in the German insurance industry stagnated in 2012. While premiums in private health insurance and property-casualty insurance increased significantly, those in life insurance decreased after adjustment for inflation. This was due to a further decline in single-premium business in life insurance, which had enjoyed exceptionally strong growth in 2009 and 2010.

Business performance

- Increase of 5.1% in gross premium income
- Below-average expenditure for major losses, but performance also good when adjusted to eliminate major losses
- Good investment result
- Return on risk-adjusted capital (RORAC) of 13.2% after tax
- Dividend increase to €7.00 (6.25) per share planned

Overview and key figures

Return on risk-adjusted capital (RORAC)

%	2012	2011	2010
RORAC	13.2	3.2	13.5
Long-term target	15.0	15.0	15.0

Dividend

		2012	2011	2010
Total dividend payout	€bn	1.3	1.1	1.1
Dividend amount	€	7.00	6.25	6.25

→ A definition of RORAC is provided on page 37 f.

The return on risk-adjusted capital (RORAC) totalled 13.2% for the 2012 financial year, compared with 3.2% in 2011. The RORAC for 2012 was therefore gratifyingly only marginally below the long-term target of 15% that we had first set for ourselves in 2006, when market interest rates were significantly higher. We clearly surpassed our profit target of €2.5bn for 2012, equivalent to a RORAC of around 10%.

Proposed dividend: €7.00 per share

We want our shareholders to participate in last year's success and will therefore propose to shareholders at the Annual General Meeting payment of a dividend of €7.00 (6.25) per dividend-bearing share.

Key figures[1, 2]

		2012	2011	2010	2009	2008
Gross premiums written	€bn	52.0	49.5	45.5	41.4	37.8
Combined ratio						
Reinsurance property-casualty[3]	%	91.0	113.8	100.5	95.3	99.4
Primary insurance property-casualty	%	98.7	99.1	96.8	93.2	90.9
Munich Health[4]	%	100.2	99.5	99.7	99.4	
Technical result	€m	3,876	186	1,965	2,747	2,756
Investment result	€m	8,436	6,756	8,642	7,883	5,916
Non-technical result	€m	1,474	994	2,013	1,974	1,078
Operating result	€m	5,350	1,180	3,978	4,721	3,834
Taxes on income	€m	866	-552	692	1,264	1,372
Consolidated result	€m	3,211	712	2,430	2,564	1,579
Investments	€bn	213.8	201.7	193.1	182.2	174.9
Net technical provisions	€bn	186.1	181.2	171.1	163.9	157.1
Equity	€bn	27.4	23.3	23.0	22.3	21.1

1 Previous-year figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
2 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2008 to 2010 is thus limited.
3 The figure for 2011 is not adjusted for relief of 1.4 percentage points from economic risk transfer to the capital markets.
4 Excluding health insurance conducted like life insurance.

Despite our strict profitability requirements, we achieved a rise in our gross premium income.

Given the below-average burden from natural catastrophes, the combined ratio in property-casualty reinsurance was significantly better than in the previous year. The combined ratio in property-casualty primary insurance improved slightly.

Group premium income

- **21% (19%)** Reinsurance life
- **33% (33%)** Reinsurance property-casualty
- **11% (13%)** Primary insurance life
- **11% (12%)** Primary insurance health
- **11% (11%)** Primary insurance property-casualty
- **13% (12%)** Munich Health

→ Further information can be found in the notes to the consolidated financial statements on page 185

Until 2011, the segment balance sheet and segment income statement had reflected the situation prior to the elimination of intra-Group business (including a separate column for consolidation). From 2012, the segments are shown after the elimination of intra-Group business, with the previous year's figures adjusted accordingly.

Consolidated result[1]

	2012	Prev. year	Change
	€m	€m	%
Reinsurance life	495	334	48.2
Reinsurance property-casualty	2,561	169	>1,000.0
Primary insurance life	164	67	144.8
Primary insurance health	87	23	278.3
Primary insurance property-casualty	–4	65	–
Munich Health	–92	36	–
Asset management	–	18	–100.0

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly.

Performance in our life reinsurance segment was pleasing. Property-casualty reinsurance produced an excellent consolidated result.

To improve the quality of advisory services, ERGO intends to harmonise the various advisory and support functions in its sales organisations and reduce the complexity of its sales structures, thereby significantly lowering costs. To this end, five sales organisations are to be merged into two, under the umbrella of a single sales company. As a result, ERGO will achieve cost savings as from 2014, the full volume of which is targeted to total over €160m gross annually as from 2015. For this reorganisation, ERGO made provisions for restructuring costs totalling €258m across all segments in the year under review. These provisions impacted the consolidated result in primary insurance with a total of €128m.

A negative consolidated result was posted in Munich Health.

Percentage of premium from foreign business[1]

%	2012	2011	2010
Reinsurance life	97	96	96
Reinsurance property-casualty	96	95	93
Primary insurance life	25	25	24
Primary insurance health	4	5	4
Primary insurance property-casualty	42	43	43
Munich Health	98	99	99

1 Previous-year figures adjusted owing to IAS 8; see “Changes in accounting policies and other adjustments”.

Whereas in the reinsurance segments and Munich Health we operate on a global basis, in the primary insurance segments the bulk of our premium comes from the German market.

In the year under review, our effective tax rate was 21.2% (–345.0%). In addition to the gratifying development of the results recorded by subsidiaries in countries with lower tax rates, tax-free income from investments also contributed to the low effective tax rate in 2012, as did the positive results of our US subsidiaries. These could be offset against loss carry-forwards from prior years, for which no deferred tax assets had previously been recognised. As a result, the profits of our US subsidiaries were earned without taxation. A comparison of the effective tax rate for the year under review with that of the previous year is of limited value, as the rate for the previous year was strongly affected by the low result.

Events after the balance sheet date

No events of material significance have occurred since the balance sheet date.

Reinsurance – Life

- Rise in premium income of 17.4% to €11.1bn, supported by growth in Asia
- Very satisfactory technical result of €420m
- Good investment result of €913m
- Gratifying consolidated result totalling €495m
- Strong increase in Market Consistent Embedded Value (MCEV) to €10,616m, influenced mainly by outstanding value added by new business totalling €573m

Key figures

		2012	2011	2010	2009
Gross premiums written[1]	€m	11,130	9,481	7,901	6,796
Share of gross premiums written in reinsurance[1]	%	39.5	36.4	33.5	31.2
Operating result[1]	€m	719	629	434	718
Consolidated result[1]	€m	495	334	293	465
MCEV	€m	10,616	9,992	8,284	6,773

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

Premium

With a gross volume of €11,130m (9,481m), premium income in life reinsurance was up 17.4% on the previous year. This was in part due to the continuing dynamic expansion of the primary insurance markets in Asia, in which we participate thanks to our good market position as a reinsurer. The Asian life insurance markets will remain an important driver of our business development in future as well. The gratifying premium development in recent years was also attributable to large-volume treaties where reinsurance primarily serves as a capital substitute. As a financially strong partner and provider of customised solutions, we benefit from our long-term client relations in this regard. We cover biometric risks, thus improving our clients' capital structure and providing them with solvency relief. On the other hand, the sluggish economy in many developed regions impacted our clients' business development and hence reduced reinsurance business potential. In addition, our clients are retaining a higher proportion of the risks themselves, which is having a curbing effect on the growth of our traditional new business in many major markets, particularly North America and Europe.

We generate the bulk of our income outside the eurozone. The weakness of the euro during longer periods of 2012 had a favourable effect on the growth of premium expressed in euros. Approximately €9.9bn or 89% of premium was written in foreign currency, of which 43% was in Canadian dollars and 18% in US dollars. If exchange rates had remained unchanged, our premium income would have climbed by 9.6%.

Result

Business performance in life reinsurance was gratifying in 2012. The technical result amounted to €420m (354m) and we were thus able to surpass our target of around €0.4bn. The operating result totalled €719m (629m) and the consolidated result €495m (334m).

The chief reason for these excellent figures was satisfying claims experience overall in our core markets. The performance of disability and long-term care business, which in the previous two years had led to burdens on the result, improved in 2012. The high-volume treaties concluded in recent years also continued to contribute their share to the result.

The investment result was up on the previous year and totalled €913m (883m). We benefited from lower write-downs on equities and a positive result from the disposal of equities and fixed-interest securities. Regular income declined as expected owing to the low interest-rate environment, and we also recorded losses on derivatives.

→ Further information on MCEV is provided on page 40

In the past financial year, Market Consistent Embedded Value (MCEV) rose to €10,616m (9,992m) in life reinsurance. In addition to the generally positive effects of the capital markets, total MCEV earnings of €1,172m (1,513m) again profited from strong operating MCEV earnings of €939m (1,109m). Total MCEV earnings also reflect high value added by new business of €573m (643m), especially from sustainable new regular business in a number of markets and from a series of individual transactions. There was a lower volume of individual transactions than in the record year 2011, which explains the year-on-year decline in the value added by new business.

Development in individual key markets

In Germany, premium income decreased slightly to €346m (356m), mainly because some treaties were converted to purely risk-based forms of cover. Altogether, life insurance business in Germany has been stagnating for several years, but we continue to see growth opportunities in the area of biometric risk cover. This is a business field we would like to tap into further by developing innovative products that are viable for the future, for instance in the area of disability insurance. Reinsuring death and disability risks and assisting our clients with actuarial assumptions, risk assessment and claims management remain key aspects of our business. We are supplementing these with sustainable and tailor-made reinsurance solutions for enhancing insurers' risk-bearing capacity. The technical result maintained its very satisfactory level.

In the USA, our subsidiary Munich American Reassurance Company posted an increase in gross premium income to €1.9bn (1.7bn), enabling us to retain our position among the leading life reinsurance companies in this important market. Despite the intense competition, we expect further good opportunities for moderate and profitable growth in the area of pure mortality covers to arise from the provision of reinsurance capacity tailored to our clients' requirements. We also anticipate that the cooperation with our subsidiary Munich Re Automation Solutions Limited, which provides primary insurers with automated risk assessment services, will open up new business avenues. Claims expenditure in the year under review, although still within the normal range, was somewhat higher than we anticipated. Hence the technical result in the USA was below expectations.

2012 was another very successful year for our Canadian branch. Munich Re, Toronto (Life) is the market leader in all lines in which it conducts business: life, disability, health, critical illness and long-term care. Premium volume rose to €4.5bn (3.6bn). The still high level of new business and gratifying claims experience contributed to the outstanding technical result.

In Asia, the positive trend in new business continued. Premium income climbed to €1.2bn (1.0bn). The technical result was very satisfactory. We still consider Asia to be one of our most important growth regions.

In the United Kingdom, our branch Munich Re, London (Life) increased its premium volume to €0.9bn (0.8bn). As in prior years, the technical result remained at a very good level. Owing to an oversupply of reinsurance capacity, the pressure on the prices of pure mortality covers was unabated. Our business policy is strictly geared to writing business at risk-commensurate prices. New business production was restrained last year, since the primary insurance market was preparing for the introduction of unisex pricing. For the future, we expect positive impulses for our business to come from this area. It continues to be our strategy to offer our clients added value by expanding our product range, one example being the assumption of longevity risks, which by nature are particularly difficult to assess. We cautiously started writing business in 2011 in this segment to diversify our portfolio even better.

Our subsidiary Munich Reinsurance Company of Australasia Ltd., which writes life reinsurance business in Australia and New Zealand, has recorded strong growth in recent years. Premium income was up to €629m (487m) in 2012. Thanks to our excellent positioning, we can participate in the dynamic development of the primary insurance market. Following the strain on the result in disability insurance in 2011, the technical result returned to a satisfactory level.

On the African continent, our subsidiary Munich Reinsurance Company of Africa Ltd. kept its premium volume stable at €173m (175m), notwithstanding negative currency translation effects. Despite the keener competition, we thus retained our position among the leading reinsurance companies. The technical result developed well. In the medium term, we expect economic growth to accelerate and hence the demand for insurance to rise. We have geared our strategy accordingly and are focusing on the markets with the highest economic growth rates.

Reinsurance – Property-casualty

- Increase in premium income of 3.0% to €17.1bn, due to currency translation effects
- Excellent combined ratio of 91.0%
- Good investment result of €2,148m
- Outstanding consolidated result totalling €2,561m

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	17,052	16,557	15,701	14,987
Share of gross premiums written in reinsurance	%	60.5	63.6	66.5	68.8
Loss ratio[2]	%	61.0	83.4	69.3	65.8
Thereof: Major losses[2]	Percentage points	10.8	32.7	15.7	8.3
Expense ratio	%	30.0	30.4	31.2	29.5
Combined ratio[2]	%	91.0	113.8	100.5	95.3
Operating result	€m	3,596	–250	2,509	3,381
Consolidated result	€m	2,561	169	1,806	2,111

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.
2 The figure for 2011 is not adjusted for relief of 1.4 percentage points from economic risk transfer to the capital markets.

Premium

In property-casualty reinsurance, we posted a rise in premium income of 3.0% to €17.1bn (16.6bn) in 2012. Approximately 14% of the portfolio is written in euros and 86% in foreign currency, of which 45 percentage points is in US dollars and 16 percentage points in pounds sterling. Compared with the previous year, the development of the euro against other currencies had a positive effect of €1,031m on our premium income. At unchanged exchange rates, premium volume would have declined by 3.2%.

The decrease in premium income adjusted for changes in exchange rates was largely attributable to the termination of large-volume treaties in China. By contrast, organic growth in motor business as a consequence of our cooperation with a strategic partner and expansion of our worldwide agricultural portfolio had a favourable effect on premium income.

The renewal negotiations for reinsurance treaties produced very satisfactory outcomes overall. Thanks to our capital strength and our ability to develop complex and customised solutions for our clients, we were able to achieve good terms and conditions and significantly increase the profitability of our portfolio. In most lines and regions, capacity continues to be available in sufficient quantities. We adhered to our focused and disciplined underwriting policy, specifically reducing European property business, traditional marine business and selected subportfolios in non-proportional liability and motor business.

Fire reinsurance saw a rise in rates, especially in the loss-affected regions of Australia, Asia and Japan. Besides this, we achieved significant price increases for the insurance of natural catastrophe risks in the USA and Latin America. In aviation business, however, prices remained under pressure. Proceeding from a good level, credit and bond business also showed a moderate reduction in rates. In most other regions and classes of business, prices tended to move sideways.

Result

We achieved an appreciable improvement in the consolidated result in property-casualty reinsurance to €2,561m compared with the previous year (€169m), which had been heavily affected by major losses. The operating result, which includes the investment and technical result, rose to €3,596m (–250m). Our investment result amounted to €2,148m (1,871m) and the technical result to €2,788m (–813m). These gratifying figures reflect not only slightly below-average costs for major losses, but also an otherwise good business performance. Munich Re's customary review of reserves resulted in a reduction in the claims provisions for prior years amounting to around €900m for the full year, which is equivalent to 5.5 percentage points of the combined ratio. This positive development involved many underwriting years, in particular 2005–2009, and essentially concerned property, marine and aviation business. Over the year as a whole, the safety margin in the reserves rose slightly despite the reserve releases.

The overall burden from major losses was appreciably below the previous year's figure, given the lower loss expenditure of €1,799m (5,048m) for natural catastrophes – after retrocession and before tax.

Aggregate losses from natural catastrophes came to €1,284m (4,538m), representing 7.7 (29.4) percentage points of net earned premiums. In particular Windstorm Sandy (around €800m), which formed over the Caribbean in October and then moved northwards over Jamaica, Cuba and the Bahamas to the northeastern United States, led to significant losses. On top of this, we were impacted by approximately €160m in claims under crop failure covers due to the persistent drought in large agricultural areas of the USA and by €150m from severe earthquakes in northern Italy. Further sizeable losses were caused by tornadoes at the beginning of March (€68m) and in April (€38m) as well as by Hurricane Isaac (€70m) in the USA in August. Moreover, we raised our claims estimate for the floods in Thailand in 2012 by approximately €80m.

At €515m, man-made major losses were at the same level as in the previous year (€510m), accounting for 3.1 (3.3) percentage points in relation to net earned premiums. Large-scale losses derived from the accident involving cruise ship Costa Concordia, which ran aground off the Italian island of Giglio on 13 January 2012 and an explosion in a German industrial park in March. Based on current estimates, claims costs for each of these two loss events will be in the mid to high double-digit million euro range.

Development of premium income and results in each division

Germany, Asia Pacific and Africa

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	3,508	3,980	3,268	2,836
Combined ratio	%	84.5	201.3	102.5	100.1

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

This division writes business in Germany, the Asia-Pacific region and Africa. In terms of the division's premium income, approximately 10% is written in Germany, roughly 40% in Australia/New Zealand and Japan combined, and around 25% in Greater China. Whilst the focus in Australia/New Zealand and Japan is on natural hazards cover, the Greater China portfolio is largely made up of motor business.

Overall, the division's premium volume was down to €3,508m (3,980m), mainly owing to the termination of large-volume treaties in China totalling around €700m and to portfolio reductions where it proved impossible to achieve adequate prices, terms and conditions. We were able to further optimise the portfolio through profitable new business and in some cases substantial rate increases for natural hazard covers, especially in loss-affected regions. We kept constant the capacity we provide for the coverage of natural hazards, particularly earthquake and typhoon, successfully defending our strong market position in Japan and Australia.

The division's combined ratio improved significantly to 84.5% (201.3%) thanks to a moderate incidence of major losses, our rigorous portfolio optimisation, and the release of loss reserves.

Europe and Latin America

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	3,861	3,697	3,472	3,378
Combined ratio	%	92.7	90.4	110.8	87.2

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

The Europe and Latin America Division writes business in Europe (except Germany), the Caribbean and Central and South America. With regard to the division's premium income, approximately 80% derives from Europe, of which approximately half is attributable to the United Kingdom. While the focus in the Caribbean and in Central and South America is on fire business, particularly in the area of natural hazards covers, European business is strongly determined by UK motor business.

Altogether, at €3,861m, the division's premium volume was higher than in the previous year (€3,697m), especially due to organic growth in motor business as a result of our cooperation with a strategic partner and to the expansion of natural catastrophe covers, where we achieved not only organic growth but also another increase in rates. By contrast, the difficult economic environment in Europe and our strictly profit-oriented underwriting policy had a lowering effect on premium, above all in fire business and engineering reinsurance.

The largest loss events affecting the Europe and Latin America Division were the two earthquakes in Italy. Compared with the previous year, in which there had been only moderate burdens from major losses, the combined ratio rose to 92.7% (90.4%).

Global Clients and North America

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	6,275	5,750	6,140	6,058
Combined ratio	%	93.6	95.8	99.6	88.8

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

The Global Clients and North America Division writes the international business of defined global clients (20%), worldwide Lloyd's business (20%) and property-casualty business in the USA and Canada (60%).

At the reporting date, the division's premium volume amounted to €6,275m (5,750m). This growth resulted from new business and from price increases we were able to achieve for business with natural hazard exposure in view of the natural catastrophes in 2011. We recorded growth in premium income particularly from global clients, Lloyd's Watkins Syndicate, and the primary insurance companies. The premium income of our primary insurance companies American Modern and Hartford Steam Boiler Group (HSB Group) totalled €889m (892m) and €687m (616m) respectively, thus contributing more than 40% of our premium volume in North America. In addition, €2,226m (2,183m) stems from Munich Reinsurance America. Our strategy of combining insurance and reinsurance activities again proved successful, and we intend to continue along this path in future.

The combined ratio of 93.6% was better than in the previous year (95.8%), essentially due to the release of loss reserves.

Special and Financial Risks

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	3,408	3,130	2,812	2,713
Combined ratio[2]	%	92.3	77.1	89.2	112.6

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.
2 The figure for 2011 is not adjusted for relief of 6.6 percentage points from economic risk transfer to the capital markets.

The Special and Financial Risks Division writes business in the specialty classes of agriculture (around 30%), credit and bond (some 20%), and aviation and space (around 15%). Also assigned to this division are Corporate Insurance Partner (approximately 20%), the Risk Trading Unit (in which the retrocession cover for the whole of our reinsurance business is booked), and the Swiss subsidiary New Reinsurance Company Ltd. (New Re) (around 15%).

Premium income showed an increase to €3,408m (3,130m), bolstered by increasing commodity prices for agricultural goods and a further expansion of agricultural reinsurance and New Re's business.

The division's combined ratio normalised to 92.3% compared with the previous year's figure (77.1%), which had benefited from exceptional reserve releases and high income from retrocession cover.

The severe drought in the USA led to above-average claims expenditure in agricultural reinsurance. Notwithstanding these random drought losses, agricultural reinsurance is part of our attractive core business. The insurance product SystemAgro, for instance, combines the interests of government, farmers and the insurance industry within the framework of a public-private partnership, in the US market. We intend to offer this insurance scheme in other markets and grow our premium further there.

In the market for aviation and space risks, pressure on rates persisted. Given falling prices, especially in aviation business, we continued to withdraw from selected segments. We were able to write profitable new business in space reinsurance thanks to our position as market leader. In spite of the difficult market environment, we posted a pleasing technical result due to our selective underwriting policy, also benefiting from below-average expenditure for major losses.

In our financial risks segment, credit and bond reinsurance is the most important class of business. It is closely linked to global economic development but also to regional economic trends. We maintained premium volume more or less unchanged compared with the previous year, with rates that were still good despite a marginal deterioration. Seen against the backdrop of the sovereign debt crisis, this business segment showed a generally pleasing development. However, the technical result normalised compared with 2011, which had benefited from exceptional reserve releases and an absence of major losses.

In our unit Corporate Insurance Partner, we offer our clients in industrial and major project business a wide range of insurance products, customised solutions and services based on our recognised industry- and risk-related knowledge. Benefiting from specific and successful portfolio measures, the unit posted a gratifying technical result in the 2012 financial year.

In addition to traditional business with a focus on natural hazards covers, New Re has specialised in structured, made-to-measure reinsurance solutions. As in the previous year, New Re again achieved a positive technical result, benefiting from below-average major losses.

Our Risk Trading Unit places insurance risks on the capital and retrocession markets. We mainly provide the unit's services to clients but also use them for our own purposes in order to buy retrocession cover on the basis of our defined risk strategy. In two major client transactions, liability capacity with a volume of US$ 585m was placed with investors in 2012.

Primary insurance – Life

- Significant reduction in total premium income to €7.3bn (–7.9%), especially due to decline in single-premium business
- Technical result improved to €17m
- Substantial increase in investment result to €3,626m
- Consolidated result of €164m, with strong international business
- Significant improvement in Market Consistent Embedded Value (MCEV) to €260m

Key figures

		2012	2011	2010	2009
Total premium income[1, 2]	€m	7,268	7,893	8,158	7,874
Gross premiums written[2]	€m	5,798	6,142	6,484	6,294
Share of gross premiums written in primary insurance[2]	%	33.9	35.2	37.1	37.9
Operating result[2]	€m	367	101	355	218
Consolidated result[2]	€m	164	67	172	27
MCEV	€m	260	–872	2,375	3,155

1 Total premium income includes not only gross premiums written but also savings premiums for unit-linked life insurance and capitalisation products in accordance with the statutory accounting guidelines applicable in the insurer's home country.
2 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

Premium

Overall premium income in life insurance (including the savings premiums from unit-linked life insurance and capitalisation products) totalled €7.3bn (7.9bn) in 2012, a decline of 7.9% compared with the previous year. Gross premiums written amounted to €5.8bn (6.1bn), 5.6% less than in 2011. These developments were attributable to widespread economic uncertainty in Germany and abroad and to low interest rates, which in turn are reflected in the adjustment of policyholder bonuses paid by our life insurers.

In Germany, our overall premium volume totalled €5.4bn (5.9bn). The decline in single-premium income was particularly strong (–24.8%), especially from MaxiZins, our short-term-oriented capitalisation product. We had reduced the interest rates for this product, and our single-premium business was thus €242m lower than in the previous year. New regular-premium business was also down by 3.4%, clearly reflecting the market-wide reduction in the maximum actuarial interest rate to 1.75% as at 1 January 2012. Altogether, new business volume was down by 20.7% year on year, or 9.7% in terms of annual premium equivalent (APE) – the customary international performance measure. Gross premiums written in Germany totalled €4.4bn (4.6bn).

At €1.8bn (2.0bn), overall premium income from international business decreased by 8.4% compared with the previous year. We earned significantly lower single-premium income in international business, especially from unit-linked life insurance in Austria. Regular new-business premium rose by 2.7% on the previous year. Overall, new business reduced by 15.1%, or 3.5% measured in terms of APE. Gross premiums written in international business fell to €1.4bn (1.5bn) (–6.3%).

New business in life insurance

	2012	Prev. year	Change
	€m	€m	%
Germany			
Regular premiums	340	352	-3.4
Single premiums	1,093	1,454	-24.8
Total	**1,433**	**1,806**	**-20.7**
Annual premium equivalent[1]	449	497	-9.7
International			
Regular premiums	187	182	2.7
Single premiums	607	753	-19.4
Total	**794**	**935**	**-15.1**
Annual premium equivalent[1]	248	257	-3.5

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

Result

→ Further details on the sales quality and efficiency programme can be found on page 71

In the life primary insurance segment, the consolidated result for the past financial year rose to €164m (67m). The operating result increased even more strongly, climbing by 263.4% to €367m (101m). The technical result totalled €17m (–59m). These figures were shaped by positive and negative factors: the investment result was appreciably higher at €3,626m than in the previous year (€2,427m), when it had been severely impacted by write-downs of Greek government bonds. An adverse effect derived from the restructuring costs for the sales quality and efficiency programme, impacting the consolidated result in the life insurance segment with €46m.

→ Further information on MCEV is available on page 40

Persistently low market interest rates present life insurance companies with considerable challenges, mainly because of the long-term interest-rate guarantees they offer their clients. Since 2005, we have been making provision for prolonged phases of low interest rates by making extensive use of derivative financial instruments ("swaptions") for hedging against the reinvestment risk. This hedging programme benefits our policyholders and shareholders alike. Nevertheless, the low-interest-rate environment has left its mark on our financial reporting. Whilst we post the "additional interest reserve" prescribed by German law only in the German Commercial Code accounts for the respective life primary insurance companies, our IFRS consolidated financial statements were adversely impacted by a burden of €16m (34m) from write-downs of deferred acquisition costs, which we made in the respective observation periods mainly owing to the lower future interest income expected. In addition, we increased the assumption regarding the extent to which policyholders in German business will participate in surplus. This had an impact on the valuation differences between the German Commercial Code and IFRS. The result effect in 2012 totalled –€55m.

In previous years, the low-interest-rate phase had already substantially impacted our economic calculations for simulating shareholders' future interests in the earnings distributable from in-force covered business over its entire duration. As in previous years, we applied the strict rules of a market-consistent valuation as at 31 December 2012 using swap interest rates without adjustments to calculate the MCEV in life primary insurance business. In the current environment, this represents a decidedly conservative evaluation approach. The MCEV amounted to €260m (–872m) at the end of the financial year, a significant contribution coming from the decline in risk spreads on fixed-interest securities, in particular for government bonds of the peripheral euro states, at the end of 2012. This effect was greater than the further slight reduction in interest-rate levels. Total MCEV earnings amounted to €1,115m (–3,115m). Operating earnings, which exclude a large share of the effects from developments in the capital markets, totalled –€684m (771m). The value added by new business rose to €42m (–13m).

On 14 November 2012, the German Federal Court of Justice issued a judgement against ERGO Lebensversicherung AG declaring the invalidity of insurance terms and conditions relating to surrender values, lapse deductions and the offsetting of acquisition costs. Specifically, this can have implications for cash value life insurance and deferred or unit-linked annuity insurance in the event of cancellation or waiver of premium. We took the precaution of increasing the provisions we had established at an early stage to a total of €92m at the reporting date.

ERGO Insurance Group signed a joint venture agreement with Avantha Group in India on 1 November 2012. The new company, which will be based in Mumbai and go by the name of Avantha ERGO Life Insurance Company, will offer life insurance products for private clients. Operations are scheduled to commence in 2014, subject to approval by the competent authorities. ERGO will initially have a 26% stake in the joint venture.

Since spring 2012, ERGO has been working hard on setting up ERGO China Life Insurance Company Ltd., a joint venture with Shandong State-owned Assets Investment Holding Company, a strong local partner.

Primary insurance – Health

- Slight increase in premium income of 0.4% to €5.7bn
- Reduced technical result of a good €389m
- Gratifying investment result of €1,239m
- Positive consolidated result of €87m
- Increased Market Consistent Embedded Value (MCEV) of €2,468m

Key figures

		2012	2011	2010	2009
Gross premiums written[1]	€m	5,732	5,710	5,499	5,171
Share of gross premiums written in primary insurance[1]	%	33.6	32.7	31.5	31.2
Operating result[1]	€m	238	94	236	216
Consolidated result[1]	€m	87	23	165	83
MCEV	€m	2,468	1,747	1,733	1,971

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

Premium

At €5.73bn (5.71bn), premium income in the health insurance segment was only marginally higher (+0.4%) than in the previous year. In supplementary health insurance, business grew year on year by 3.8%. By contrast, premium income in comprehensive health insurance remained stable (+0.5%), reflecting premium adjustments that were gratifyingly low for our clients. As expected, new business in comprehensive health insurance in 2012 was down (–28.5%) compared with the previous year, which had benefited from the abolition as at 1 January 2011 of the three-year waiting period for switching to private health insurance. In travel insurance, which we account for in the health segment and operate in Germany and abroad, we registered a decline in premium volume of 5.2%.

Result

→ Further details on the sales restructuring can be found on page 71

The consolidated result in the health primary insurance segment improved significantly to €87m (23m). The impact of expenditure for restructuring sales in this segment totalled €6m. It should be noted that the change in the presentation of the segments on a fully consolidated basis has led to a particularly significant change in the previous year's figure. An intra-Group transaction in the previous year had had a highly positive effect on the former consolidation result: At the end of 2011, ERGO had transferred its shares in the foreign health insurers of the DKV Group to Munich Health Holding. This effect is no longer visible owing to the adjustment of the previous year's figures to the new consolidation method. The operating result also grew robustly in 2012 to €238m (94m). By contrast, the technical result fell to €389m (453m) owing to higher expenses for claims and benefits as a consequence of cost increases in healthcare and to lower income from technical interest. At €1,239m (1,011m), the investment result developed favourably. This segment also benefited from not having to absorb write-downs on Greek government bonds.

Further information on MCEV is available on page 40

The MCEV amounted to €2,468m (1,747m) at the end of the financial year. Significant factors included the first-time consideration of ERGO Direkt Krankenversicherung, our health primary insurance companies' stable results, and various model refinements. No interest-rate guarantees are provided in health business. Figures for interest rates included in the calculations can be changed whenever price increases become necessary due to expenses for healthcare claims and benefits rising. That is why the interest-rate environment has a different impact to that in life primary insurance. Total MCEV earnings increased to €410m (137m) and operating MCEV earnings amounted to €356m (547m). Value added by new business totalled €104m (50m), the strong rise due in part to the first-time consideration of ERGO Direkt Krankenversicherung.

German comprehensive health insurance offers a range of policyholder options, which means that policyholder behaviour can have a significant influence on the MCEV. Examples of these options are that policyholders have the right to change provider and take ageing reserves with them to a certain extent, their cover cannot be cancelled if they fail to pay their premiums, and they may switch to a different policy/plan. This is taken into account in the MCEV model on the basis of current experience, but future client behaviour is difficult to estimate. Discussions regarding the German healthcare system are ongoing, and future legal reforms could naturally lead to significant changes in our MCEV figures.

Primary insurance – Property-casualty

- Premium income of €5.6bn almost unchanged compared with previous year
- Slightly improved combined ratio of 98.7%
- Investment result of €376m slightly down on 2011, but better when adjusted for previous-year effect
- Consolidated result of –€4m burdened by restructuring costs and several major losses

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	5,554	5,595	5,498	5,131
Share of gross premiums written in primary insurance	%	32.5	32.1	31.4	30.9
Loss ratio	%	64.7	65.0	63.1	60.3
Expense ratio	%	34.0	34.1	33.7	32.9
Combined ratio	%	98.7	99.1	96.8	93.2
Operating result	€m	290	385	678	474
Consolidated result	€m	–4	65	319	257

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.

Premium

In the past financial year, premium volume in property-casualty insurance was stable overall year on year. German business grew by 1.6% to €3.3bn (3.2bn). Growth continued to be driven mainly by commercial and industrial insurance (+6.0%). In motor insurance, premium was also up slightly by 0.3%. Personal accident insurance, by contrast, saw a decrease of 1.4% in premium volume, primarily because we concluded fewer personal accident policies with premium return. This product was discontinued as at the end of 2012. Our premium income in German legal protection business was roughly the same as in 2011 (–0.4%).

In international business, two factors had an adverse impact on premium volume. One of these was the sale of companies. In the previous year, we sold our Portuguese subsidiary, whose premium income was still included in the figures for 2011. In the year under review, we sold ERGO Daum in South Korea, thus reacting to the persistently difficult market situation in Korean motor insurance business. This transaction took effect as at 1 October 2012. The other factor was our focus on improved profitability and thus on price increases, which led to pressure on premium income in several international markets. We posted good growth especially in legal protection insurance in the United Kingdom. Our international business showed an overall decline in premium volume of 3.9% to €2.3bn (2.4bn).

Result

→ Further details on the sales restructuring are available on page 71

The consolidated result in property-casualty insurance totalled –€4m (65m). It was significantly burdened by provisions totalling €76m for the restructuring of our German sales forces, while the technical result improved substantially to €226m (192m). By contrast, there was a decrease in the operating result to €290m (385m), mainly owing to a decline in the investment result to €376m (408m). In the previous year, the sale of a consolidated company with a block of real estate in Singapore had had a positive effect on the result. On the other hand, 2011 had also been impacted by high write-downs of equities and derivatives, which were significantly lower in the year under review.

The combined ratio for 2012 amounted to 98.7% of net earned premiums – a slight improvement on the previous year (99.1%). Paid claims and the change in claims provisions amounted to €3,429m (3,407m) and net operating expenses to €1,802m (1,789m), compared with net earned premiums of €5,301m (5,246m).

The combined ratio in German business was 98.0% (95.5%) in 2012. Improvements in motor insurance contrasted with significant frost damage losses from the late cold spell in February and a number of random major losses in summer. As a result of the new fully consolidated segment view, the relief from intra-Group reinsurance in the segment is no longer visible. In addition, we took the precaution of increasing the provisions for individual lines of business within the range of actuarial estimates.

In international business, we recorded a significantly improved combined ratio of 99.8% (104.5%) for the past financial year. In Poland, which had been heavily burdened by natural catastrophe losses in 2010, this figure was again at a very good level of 95.2% (99.9%). There was a further improvement in our results in Turkey, where, thanks to our consolidation measures, the combined ratio of 122.3% was significantly down on the previous year (131.6%), but nonetheless remained at a high level.

Munich Health

— Marked premium growth of 12.3% to €6.7bn
— High combined ratio of 100.2%
— Satisfactory investment result of €115m
— Negative consolidated result of –€92m in the year under review

Key figures[1]

		2012	2011	2010	2009
Gross premiums written	€m	6,703	5,967	5,140	3,974
Loss ratio[2]	%	81.8	80.2	78.5	80.0
Expense ratio[2]	%	18.4	19.3	21.2	19.4
Combined ratio[2]	%	100.2	99.5	99.7	99.4
Operating result	€m	108	159	131	133
Consolidated result	€m	-92	36	63	27

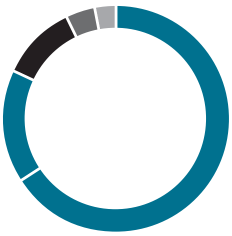
1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.
2 Excluding health insurance conducted like life insurance.

With the exception of the German health insurers belonging to ERGO, Munich Re's global healthcare insurance and reinsurance expertise is combined under the Munich Health brand. With over 5,000 staff at 26 locations, we offer our international clients innovative solutions and individual consultancy and services along the value chain of health insurance.

Premium

There was a further rise in gross premiums compared with the previous year, with growth of 12.3% to €6.7bn (6.0bn).

Gross premiums by market region[1]



- **66% (66%)** North America
- **16% (16%)** Northern/Eastern/Central Europa
- **11% (13%)** Southern Europe/Latin America
- **4% (3%)** Middle East/Africa
- **3% (2%)** Asia/Pacific

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly.

Gross premiums written in reinsurance were up by 11.0% to €4.4bn (4.0bn), mainly owing to higher premium income from large-volume treaties and organic growth in North America in particular. In primary insurance, the premium income from our European companies and North America grew by 15.0% to €2.3bn (2.0bn) overall. If exchange rates had remained the same, Munich Health's gross premiums would have increased by 5.8%.

Result

The consolidated result amounted to –€92m (36m), the year-on-year reduction being chiefly attributable to losses in US Medicare business (private health insurance for seniors) at Windsor Health Group (WHG). WHG contributed an IFRS result of –€86m to the segment result. The deterioration of WHG's medium-term earnings situation triggered write-downs of €166m for impairments of goodwill and other intangible assets of the segment. The operating result decreased to €108m (159m), and the investment result showed a marginal decline of 3.4% to €115m (119m). The technical result totalled €36m (59m).

The combined ratio was 100.2% (99.5%). This ratio relates only to short-term health business, not to business conducted like life insurance, the figure for the latter amounting to 7.3% (7.9%) of gross premiums written in the year under review.

In reinsurance, the combined ratio improved to 99.2 (99.4)%, thanks to the more favourable claims experience of business in force and the acquisition of profitable new business.

In primary insurance, the combined ratio was an unsatisfactory 102.8% (99.7%). The deterioration is due to US Medicare business, a consequence of high expenditure for pure cost reimbursement products but also of increased burdens from managed care business offered by Windsor. We posted provisions of €42m for anticipated losses from this business in 2013. In the meantime, extensive and fundamental measures have been taken at WHG to significantly improve the result situation. The rest of Munich Health's primary insurance business developed very positively. Despite the difficult macroeconomic situation, we able to further improve the result in Spain by expanding group insurance. We also slightly improved on the previous year's result in Belgium.

Investment performance

— High portfolio weight of government bonds with very good credit ratings; rise in market values due to decrease in interest-rate level
— Portfolio of fixed-interest securities from southern European states and Ireland reduced significantly
— Positive result from disposals; low write-downs
— Investment result of €8.4bn
— Return on investment up on previous year at 3.9% despite falling interest rates

Investment mix

	Reinsurance					
	Life		Property-casualty		Life	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Land and buildings, including buildings on third-party land	245	257	1,224	1,187	1,393	1,445
Investments in affiliated companies	20	14	89	62	22	31
Investments in associates	1	75	686	391	110	101
Loans	18	14	52	56	34,977	33,910
Other securities held to maturity	–	–	–	–	7	13
Other securities available for sale						
Fixed-interest	14,376	13,594	49,933	46,664	35,101	32,584
Non-fixed-interest	1,023	895	4,718	4,691	2,050	1,768
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	644	508	58	59
Non-fixed-interest	–	–	32	28	–	–
Derivatives	605	549	366	373	947	765
Designated as at fair value through profit or loss						
Fixed-interest	–	–	–	–	167	161
Non-fixed-interest	–	–	–	–	2	4
Deposits retained on assumed reinsurance	7,240	7,784	1,181	1,196	147	165
Other investments	242	193	1,142	943	583	925
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–	5,957	5,092
Total	**23,770**	**23,375**	**60,067**	**56,099**	**81,521**	**77,023**

Despite the uncertainty over the further course of the euro and debt crisis, the capital markets calmed in the course of 2012, although they were still afflicted by ongoing nervousness. Risk spreads for fixed-interest securities fell, and stock market volatility was also down on the previous year. In the period under review, the EURO STOXX 50 climbed 14%, and the DAX 30 by an impressive 29%. Particularly yields on German and US government bonds and covered bonds continued to fall, hitting a historical low. We also saw lower yields on corporate bonds, as well as shrinking risk spreads.

Primary insurance				Munich Health		Asset management		Total	
Health		Property-casualty							
31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
777	796	95	109	30	31	67	64	3,831	3,889
12	12	40	76	2	11	9	8	194	214
139	86	174	150	91	71	72	66	1,273	940
17,138	16,934	2,210	2,323	23	23	–	–	54,418	53,260
–	–	–	–	–	–	–	–	7	13
14,664	12,686	5,612	5,656	3,436	3,864	377	171	123,499	115,219
928	387	736	433	166	216	76	68	9,697	8,458
–	–	–	–	–	–	–	–	702	567
–	3	–	–	1	–	–	–	33	31
155	67	22	9	16	9	–	–	2,111	1,772
–	–	–	–	–	–	–	–	167	161
–	–	–	–	–	1	–	–	2	5
1	1	4	4	394	280	–	–	8,967	9,430
82	76	594	139	66	114	255	265	2,964	2,655
–	–	–	–	1	1	–	–	5,958	5,093
33,896	**31,048**	**9,487**	**8,899**	**4,226**	**4,621**	**856**	**642**	**213,823**	**201,707**

Distribution of investments by type

Total: €214bn (202bn)

- **59% (58%)** Fixed-interest securities
- **25% (26%)** Loans
- **10% (11%)** Other investments
- **3% (2%)** Shares and equity funds
- **2% (2%)** Real estate
- **1% (1%)** Participating interests

We gear the selection of our investments, based on economic criteria, to the characteristics of our technical provisions and liabilities. In addition, we use derivative financial instruments for portfolio management and hedging against fluctuations on the interest-rate, equity and currency markets. Volatilities on the markets result in changes in the values of derivatives, which under IFRS accounting we recognise in profit or loss.

The carrying amount of our investments showed a rise since the beginning of the year, the lower interest-rate level having a positive effect on the market values of fixed-interest securities. Government bonds and covered bonds benefited from this in particular. Furthermore, a greater volume of insurance transactions naturally meant an increase in investments. Besides this, the development of global exchange rates against the euro led to a marginal rise. We had already reduced our portfolio of southern European government bonds and covered bonds significantly in 2011. Through yet more disposals in the current financial year and repeated investments in government bonds of the highest credit standing, we were able to further bolster the security of our investment portfolio.

Our return on investment rose to 3.9% (3.4%). The previous year's result was burdened primarily by write-downs on Greek government bonds.

Off-balance-sheet unrealised gains and losses

	Fair values		Off-balance-sheet unrealised gains and losses		Carrying amounts	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Land and buildings[1]	8,048	8,013	1,826	1,739	6,222	6,274
Associates	1,621	1,250	364	326	1,257	924
Loans	63,248	56,893	8,830	3,633	54,418	53,260
Other securities	8	13	1	–	7	13
Tangible assets in renewable energies	500	267	–	7	500	260
Total	**73,425**	**66,436**	**11,021**	**5,705**	**62,404**	**60,731**

1 Including owner-occupied property.

Our on- and off-balance-sheet unrealised gains and losses (excluding owner-occupied property), which could be turned into realised gains upon disposal of the relevant investments, climbed from €11.2bn to €22.5bn.

At the reporting date, our investment portfolio continued to be dominated by fixed-interest securities, loans and short-term fixed-interest investments. Some 48% of these are government bonds or government-guaranteed securities, of which 54% are from eurozone countries.

In the 2012 financial year, we cut back our holdings of southern European and Irish government bonds by €0.8bn to €5.0bn and made the bulk of our European bond investments in the issues of supranational institutions such as the EFSF and the EU. We no longer have any government bonds from Portugal or Greece in our portfolio. Only around 3% of our government bonds are now from Italy, with a further 1% from both Ireland and Spain. These bonds are held almost entirely by our primary insurers.

We again increased our portfolio of US government bonds. New investments in government bonds from emerging markets are also part of our balanced investment strategy.

Additionally, in the interests of optimising the structure of our portfolio, we hold a small quantity of credit default swaps from France and the Netherlands, thus increasing our total government bond exposure by €12m.

Portfolio of government bonds and state-guaranteed securities issued by eurozone countries[1, 2]

€m	Amortised cost	Carrying amounts	Fair values	Unrealised gains and losses[3]
Loans				
Belgium	803	803	999	196
Germany	16,647	16,647	19,219	2,572
Finland	685	685	837	152
France	55	55	63	8
Ireland	106	106	114	8
Italy	255	255	266	11
Netherlands	–	–	–	–
Austria	1,363	1,363	1,630	267
Spain	915	915	636	–279
Other eurozone countries	–	–	–	–
	20,829	**20,829**	**23,764**	**2,935**
Other securities				
Available for sale				
Belgium	1,041	1,190	1,190	149
Germany	10,825	11,989	11,989	1,164
Finland	877	963	963	86
France	2,770	3,082	3,082	312
Ireland	986	1,038	1,038	52
Italy	2,357	2,378	2,378	21
Netherlands	1,789	1,935	1,935	146
Austria	1,496	1,660	1,660	164
Spain	606	561	561	–45
Other eurozone countries	883	911	911	28
	23,630	**25,707**	**25,707**	**2,077**
At fair value through profit or loss				
Belgium	–	–	–	–
Germany	42	42	42	–
Finland	2	2	2	–
France	3	3	3	–
Ireland	–	–	–	–
Italy	–	–	–	–
Netherlands	1	1	1	–
Austria	16	16	16	–
Spain	–	–	–	–
Other eurozone countries	1	1	1	–
	65	**65**	**65**	**–**
Total	**44,524**	**46,601**	**49,536**	**5,012**

1 Presentation based on approximation and not fully comparable with IFRS figures.
2 Listed are all those eurozone countries where our holdings of government bonds and state-guaranteed securities total more than €1bn in terms of carrying amounts.
3 Concerns unrecognised unrealised gains and losses in the case of "loans" and recognised unrealised gains and losses in the case of "available for sale".

Information on the levels of the fair value hierarchy is provided on page 175 f. in the notes to the consolidated financial statements

We generally base fair values on quoted prices in an active market (Level 1). In cases where these are not available, and for our loans, the fair value is based on recognised valuation methods in accordance with the present-value principle (Level 2).

Allocation of eurozone government bonds and government-guaranteed securities measured at fair value to levels of the fair value hierarchy[1]

€m	Level 1	Level 2	Level 3	Total
Other securities available for sale	23,047	2,660	–	25,707
Other securities at fair value through profit or loss	65	–	–	65
Total	**23,112**	**2,660**	**–**	**25,772**

1 Presentation based on approximation and not fully comparable with IFRS figures.

At the reporting date, around 90% of the eurozone government bonds and government-guaranteed securities measured at fair value are allocated to Level 1 and 10% to Level 2. Investments from the category “available for sale” allocated to Level 2 mainly involve borrower’s note loans of German “Länder”.

Our overall portfolio of eurozone government bonds has a good rating structure. As at 31 December 2012, 89% were rated AAA to A.

Rating of eurozone government bonds and government-guaranteed securities according to carrying amounts[1]

€m	AAA	AA	A	BBB	Lower	No rating	Total
Belgium	–	1,686	307	–	–	–	1,993
Germany	14,446	13,954	268	–	–	10	28,678
Finland	1,650	–	–	–	–	–	1,650
France	355	2,782	3	–	–	–	3,140
Ireland	70	–	–	1,057	17	–	1,144
Italy	–	–	145	2,488	–	–	2,633
Netherlands	1,936	–	–	–	–	–	1,936
Austria	2,249	739	51	–	–	–	3,039
Spain	–	–	–	954	522	–	1,476
Other eurozone countries	15	94	803	–	–	–	912
Total	**20,721**	**19,255**	**1,577**	**4,499**	**539**	**10**	**46,601**

1 Presentation based on approximation and not fully comparable with IFRS figures.

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.

Period to maturity of eurozone government bonds and government-guaranteed securities according to carrying amounts[1]

€m	Carrying amounts
Up to one year	2,890
Over one year and up to two years	2,781
Over two years and up to three years	3,776
Over three years and up to four years	2,697
Over four years and up to five years	2,097
Over five years and up to ten years	9,763
Over ten years	22,597
Total	**46,601**

1 Presentation based on approximation and not fully comparable with IFRS figures.

Information on the risks from eurozone government bonds and government-guaranteed securities can be found on page 131 f.

€19.6bn or around 60% of our government bonds and government-guaranteed securities with a period to maturity in excess of five years are German government bonds. The periods to maturity of our bonds from Irish, Italian and Spanish issuers are as follows:

Period to maturity of government bonds and government-guaranteed securities of Irish, Italian, and Spanish issuers according to carrying amounts[1]

€m	Ireland	Italy	Spain	Total
Up to one year	16	146	217	379
Over one year and up to two years	–	54	49	103
Over two years and up to three years	23	91	44	158
Over three years and up to four years	168	119	113	400
Over four years and up to five years	–	160	5	165
Over five years and up to ten years	684	595	198	1,477
Over ten years	253	1,468	850	2,571
Total	**1,144**	**2,633**	**1,476**	**5,253**

1 Presentation based on approximation and not fully comparable with IFRS figures.

Fixed-interest portfolio by economic category[1]

Total: €194bn (178bn)

48% (48%) Government bonds[2]
Thereof: 7% (7%) inflation-linked bonds
28% (28%) Pfandbriefs/Covered bonds
10% (10%) Corporate bonds
4% (4%) Cash positions/other
4% (3%) Structured products (credit structures)
3% (4%) Bank bonds
3% (3%) Policy and mortgage loans

1 Presentation essentially shows fixed-interest securities and loans, including deposits and cash at banks, at market value. The approximation is not fully comparable with IFRS figures.
2 Including other public-sector issuers and government-guaranteed bank bonds.

At the reporting date, 28% of our interest-bearing investments were in covered bonds and other securities and debt instruments with collateralisation, around 38% of which were German pfandbriefs. In the course of the financial year, we disposed of sections of our Spanish covered bonds (cedulas) and switched into British and French covered bonds. We increased our investments in corporate bonds again, these making up 10% of our fixed-interest portfolio at the reporting date. Falling interest rates and risk spreads were beneficial to us here, bringing about an additional rise in the market value of our portfolio. We continue to hold a small quantity of credit derivatives, thus increasing our exposure mainly to corporates by another percentage point.

Fixed-interest securities: Bank bonds[1]

%	31.12.2012	Prev. year
Senior bonds	82	82
Loss-bearing bonds	6	7
Subordinated bonds	12	11

1 Presentation essentially shows fixed-interest securities and loans at market value. The approximation is not fully comparable with the IFRS figures.

We further reduced our limited investments in bank bonds to 3% (4%) of our portfolio of fixed-interest securities. At the reporting date, our proportion of bank bonds from southern European states and Ireland totalled only 5% of our bank bond holdings. Overall, senior bonds dominated, i.e. bonds that are not subordinated or subject to loss participation. Subordinated bonds and loss-bearing bonds made up only 1% of our fixed-interest portfolio. Nearly half our total receivables from banks related to deposits.

Our portfolio of structured credit products (which are chiefly held by our reinsurers) grew by €1.3bn to €7.5bn. This asset class refers to securitised receivables (asset-backed securities or mortgage-backed securities), e.g. securitisations of real estate finance, consumer credit or student loans. Around 62% of our portfolio of asset- and mortgage-backed securities have a rating of AAA.

In the current environment of low interest rates and higher volatility, our active duration management also helps reduce risk. Although the average durations of fixed-interest investments exceed those of liabilities in reinsurance, the durations of fixed-interest items in primary insurance are shorter than those of liabilities. On balance, this diversification in opposite positions allows us to reduce the interest-rate risk for the Group as a whole.

The carrying amount of our equity portfolio (before taking derivatives into account, and including investments in affiliated companies and associates at market value) was €8.4bn (6.7bn), or 3.7% (3.2%) of our total investments. In the second half of 2012, we disposed of large portions of the derivatives used to hedge this equity portfolio. At the reporting date, our equity exposure after hedging thus increased to 3.4% (2.0%) of our total investments.

Besides this, we are protecting ourselves against rapid inflation in an environment of continuing low interest rates. Inflation-linked bonds with a volume of €6.8bn (6.1bn) and inflation-linked swaps for a notional amount of €5.2bn (4.0bn), real assets like shares, property and commodities, and investments in renewable energies and infrastructure also have a positive diversification effect on the overall portfolio.

Investment result

Investment result

	2012	Return[1]	Prev. year	Return[1]
	€m	%	€m	%
Regular income	7,755	3.6	8,039	4.0
Write-ups/write-downs	8	0.0	–1,625	–0.8
Net realised capital gains	652	0.3	1,244	0.6
Other income/expenses	21	0.0	–902	–0.4
Total	**8,436**	**3.9**	**6,756**	**3.4**[2]

1 Return in % p.a. on the average market value of the investment portfolio at the quarterly reporting dates.
2 3.3% excluding the earnings from economic risk transfer to the capital market that are posted in the investment result.

Investment result by type of investment

	2012	Prev. year	Change
	€m	€m	%
Real estate	309	292	5.8
Investments in affiliated companies	–21	251	–
Investments in associates	81	101	–19.8
Mortgage loans and other loans	2,300	2,207	4.2
Other securities	5,322	4,392	21.2
Deposits retained on assumed reinsurance and other investments	326	229	42.4
Investments for the benefit of life insurance policyholders who bear the investment risk	603	–263	–
Expenses for the management of investments and other expenses	484	453	6.8
Total	**8,436**	**6,756**	**24.9**

Regular income

Owing to the overweight of investments in highly rated government bonds and covered bonds, with simultaneously lower interest rates, regular income fell slightly compared with the previous year. Our comparatively long duration enabled us to mitigate the effect of low interest rates on current interest income.

Write-ups and write-downs

In the write-ups and write-downs of our investments, we posted minor net write-ups of €8m (–1,625m). We recorded gains on our swaptions and other interest-rate derivatives, as their market values had been bolstered by falling interest-rate levels. Swaptions are used in hedging long-term interest-rate guarantees extended to life insurance clients. Even if we do not sell them, the changes in the market value of our derivatives are reflected in the net balance from write-ups and write-downs. The previous year's result had been burdened mainly by write-downs on Greek government bonds.

Realised gains/losses on investments

In the financial year 2012, we recorded net gains on disposal of €652m (1,244m), primarily from gains realised on switching investments in equities, government bonds, covered bonds and corporate bonds. We posted losses on the disposal of the bulk of our portfolio of equity derivatives with which we hedge our equity portfolio against price setbacks.

Insurance derivatives

Also included in investments are securitisations by means of which we pass on or assume underwriting risks via capital market covers. These include catastrophe bonds and special forms of unit-linked life insurance (variable annuities). Regular income or expenditure, realised gains and write-ups/write-downs arising from changes in the value of our capital market covers are shown as a result from derivatives in the investment result. Such covers contributed approximately €17m to the investment result for the current year, whereas in the previous year a particularly high positive balance of around €200m from write-ups and write-downs was posted in the wake of the earthquake in Japan.

Asset management for clients

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) is the asset manager of Munich Re. In addition to its asset management function for the Group, MEAG also offers its expertise to private and institutional clients. For non-Group investors, we manage a total of €11.5bn (10.4bn), €2.2bn (1.9bn) of this in our investment funds, which are particularly popular with private savers. The assets managed by PICC Asset Management Company Ltd. (PAMC), Shanghai, 81% of which belongs to PICC People's Insurance Company of China, and 19% to MEAG, reached €45.1bn (39.8bn).

Assets under management for third parties

	31.12.2012	Prev. year	Change
	€bn	€bn	%
Third-party investments	11.5	10.4	10.6
Thereof: External institutional investors	9.3	8.5	9.4
Thereof: Private-client business	2.2	1.9	15.8
	2012	Prev. year	Change
	€m	€m	%
Group asset management result	–	18	–100.0

Financial position

— Significant increase in equity attributable to good consolidated result and net unrealised gains on investments
— Debt leverage remains low
— Group capital over 2.7 times the solvency requirement

Financial strength

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

Financial strength ratings for Munich Re

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

Analysis of our capital structure

Our primary insurance and reinsurance operations have a significant influence on our balance sheet: as we have consistently geared our Group toward value creation in its core business, investments on the assets side of the balance sheet serve to cover technical provisions (74.3% of the balance sheet total). Equity (10.6% of the balance sheet total) and bonds classified as strategic debt (2.2% of the balance sheet total) are the most important sources of funds.

Group equity

Development of Group equity

€m	31.12.2012	31.12.2011	31.12.2010
Issued capital and capital reserve	7,390	7,388	7,388
Retained earnings	10,946	11,588	10,735
Other reserves	5,650	3,384	2,238
Consolidated result attributable to equity holders of Munich Reinsurance Company	3,195	702	2,422
Non-controlling interests	242	247	245
Total	**27,423**	**23,309**	**23,028**

The increase in equity was attributable not only to the consolidated result but also largely to higher net unrealised gains, which derived mainly from our fixed-interest securities available for sale. The dividend payment was the chief lowering factor.

Strategic debt

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

Debt leverage

		2012	Prev. year	Change
		€m	€m	%
Strategic debt		5,796	5,219	11.1
Group equity		27,423	23,309	17.6
Total		**33,219**	**28,528**	**16.4**
Debt leverage	%	17.4	18.3	

Our subordinated bonds are recognised in part as own funds by the German Federal Financial Supervisory Authority (BaFin). When this is considered in calculating the strategic debt, the latter is reduced to €1,737m and the debt leverage amounts to only 6.0%.

Technical provisions

Reinsurance business accounts for approximately 33% of technical provisions, primary insurance for about 66% and Munich Health for around 1%. In contrast to liabilities under loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will arise. This is especially true of reinsurance. Whereas in property insurance a major portion of the provisions is generally paid out within two to three years, in life or liability insurance substantial amounts may still be due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling.

Restraints on disposal

→ Information on contingent liabilities is provided on page 272 in the notes to the consolidated financial statements

Since we are an international (re)insurance group, some of our financial resources are subject to restraints on disposal. Supervisory authorities in some countries, for example, require foreign reinsurers to establish premium and reserve deposits to the benefit of primary insurers or set up trustee accounts or guarantees with certain financial institutions. At the reporting date, this involved investments with a volume of €9.5bn (11.0bn). In addition, there were contingent liabilities.

Asset-liability management

More details on this can be found on page 41

The structure of our technical provisions and other liabilities is the basis for Munich Re's investment strategy, the main focus of which is asset-liability management.

Capital management

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

The adjustments made to derive the economic capital from IFRS equity are described on page 130

We derive our economic capital from IFRS equity by means of various adjustments. We return surplus capital to equity holders mainly through attractive dividends, within the scope permitted by Munich Reinsurance Company's revenue reserves as determined under German commercial law, and provided this does not impair our strategic flexibility or overall capital strength. Alongside dividend payments, we still generally consider share buy-backs an important instrument of active capital management, even if we have currently discontinued these in view of the current environment and the opportunities for profitable organic expansion of our business. Including dividend payouts and the share buy-backs from 2006 to 2012, we have been able to return over €13bn to our shareholders since 2006.

In line with our active capital management, we bought back a nominal amount of €0.7bn of the subordinated bond 2003/2023 in the period under review, out of the total outstanding amount of €1.7bn as at the end of 2011. We also issued two subordinated bonds with nominal volumes of €900m and £450m.

In the 2012 financial year, Munich Reinsurance Company generated net retained profits of €1,255m according to German Commercial Code accounting. Including these net retained profits, the Company's revenue reserves amounted to €3,629m (2,436m) as at the balance sheet date. The shareholders' equity of Munich Reinsurance Company as determined under German Commercial Code accounting is protected effectively against the risk of loss arising from a random accumulation of losses by a claims equalisation provision totalling €6.6bn. Given this robust capitalisation according to all calculation methods, we intend – subject to the approval of the Annual General Meeting – to pay our shareholders a dividend of €7.00 per share, or a total of €1.3bn, from Munich Reinsurance Company's net retained profits for the financial year 2012.

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

Composition of the issued capital

As at 31 December 2012, Munich Reinsurance Company's share capital of €587,725,396.48 was divided into 179,341,212 registered, no-par-value, fully paid shares. The rights and obligations deriving from them follow from the pertinent statutory requirements and the Company's Articles of Association. The shares are endowed with full voting and dividend rights, with the exception of the 813,942 shares held by Munich Re itself at 31 December 2012 (Section 71b of the German Stock Companies Act). Each voting share carries one vote at the Annual General Meeting. With respect to the Company, the only parties deemed shareholders in accordance with the German Stock Companies Act (Section 67) are those entered as such in the Company's register of shareholders.

Restrictions on voting rights or the transfer of shares

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

Shareholdings exceeding 10% of the voting rights

Most recently as at 12 October 2010, Warren E. Buffett and companies in his group notified us in accordance with Section 21 of the German Securities Trading Act of the following direct or indirect shareholdings in Munich Reinsurance Company exceeding 10% of the voting rights:

Shareholdings exceeding 10% of the voting rights

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

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

In a letter to shareholders in March 2013, Berkshire Hathaway Inc. reported that its participation in Munich Reinsurance Company as at 31 December 2012 was around 20 million shares, equivalent to an 11.2% share of the voting rights. We have not been notified, nor have we otherwise learned, of any further changes.

Shares with special control rights

There are no shares with special control rights.

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

Like other shareholders, employees of Munich Reinsurance Company exercise control rights in accordance with statutory provisions and the Articles of Association.

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

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

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

The German Stock Companies Act contains special regulations on amendments to the Articles of Association where increases and reductions in share capital are concerned (Sections 182–240 of the Act). Under these regulations, resolutions on capital measures are generally to be made by the Annual General Meeting. Within a self-determined scope, however, the Annual General Meeting can authorise the Board of Management to initiate certain (capital) measures. The authorisations relating to Munich Reinsurance Company are listed below. In all such cases, a resolution of the Annual General Meeting is required that has been adopted by at least a three-quarter majority of the share capital represented in the vote. Where these resolutions are concerned, the Company's Articles of Association again do not provide for other (i.e. higher) majorities or further requirements. Pursuant to Article 14 of the Articles of Association and Section 179 para. 1 sentence 2 of the German Stock Companies Act, the Supervisory Board is empowered to make amendments to the Articles of Association which affect only the wording.

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

The powers of the members of the Board of Management are defined in Sections 71 and 76–94 of the German Stock Companies Act. The Board of Management has the following powers to issue and buy back shares:

The complete wordings can be viewed on our website at www.munichre.com/agm

— The Annual General Meeting of 20 April 2011 authorised the Company, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 19 April 2016 up to a total amount of 10% of the share capital. The shares acquired plus other own shares in the possession of the Company or attributable to the Company in accordance with Section 71a ff. of the German Stock Companies Act may at no time amount to more than 10% of the share capital. The shares may, in accordance with the provisions of the authorisation, be acquired in various ways: the Company may buy back shares amounting to a maximum of 5% of the share capital using derivatives. The Board of Management is authorised to use shares thus acquired for all legally admissible purposes, in particular those specified in the authorisation, whilst excluding subscription rights. Among other things, the Board of Management is empowered under Section 71 para. 1 item 8 of the German Stock Companies Act to retire the shares without requiring further approval from the Annual General Meeting.

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

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

- Under Article 4 para. 2 of the Articles of Association, the Board of Management is authorised to increase the share capital at any time up to 19 April 2016 by an amount of up to €10m by issuing new shares against cash contribution (Authorised Capital Increase 2011). The subscription right of shareholders is excluded insofar as this is necessary to allow the shares to be issued to employees of Munich Reinsurance Company and its affiliated companies.

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

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

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

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

Group solvency

Munich Re is subject not only to the supervisory requirements applying to individual insurance companies but also to supervision at Group level.

Furthermore, Munich Reinsurance Company as the parent has introduced suitable control methods and, when reporting to BaFin, which is also responsible for the Group, includes supplementary aspects at Group level, such as shareholdings, consolidated financial data and intra-Group transactions.

Solvency in the case of insurance companies is generally understood to be the ability of an insurer to always meet the obligations assumed under its contracts. In concrete terms, this means an insurance company must fulfil specific minimum capital requirements. The aim of the "adjusted solvency" rules is to prevent the multiple use of equity to cover risks from underwriting business at different levels of the Group hierarchy. To calculate the adjusted solvency, the minimum equity required for the volume of business (required solvency margin) is compared with the eligible equity actually available (actual solvency margin) on the basis of the IFRS consolidated financial statements. To determine the eligible capital elements, the IFRS equity is adjusted; in particular, it is increased by portions of the subordinated liabilities and reduced by intangible assets. Munich Re's eligible capital is more than 2.7 times higher than the legal requirement.

Adjusted solvency

		31.12.2012	Prev. year	Change
				%
Eligible capital of the Group	€bn	27.1	22.8	18.9
Adjusted solvency ratio	%	277.8	245.3	

The adjusted solvency ratio rose from 245.3% in the previous year to 277.8% in 2012. The rise was due mainly to the increase in equity.

Analysis of the consolidated cash flow statement

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

Consolidated cash flow statement

	2012	Prev. year	Change
	€m	€m	%
Cash flows from operating activities	5,535	6,075	–8.9
Cash flows from investing activities	–4,733	–3,525	–34.3
Cash flows from financing activities	–466	–2,974	84.3
Cash flows for the financial year	**336**	**–424**	**–**

In the consolidated cash flow statement, the consolidated profit of €3,211m is used as the starting point for determining the cash inflows from operating activities. The consolidated result is adjusted by €2,528m to take account of the higher technical provisions. The net gains on the disposal of investments – which in adjusting the consolidated profit have to be deducted from the cash flows – are essentially attributable to the disposal of securities available for sale and to derivatives.

The cash outflows for investment activities were determined by payments for the acquisition of investments. They exceeded the inflows from the sale and/or maturity of investments by €4,217m. In the 2012 financial year, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in a photovoltaic solar-park operating company in Spain, in a solar park company in Italy, in six wind farm companies in Germany, and in three wind farms in the United Kingdom for a total of €274m. In the cash flow statement, we have reduced the purchase prices by the cash held by the companies acquired.

The cash outflows for financing activities stem mainly from the dividend payment in 2012.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – rose by €370m (including currency effects) to €2,860m; there were items pledged as security and other restrictions on title amounting to €44m (45m).

Other success factors

— Munich Re as clients' first port of call for all risk matters
— Continued implementation of ERGO's brand proposition "To insure is to understand"
— Ongoing development of innovative coverage concepts for new and complex risks
— Corporate responsibility for employees, society and the environment

Clients and client relationships

Munich Re has different client bases in reinsurance and primary insurance. In reinsurance, we do business with over 4,000 corporate clients from more than 160 countries. Our primary insurers in the ERGO Group serve over 35 million (mainly private) clients in over 30 countries with the focus on Europe and Asia. The Munich Health business segment has over six million clients in primary insurance and 400 in reinsurance.

Reinsurance

Pioneering role in the development of new coverage concepts

As reinsurers, we apply our extensive risk knowledge to find individual solutions that meet our clients' diverse requirements, and to add value. Knowing our clients' needs, we devise innovative risk transfer solutions with them, and aim to expand risk competence through strategic partnerships, thus providing our cedants with the full range of underwriting products. We regularly assume a pioneering role in new coverage concepts – for example, in preparing European cedants for the introduction of Solvency II. In addition, we offer our clients consultancy and other risk-related services. We reach new client groups through our operating field Risk Solutions, where we provide customised solutions for corporate clients and industrial firms. Predominantly in North America, but also in the Asia-Pacific region, we generate business via managing general agencies (MGAs). Beyond this, our target groups include public-private partnerships and insurance pools. With branches and subsidiaries around the world, we ensure that our clients can always find us where they need us.

Primary insurance

Competent contacts for every customer

In primary insurance, we attend to the needs of private, commercial and industrial clients, with private clients making up the bulk of our customers. ERGO offers them products and services in connection with old-age provision and saving schemes, protection of property, health, legal cover and travel insurance. Clients can contact us through a wide range of channels: via full-time self-employed agents, through brokers, via the internet, by phone for direct insurance, or via various sales partners.

“Clear language” initiative for better understanding

In 2012, ERGO continued to implement its brand proposition “To insure is to understand”, which expresses the primary insurance group’s aim of focusing systematically on customers’ actual requirements, with an approach that sets it apart from the competition. An important consumer concern is clear and comprehensible communication. As part of its “clear language” initiative, ERGO significantly shortened and simplified its insurance terms and conditions for more products in 2012, with the aim of avoiding misunderstandings by policyholders. It also reworded the majority of centrally prepared letters to clients along these lines.

To constantly improve its range of products, ERGO counts on feedback from clients and consumers, such as the members of the ERGO customer advisory board or visitors to ERGO’s “client workshop” on the internet. If clients are not satisfied with the response to a complaint, they can contact ERGO’s customer advocate, who will try to clarify the matter within ERGO and act as a mediator. ERGO’s first-ever customer report, published in May 2012, traces the implementation of the brand proposition in a range of areas. Taking the many suggestions, ideas and criticisms it received from consumers in letters, discussions, e-mails, and feedback forms on its website or Facebook page, ERGO formulated the report as a series of questions, to which it provides clear and straightforward answers.

In 2012, ERGO removed the compliance function from its legal department and established a separate compliance unit. This unit reports directly to the CEO and has subsequently been significantly expanded, with compliance measures being further developed and intensified. This had been preceded by massive public criticism of ERGO due to cases of misconduct and other shortcomings, most of which had occurred a considerable time ago. In order to regain lost trust, ERGO launched a transparency initiative in October 2012. The audit findings regarding misconduct on incentive trips and at other events were published by the group on the internet, stating the measures that ERGO had taken in response.

Munich Health

Munich Re’s global healthcare insurance and reinsurance expertise is combined under the Munich Health brand. Munich Health devises integrated solutions precisely tailored to clients’ needs in order to tap the strongly growing business potential in each market.

By contrast, the growth dynamics in the healthcare market and our good local positioning in the Middle East last year enabled us to extend our primary health insurance operations to Qatar, where we now operate through Daman Health Insurance – Qatar LLC. In Saudi Arabia, moreover, we have joined forces with local partners to set up the primary insurer Saudi Enaya Cooperative Insurance Company.

Asset management

MEAG handles the investment activities of Munich Re and ERGO. Its particular competence lies in investing for the companies of our Group in accordance with their needs, closely gearing investments to the Group’s payment obligations (liability-driven investments). MEAG thus minimises our investment risks and underpins the sustained profitability of our core business. It also offers its comprehensive know-how to external institutional investors and private clients. MEAG is present in Europe, Asia and North America and manages all important asset classes such as fixed-interest securities, equities and real estate. Our investment experts adopt a stringent, risk-based approach with the aim of achieving above-average performance over the long term. Key factors in this regard are the close cooperation and trust they enjoy with clients in the Group and with other institutional investors, the good service they provide to private investors, and MEAG’s long-standing experience in handling investment risks. MEAG is demonstrating its capacity for innovation by investing in renewable energy, new technologies and infrastructure, thus helping secure our future viability.

Research and development

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

Reinsurance

New coverage concepts for industrial and primary insurance clients

In reinsurance, Munich Re continues to attach importance to new solutions in the field of climate change and energy. In the case of new wind power plants, for instance, Munich Re insures manufacturers against serial losses arising from guarantee and maintenance contracts. We also offer insurance solutions for the financial consequences of unexpected deviations in the weather compared with the long-term average.

Besides this, Munich Re uses various units – such as its Special Enterprise Risk Unit or the product developers of American Modern and Hartford Steam Boiler – as innovation platforms that develop new coverage concepts on an ongoing basis in strategic partnerships with their industrial and primary insurance clients. An example of this is a new reputational damage insurance product that provides companies with loss protection if their reputation is significantly harmed by an unforeseen event. The precondition is that the damage has led to a measurable decline in business performance. Following the introduction of unisex pricing in the European Union and the related abolition of gender-based rating distinctions, Munich Re is supporting its life insurance clients in the application of new differentiation criteria such as “occupational group” or “health awareness”.

Another important field of development is the use of reinsurance solutions for capital optimisation. Despite the renewed delays in the introduction of Solvency II, there is a growing demand among many primary insurers for stabilisation of their capital base. Munich Re has upped its efforts in this field, establishing the necessary competence on a broad basis in its operational organisation. Beyond this, our Financial Solutions unit devises special life reinsurance solutions for capital relief in connection with guaranteed products.

Attractive solutions for the public sector

Attractive opportunities are also emerging in the public sector. These include not only pool solutions for certain risks, such as natural catastrophes, but also the coverage of risks in public infrastructure projects via public-private partnerships. In 2012, Munich Re amalgamated its activities relating to cover for the public sector with a view to exploiting the potential for profitable growth.

Primary insurance

With its emphasis on meeting consumer requirements as fully as possible, ERGO also attaches great importance to clients’ opinions in the development of products. A newly launched accident protection policy, for instance, was specifically based on clients’ wishes and expectations. The assistance services of the individual product alternatives are tailored to insureds’ living situations and the degree of injury suffered, with an ongoing advisory service provided after the accident. The new terms and conditions are clearly worded and easy to understand. Extensive studies on clients’ expectations regarding security, flexibility and return have also been used in developing the new life insurance product generation that ERGO will launch in 2013.

Munich Health

Tools for standardised medical risk assessment

In this business field, we utilise the strategic pooling of experience and expertise in health reinsurance, international health primary insurance and risk management services to design new and innovative solutions. For the analysis of health risks, Munich Health provides its reinsurance clients with programmes and tools for standardised medical risk assessment. To enhance the efficiency of internal processes, Munich Health offers new automation options and test algorithms, e.g. in the transmission of claims notification and claims processing data. These help to detect billing errors and fraud at an early stage, thus reducing medical and operating costs.

Staff

Targeted further development of the leadership culture

Our staff are a crucial factor for our success, driving our business forward with their expertise, openness to innovation and dedication. We create the necessary conditions for nurturing and enhancing their personal development and motivation. Central to these conditions are managers who lead by example and provide their staff with the necessary scope and incentives. In 2012, we extended our Leadership Monitoring survey, conducted every two years in reinsurance and Munich Health, to include all units worldwide. 10,436 staff gave 1,758 managers very positive feedback on average regarding their leadership behaviour, and provided a solid basis for the systematic further development of our leadership culture. In primary insurance, our employee survey in Germany focused on the “guiding principles of leadership”, which were launched in 2011 and are continuing to be implemented in primary insurance. For the top managers in the Group, we have formulated clear expectations of management conduct and personal qualities in newly framed leadership values. We actively incorporated and embedded these values in our first-ever conference for this specific target group, which centred on the discussion of strategic issues.

Our clear goal is to identify, develop and retain the loyalty of the best talent globally and locally. At Group level, we have therefore begun looking at prospective candidates for top management across all our fields of business, thus significantly enhancing transparency and our Group-wide potential. In reinsurance and Munich Health, the initiative “Career @ Munich Re” has been implemented internationally, thereby creating a uniform understanding of career throughout our global organisations. This also forms the basis for increased job rotation within the Group. MEAG has streamlined its job application processes, especially with a view to hiring highly qualified people just starting their careers, and has strengthened its recruitment of university graduates.

To further enhance the promotion of diversity, we redefined diversity management Group-wide in 2011. The focus in 2012 was on implementation measures and initiatives. Within ERGO, for example, our support and mentoring programme for female staff with management potential was taken a stage further, while a new HR process for partnering employees on parental leave was introduced. In a pilot project, we are examining the necessary parameters for extending the option of part-time employment to senior management. With a view to the impact of demographic change, we are looking at flexible options for employees that take account of their particular life stage and career phase. Our diversity seminar for trainees won first place in the InnoWard 2012, a training prize awarded by the German insurance industry.

In reinsurance and Munich Health, we have held international workshops to sensitise managers to the significance of diversity management and have systematically determined the requirements deriving from our business in this connection. Numerous initiatives are now building on the outcome. One example is the introduction of our global trainee programme, in which the international diversity of participants is specifically enhanced. The same goal is served by Emerge International, a programme that prepares employees from our international organisation for the assumption of their first managerial positions outside their home countries. Career opportunities for women are improved by a mentoring scheme for the female participants of our development programmes and by independent career counselling for female staff. Besides this, we are continuing to expand our long-standing initiatives for furthering the compatibility of job and family. The internal company agreement "Family and Career", which was significantly extended in 2011, has now also been adjusted for all senior executive staff. Given the breadth of the topic and its cultural embedding, diversity management is not a short-term issue. Appreciation and specific promotion of different mindsets, mentalities, experience and specialist knowledge will remain an important focal point of our human resources work.

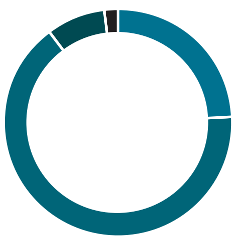
Range of tools for strategic workforce planning expanded

Taking a long-term perspective is also a feature of our investment in staff development. Here we have expanded our range of tools for strategic workforce planning in reinsurance to include our international locations, thus obtaining a well-rounded picture of future qualification and development requirements. Our declared objective is to gear qualifications more strongly to strategic orientation factors, such as markets, products and clients.

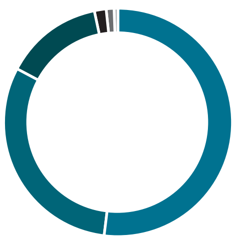
The fact that changes in market requirements can lead to structural adjustments with major consequences is illustrated by ERGO's quality and efficiency programme for its German sales organisations, launched in 2012. This project has three main aims: to improve quality, reduce complexity and cut costs. To achieve these goals, ERGO's current five tied-agency sales forces in Germany are to be merged – under a single ERGO sales company – into two homogeneous organisations, each of an appropriate size and with uniform structures. The envisaged reduction to 120 regional offices throughout Germany and the new orientation of the sales-based central divisions will also result in a decrease in personnel requirements. ERGO is striving to implement the necessary measures in a socially acceptable way and has commenced negotiations with the relevant co-determination bodies.

Staff

Total: 45,437 (47,206)

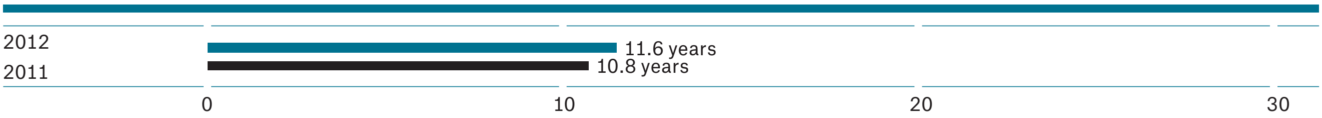


Staff by field of business
- **24.4% (23.7%)** Reinsurance
- **65.5% (66.3%)** Primary insurance
- **8.3% (8.3%)** Munich Health
- **1.8% (1.7%)** Asset management

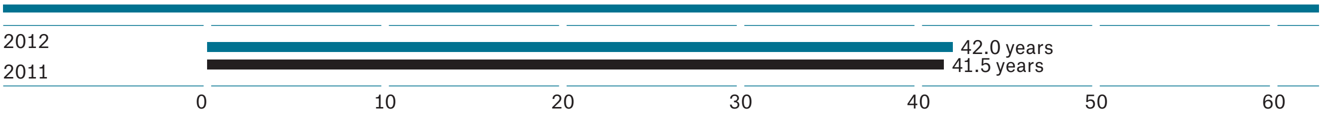


Staff by region
- **52.1% (51.5%)** Germany
- **30.9% (30.8%)** Rest of Europe
- **13.9% (13.0%)** North America
- **1.5% (3.2%)** Asia and Australasia
- **1.3% (1.2%)** Africa, Near and Middle East
- **0.3% (0.3%)** Latin America

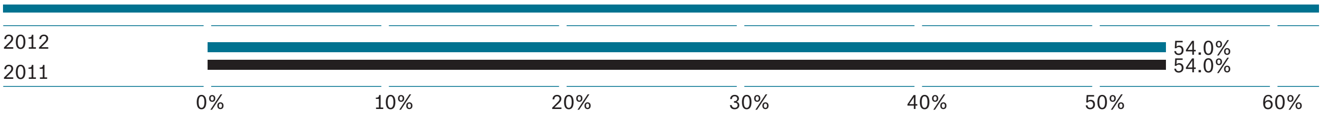
Average length of service



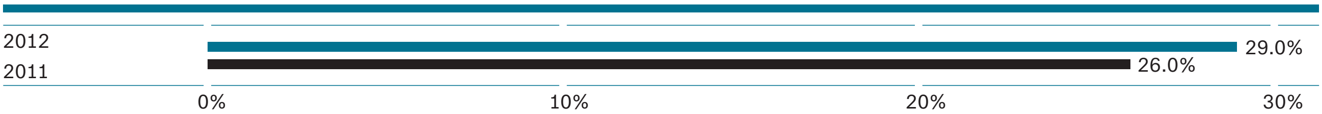
Average age



Percentage of female staff



Percentage of females in management positions



Investments in training[1]

		2012	Prev. year
Investments in training	€m	22.4	25.7
Investments in training per staff member	€	946	1,096

1 Based on the main Group companies in Germany.

Corporate responsibility

Corporate responsibility (CR), by which we understand a forward-looking and responsible approach in all activities, is an integral part of our corporate strategy. Besides the responsibility of every single employee, we have defined three thematic focal points for the Group:

— The enhanced integration of ecological and social aspects in both our investment and our insurance business, coupled with transparent and responsible corporate governance
— Efforts to protect natural resources through our environmental management system and achieve carbon neutrality for the whole Group by 2015
— Our social commitment

New CR committee manages Group-wide activities

At the end of 2012, it was decided to set up a cross-business-field Corporate Responsibility Committee for the Group-wide management of these activities.

We have underscored our approach to corporate responsibility by signing up to international guidelines. First and foremost among these is the UN Global Compact, which we joined in 2007. Its ten principles provide the fundamental framework for our corporate responsibility strategy. Guidelines for investments geared to sustainability criteria are provided by the Principles for Responsible Investment (PRI), which we implement via our asset manager MEAG. At least 80% of our holdings in equities, corporate and government bonds, and real estate (constructed since 2010) should meet sustainability criteria. Since 2010, our socially responsible investment strategy has also included investments in renewable energy and new technologies (RENT). MEAG has invested around €1bn for us in this area. In the medium term, we plan to expand our commitment up to €2.5bn. On top of this, we seek to invest a total of around €1.5bn in infrastructure projects such as power supply, transport and telecommunications. By the end of 2012, we had already invested €500m in this sector.

Munich Re signs the Principles for Sustainable Insurance

In recent years, Munich Re has played an active part in developing the Principles for Sustainable Insurance (PSI) of the United Nations Environmental Programme Finance Initiative. In June 2012, the PSI were officially unveiled and signed at the RIO+20 UN conference. As with the PRI, which Munich Re was the first German company to join, we were among the first signatories. We will use the PSI as a yardstick for integrating environmental, social and governance criteria even more strongly into our core business. In so doing, we will simultaneously improve our risk management.

Commitment to conserving natural resources is an equally important part of our corporate responsibility strategy, given that our economic success is inseparably linked with protecting people and the environment. With this in mind, we are recording our environmental data with increasing precision: in 2012, a total of 80% of all employees in 31 Munich Re units were covered by our environmental management system, with 30% working in units that have been certified to ISO-14001.

DKV Seguros is the first European insurer to have its products certified as carbon-neutral

To help raise public awareness regarding climate change, we endeavour to set a good example ourselves: by 2015, we will make business operations throughout our Group carbon-neutral. The first step was to reduce emissions Group-wide by at least 10% per employee, based on emissions in 2009. In a second step, we are neutralising unavoidable CO_2 emissions by means of appropriate certificates. Our Munich site has been carbon-neutral since 2009, as have the major locations of ERGO Germany since 2011. This objective was achieved for the whole reinsurance group in the reporting year 2012. Since the end of 2012, for example, more than 4,000 square metres of solar panels have been powering the office buildings of Munich Re in Princeton with a volume of 2.5 megawatts per year. Our subsidiary DKV Seguros in Spain, which already achieved the objective in 2007, last year became the first European insurer to have its products certified as carbon-neutral. Altogether, we have saved more than 5,500 tonnes of CO_2 globally since 2009 with our consistent environmental management.

More details of our Group-wide activities in the field of corporate responsibility are provided at www.munichre.com/cr/en

Our social commitment at Munich Re's different business locations will be structured even more systematically in future. We have devised a corporate citizenship concept in which we underpin this commitment with expertise from our operational activities. Last year, for instance, we launched a two-year project for earthquake disaster prevention in India. The local measures include training people how to behave when earthquakes occur, and the structural consolidation of state buildings like schools, hospitals and other important infrastructure. This project-based approach is supplemented by the work of our three corporate foundations. The Munich Re Foundation, for example, is supporting a project in Mozambique for developing effective flood prevention measures. It again staged its annual International Microinsurance Conference in 2012, with more than 400 participants from 50 countries, making it the world's largest platform for this topic. ERGO's Youth & Future Foundation has the objective of enhancing personal and career opportunities for young people. The Dr. Hans-Jürgen Schinzler Foundation, set up in 2004, encourages the social commitment of Munich Re employees and coordinates corporate volunteering activities at our Munich site where, for example, more than 1,500 hours of voluntary charity work were "donated" in 2012.

In order to make our corporate responsibility approach transparent, Munich Re maintains active contact with socially responsible investment rating agencies and interested investors, and provides detailed information on its activities not only through our Group-wide corporate responsibility portal but also, since 2012, in a separate ERGO sustainability report. Our improved results in several ratings and our regular inclusion in internationally renowned sustainability indices confirm that we are on the right track. Thus, for example, Munich Re has been an ever-present in the FTSE4Good and Dow Jones Sustainability Index since 2001. Since signing the UN Global Compact in 2007, we also report annually on our progress in implementing the principles: our Communication on Progress is prepared in accordance with the guidelines of the Global Reporting Initiative.

Corporate responsibility offers Munich Re the chance to strengthen the trust of shareholders, clients, employees and the public in our Group and to successfully meet tomorrow's challenges.

Risk report

— Munich Re's risk situation in 2012 manageable and under control
— Solvency ratio still comfortable
— Integrated worldwide system for managing risks

Risk governance and risk management system

Risk management organisation, roles and responsibilities

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

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

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

The Group Committee meets quarterly as the Group Risk Committee, the membership of which additionally includes further specialists from our business segments, to deal with risk issues affecting the Group as a whole.

Besides this, the Group Committee meets quarterly together with members of senior management responsible for investments in our business segments as the Group Investment Committee. This committee is the central management committee for major Group-wide issues affecting the Group's investments, including specific investment risks.

Additionally, there is the Group Compliance Committee (GCC), which deals with compliance and reputational risks at Group level, with a view to standardising the handling of these risks throughout the Group. In contrast to the Group Corporate Responsibility Committee (GCRC), which concerns itself with identifying sensitive issues on an abstract level and with the Group's positioning on these, the GCC focuses on concrete reputational risks that arise from one or more specific cases or are the subject of enquiries from the business units.

The Remuneration Committee, in accordance with the German statutory order on remuneration schemes in the insurance industry (VersVergV), has responsibility for designing, reviewing and enhancing the staff remuneration system, with a particular focus on variable incentive components.

Segment level

The Global Underwriting and Risk Committee (GURC), which comprises members of the Reinsurance Committee, was created to function as a special risk committee for reinsurance.

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

The Munich Health Risk Committee is responsible for risk matters in the Munich Health segment.

Determining the risk strategy

The assumption of risks is an essential part of our business strategy. The risk strategy defines the extent to which we are prepared to incur risks for our clients and shareholders; the development of our risk strategy is part of the annual planning cycle and thus embedded in our business strategy. It is approved by the Board of Management and discussed regularly with the Supervisory Board. Its objectives are:

The risk strategy is determined by a risk appetite defined for a series of risk criteria. The criteria are based on the capital and liquidity available and on our earnings target within specified volatility limits, and provide a frame of reference for the Group's operating divisions:

— Whole portfolio criteria, relating to Munich Re's entire portfolio of risks, designed to protect our capital and limit the likelihood of an economic loss for the year. Particularly worth mentioning in this respect is the criterion "economic earnings at risk" (EEaR), which we use to manage the Group's risk profile in such a way that our risk-bearing capacity does not fall below a defined threshold in the event of adverse business experience of the type that occurs statistically around every ten years. As at 31 December 2012, economic earnings at risk stood at €4.8bn.

— Supplementary criteria, to limit losses that can arise out of individual risk types or accumulations, such as natural hazards, terrorism and pandemics, and to limit market and credit risks that could endanger Munich Re's ongoing viability were they to materialise.

— Other criteria, aimed at preserving Munich Re's reputation and thus protecting its future business potential. They encompass limits for individual risks that, though they would not threaten Munich Re's existence, could cause lasting damage to the confidence of clients, shareholders and staff were they to materialise.

The risk appetite laid down ensures that an appropriate balance is maintained between business opportunities and risks incurred. Our risk strategy process proved its worth in both the financial crisis and the country debt crisis. Our business model of combining primary insurance and reinsurance under one roof ensures that – even in particularly difficult markets – we are always in a position to be a strong partner for our clients and a stable investment for our shareholders. With our broadly diversified portfolio of investments, we are well equipped for all market scenarios – even extreme ones – that could realistically arise.

Implementation of strategy and the risk management cycle

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

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

Risk identification is performed by means of appropriate systems and indicators (quantitative component) and a number of risk surveys, which are supplemented by expert opinions and assessments by selected, highly experienced managers (qualitative component). Our ad-hoc reporting process provides for staff to report risks to the central risk management function (IRM) at any time. We are constantly enhancing our risk measurement tools, which are tailored to each segment. Our lead risk measure is based on economic principles. We regularly compare the results produced by our risk model with those of supervisory authorities, rating agencies and commercial modelling companies at a number of levels, including Group, segment, legal entity and risk type. We also regularly perform benchmarkings of our risk-model results and participate in industry surveys to constantly challenge and refine our risk measurement tools.

Our financial strength is an important criterion for the success of our business. As far as our financial strength ratings are concerned, our aim for the present is the second-highest rating from each of the main agencies that rate us. Meeting this objective is a supplementary parameter of our corporate management and is monitored at regular intervals. We currently assume that our financial strength, our good competitive position and our sophisticated risk management will continue to be recognised through correspondingly high ratings.

→ We explain the results produced by our internal risk model on page 125ff.

We compare our internal risk model with the current status of Solvency II and take part in the Quantitative Impact Studies and stress tests (European Insurance Stress Test).

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

Risk limitation is derived from the risk strategy. Taking the defined risk appetite as a basis, limits, rules and any risk-reducing measures required are approved and implemented. We also have a comprehensive early-warning system that draws our attention to any potential shortages of capacity. If a business unit identifies attractive business that exceeds its risk limits, the risk management departments responsible and IRM analyse its potential impact on the Group portfolio and the risk appetite of the Group as a whole. Taking these results and the expected earnings from the business into consideration, we devise a solution that enables us to take the risk onto our books if appropriate.

Quantitative risk monitoring based on indicators is carried out both centrally and within units, for example at MEAG for investments and at ERGO IRM, and then collated centrally. We monitor risks that cannot be expressed as an amount either centrally or in our units depending on their materiality and allocation.

Control and monitoring systems

Our internal control system (ICS) is a worldwide system for managing operational risks integrated across all risk dimensions and areas of the Group that both meets Group management needs and complies with local regulations.

The Board of Management has Group-wide responsibility for the ICS, which falls structurally under the responsibility of the CRO. Experts and staff in our specialist areas are responsible for the detailed content of the system and perform the risk and control assessments at least annually. For each of Munich Re's business segments, the ICS delivers a risk map, which systematically links the significant risks and processes and shows all relevant risk control points. By making our risk situation transparent in this way, we can focus on and react rapidly to weaknesses or changes in internal and external requirements. This means that we are able to identify risks at an early stage, locate control shortcomings immediately and take effective remedial action.

The significant risks in the accounting process arise out of the requirement to show and value all items correctly in the various components of the financial statements and guarantee the completeness and accuracy of the information in the notes to the financial statements. To do so, it is necessary to implement new legal requirements on time, which also involves constant additions to the Group Accounting Manual and the chart of accounts. The accounting process is to a large degree dependent on IT systems, which must be protected against unauthorised access and are subject to ongoing controls to guarantee the effectiveness and stability of the information and communication flows. We also ensure that reporting to the Supervisory Board is properly carried out.

Appropriate internal controls for accounting risks

Our financial accounting and reporting is subject to carefully defined materiality thresholds to ensure that internal controls are appropriate. Significance, risk experience and compliance are taken into account in determining the thresholds. All risks significant for financial reporting from a Group perspective are integrated into the ICS in accordance with uniform criteria. The ICS risk map is checked annually by the risk carriers and updated and amended as necessary.

By means of our accounting manual and regular circulation of information on changes required, Munich Re ensures that uniform rules are applied throughout the Group for the treatment, valuation and disclosure of all items in the balance sheet, income statement and other components of the financial statements. Any amendments are subject to a mandatory procedure as regards timing, responsibilities and circulation of information.

A central IT solution drawing on general ledgers largely standardised throughout the Group is used to produce the consolidated financial statements. It is based on harmonised basic data, uniform processes and posting rules, and a standard interface for delivery of data to the Group or subgroup. Authorisation procedures regulate access to accounting systems.

Our main risks are controlled at a number of levels. We rely primarily on automated, system-based checks of the content of our defined processes.

However, notwithstanding the careful design and diligent use of our ICS, it can provide only adequate, but not total, certainty that all risks have been covered. The controls put in place, the processes coordinated Group-wide and the supporting IT solutions cannot guarantee the complete avoidance of errors or prevention of individual cases of fraud.

Bodies that monitor the effectiveness of the accounting-based ICS

The Audit Committee of the Supervisory Board regularly calls for reports on the effectiveness of the accounting-based ICS and changes to the risk map from the previous year. With the help of the reports prepared by our external auditors and Group Audit, the controls applied are explained and it is demonstrated that all controls considered necessary have been correctly performed. To this end, risk-based audits of the units in the Group are performed and the results summarised in internal audit reports. In 2012, the audits showed that the structure of the ICS is appropriate and that the design and quality of the controls were such as to render them effective. Through continuous auditing, revision and enhancement of our ICS, we intend to ensure that it remains effective in the future.

In the period from March to November 2012, Munich Re's consolidated financial statements and the Group management report for the 2011 financial year were subjected to an audit by the German Financial Reporting Enforcement Panel (DPR). There were no findings.

Risk reporting

Internal risk reporting provides all members of the Board of Management with regular information on the risk situation, as regards both the individual risk categories (ongoing) and the entire Group (quarterly). The Audit Committee of the Supervisory Board and BaFin also receive the quarterly internal risk report. Early-warning mechanisms thus ensure that negative trends are identified in sufficient time for countermeasures to be taken.

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

Significant risks

According to our classification, significant risks are risks that could have a long-term adverse effect on Munich Re's assets, financial situation or profitability. We have applied this definition consistently to the individual business units and legal entities, taking account of their individual risk-bearing capacity. There are significant risks in the following risk categories:

→
Further information on risks in property-casualty insurance can be found on page 258 ff. in the notes to the consolidated financial statements

Underwriting risk: Property-casualty insurance

Underwriting risk is defined as the risk of insured losses in property-casualty business being higher than our expectations. The premium and reserve risks are significant components of the underwriting risk. The premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions established to cover losses that have already been incurred being insufficient.

Premium risk

Line management has primary responsibility for controlling the premium risk. Line managers grant underwriting authorities and lay down internal processes aimed at ensuring that a high level of quality is maintained; in doing so, they take account of both the specific exposures in their business and the knowledge and experience of each member of staff. In particularly critical areas, the underwriting authorities granted to the operating units are restricted by mandatory Group-wide instructions or limited capacity budgets.

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

Reserve risk

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

We calculate the reserves for losses and claims settlement costs in accordance with actuarial practice based on substantiated assumptions, methods and assessments. The assumptions are regularly reviewed and updated. Application of Group-wide reserving rules guarantees a substantially reliable and consistent procedure. In addition, internal audits are carried out Group-wide to verify compliance with these rules and the appropriateness of the reserves.

→
Further information on risks in life and health insurance can be found on page 251 ff. in the notes to the consolidated financial statements

Underwriting risk: Life and health insurance

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

Random annual fluctuations in insurance benefits or lapse behaviour can lead to short-term falls in the value of the portfolio. This applies particularly to expenses, which can rise as a result of exceptional one-off events such as a pandemic.

Changes in client biometrics or lapse behaviour are risks that have a long-term effect on the value of a portfolio, making it necessary to adjust the actuarial assumptions. In health insurance, morbidity risks are understandably important, whereas in life insurance mortality, longevity and disability risks are the most significant. Limits are laid down for the short-term pandemic scenarios and the longer-term longevity scenarios in conformity with the risk strategy. In German health primary insurance, especially comprehensive health insurance, there are additional uncertainties because policyholders' options have changed since 2009. These include:

— portability of reserves when moving to another insurer (ageing reserves),
— obligation on insurer to pay benefits for insureds who have not paid premiums, with no ability to terminate the contract,
— the right to change to a new tariff.

The changes are a result of the law reforming German healthcare (WSG). The new policyholder options are taken into account in the valuation model on the basis of experience to date. Under the new regulations for policyholders in Germany, it is, for example, no longer possible for an insurer to terminate an insurance contract on the grounds of non-payment of premiums by the policyholder.

→ Information on our underwriting authorities is available on page 120

The remarks on underwriting guidelines and limits in respect of property-casualty business also apply to life and health reinsurance business. In primary insurance, regular reviews of the actuarial assumptions by actuaries and the requisite amendment of rating rules ensure that risks and processes are effectively controlled. If there is a lasting change in the actuarial assumptions applied in health primary insurance, it is generally possible to adjust the premiums for long-term contracts.

Market risk

We define market risk as the risk of economic losses resulting from price changes in the capital markets. This includes equity risk, general and specific interest-rate risk, property risk and currency risk. The general interest-rate risk relates to changes in risk-free interest-rate curves, whereas the specific interest-rate risk arises out of changes in credit risk spreads, for example on government bonds or credit default swaps (CDSs). We also include in market risk the risk of changes in inflation rates and implicit volatilities (cost of options). Fluctuations in market prices affect not only our investments but also our underwriting liabilities, especially in life insurance. Due to the long-term interest-rate guarantees given in some cases and the variety of options granted to policyholders in traditional life insurance, the amount of the liabilities is highly dependent on the capital markets.

→ Disclosures on derivative financial instruments are provided on page 204 ff. and sensitivity analyses of market-price risks in financial instruments on page 264 f.

We manage market risks by means of suitable limit and early-warning systems, and through our asset-liability management. To hedge market risks, we also use derivative financial instruments. Applying stress tests, sensitivity and duration analyses, we simulate market fluctuations and devise strategies for counteracting them where necessary.

Our investments must comply with Group-wide minimum standards as defined in our General Investment Guidelines. We also take account of risk-relevant restrictions on investments resulting from our risk strategy.

Credit risk

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

In addition to credit risks arising out of investments and payment transactions with clients, we actively assume credit risk through the writing of insurance and reinsurance business, for example in credit and financial reinsurance.

We use a cross-balance-sheet counterparty limit system valid throughout the Group to monitor and control our Group-wide credit risks. The limits for each counterparty (a group of companies or country) are based on its financial situation as determined by the results of our fundamental analyses, ratings and market data, and the risk appetite defined by the Board of Management. The utilisation of limits is calculated on the basis of credit-equivalent exposure (CEE). All investments in structured products and the vast majority of securities lending transactions are monitored separately and controlled using volume limits. The resultant credit risk is reduced by means of Group-wide rules for collateral management, for example for OTC derivatives and catastrophe bonds issued.

In order to take account of country risks other than the credit risk on government bonds, our advisory unit for strategic and economic issues, Group Development, also produces specific country scores in addition to the pure default ratings. These cover the significant political and economic risks and those relating to a country's internal security, and enable us to assess comprehensively additional country risks of varying importance for different business segments.

In the area of retrocession, we control the default risk through the Retro Security Committee. The experts on the committee review the quality of our main retrocessionaires independently and on the basis of various criteria (e.g. minimum ratings, market data and capital requirements) and allocate appropriate limits for the counterparties based on underwriting guidelines laid down by the risk management function.

Operational risk

→ Information on our ICS can be found on page 118 f.

Munich Re defines operational risk as the risk of losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations, and disagreements with business partners. These risks are qualitatively identified and managed through our ICS.

In addition, our Security and Continuity Risk Management Framework defines the rules for a standard Group-wide procedure for identifying and assessing security risks for people, information and property. Our aim is to ensure that our business activities are not disrupted. We take all possible steps to ensure that employees are aware of the need to identify potential security risks and thus to establish an appropriate risk culture. This includes willingness to learn from mistakes and to recognise them as opportunities for improvement.

Operational risks are quantified annually by means of expert estimates prepared for scenario analyses.

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

The management of liquidity risk includes taking account of

- known and expected payment obligations through regular, detailed liquidity planning at individual-entity level, and a central cash-flow reporting system;
- margin calls and collateral requirements for derivative positions;
- unexpectedly high payments resulting, for example, from accumulation losses that far exceed normal loss expectations.

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

We also optimise the availability of liquidity in the Group by means of internal funding and a cash pool fed by Group companies. Through stringent requirements regarding the availability of liquidity, which also comply with supervisory rules, we ensure that every unit is able to meet its payment obligations.

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

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

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

We monitor reputational risk through processes we have established in various internal units to identify it. These processes range from the general recording of risks for the purposes of our ICS to whistleblower procedures and our ad-hoc reporting process. Actual cases that could involve reputation issues are evaluated in the business segments either by a Reputational Risk Committee (RRC) or through a comparable procedure in which a coordinating unit ensures that appropriate experts are consulted. The respective unit's Compliance Officer can always be consulted on matters relating to the assessment of reputational risks. In the Group Compliance Committee (GCC), reputational risks are also considered at Group level in order to ensure uniform analysis and handling throughout the Group. Furthermore, sensitive issues that could lead to reputational risks are handled for all segments by our Group Corporate Responsibility Committee (GCRC).

In 2012, there were again reports in the press on inappropriate behaviour at ERGO in connection with incentive trips and criticism regarding the switching of insurance policies. They had an adverse effect on ERGO's – and hence Munich Re's – reputation. ERGO's reaction included the disclosure on its website of comprehensive information on misconduct during incentive trips and at other sales events. Measures were also taken to prevent similar cases from occurring in the future. Central conduct and organisational guidelines at ERGO were revised and the compliance function was strengthened in 2011 and further expanded in the course of 2012.

Economic risk capital

Overview of the risk situation

→ On pages 120 ff., we provide examples of the above-mentioned risks and how we deal with them

We use our risk management to assess our risk situation on the basis of qualitative and quantitative factors. Throughout the entire period under review, Munich Re's risk situation was manageable and under control. Our carefully implemented, modern risk management processes combined with our solid level of capitalisation at all times ensured the solvency and viability of the Group expected by our clients and shareholders. In addition to the underwriting and capital market risks inherent in our business model, there are inevitably a large number of other risks to which Munich Re – like every other undertaking – is exposed. The incidence of these risks is random and their occurrence probability and impact are generally difficult to estimate. We therefore closely monitor our environment and our own Group to identify even these risks in good time and to take suitable measures to avert loss or damage.

Internal risk model

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

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

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

We also show the diversification effects we achieve through both our broad spread across the different risk categories (underwriting, market and credit) and our combination of primary insurance and reinsurance business. At the same time, we recognise by means of tail dependencies that the various risks are not independent of each other. This gives rise to a smaller diversification effect than if independence is assumed.

A key figure calculated using the internal model is our economic risk capital (ERC). By economic risk capital, we mean the amount of capital that Munich Re needs to have available, with a given risk appetite, to cover unexpected losses in the following year. To determine Munich Re's economic risk capital, we use the economic profit-loss distribution across all risk segments. The economic risk capital corresponds to 1.75 times the value at risk of this distribution over a one-year time horizon with a confidence level of 99.5%. The value at risk with a confidence level of 99.5% gives the economic loss for Munich Re which, given unchanged exposures, will be statistically exceeded in no more than one year in every 200. It represents the future risk tolerance under Solvency II. By setting its own capital requirement at 1.75 times this risk tolerance, our Group follows a conservative approach, offering its clients a high degree of security.

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

Economic risk capital (ERC)

					31.12.2012
€bn	Group	Reinsurance	Primary insurance	Munich Health	Segment diversification
Property-casualty	9.7	9.6	0.6	–	-0.5
Life and health	7.2	5.3	2.8	0.7	-1.6
Market	14.0	6.1	11.1	–	-3.2
Credit	6.7	4.4	2.6	–	-0.3
Operational risk	1.4	1.0	0.6	0.1	-0.3
Subtotal	**39.0**	**26.4**	**17.7**	**0.8**	**-5.9**
Diversification effect	-11.7	-9.3	-3.4	–	–
Total	**27.3**	**17.1**	**14.3**	**0.8**	**-4.9**

→

					Prev. year	Change
€bn	Group	Reinsurance	Primary insurance	Munich Health	Segment diversification	Group
Property-casualty	9.5	9.4	0.6	–	-0.5	0.2
Life and health	6.6	4.8	2.5	0.6	-1.3	0.6
Market	11.4	5.7	8.5	–	-2.8	2.6
Credit	6.7	4.5	2.2	–	–	–
Operational risk	1.2	0.9	0.6	0.1	-0.4	0.2
Subtotal	**35.4**	**25.3**	**14.4**	**0.7**	**-5.0**	**3.6**
Diversification effect	-11.0	-8.8	-3.1	–	–	-0.7
Total	**24.4**	**16.5**	**11.3**	**0.7**	**-4.1**	**2.9**

The table shows Munich Re's economic risk capital and risk categories as at 31 December 2012. Over last year, the economic risk capital rose by €2.9bn. The following factors contributed to the increase:

— The economic risk capital for our life and health business rose by €0.6bn. In primary insurance, the rise resulted from further falls in interest rates, especially in the eurozone. In addition, lower risk cushions, for example for future policyholder bonuses, are increasing the risk for insurers. In reinsurance, the changes are due primarily to the substantial increase in new business in Asia and Canada. For Munich Health, the

ERC has risen as a result of more precise modelling of the pandemic risk. We have also adapted the model to take account of the higher degree of uncertainty in the US health insurance market.
- The economic risk capital for market risks grew by €2.6bn due both to increased equities and foreign-currency exposure and to lower interest rates, which have led to a rise in risk capital in life primary insurance in particular. An improvement in the way the spread risks in life and health primary insurance are depicted also caused risk capital to increase.
- As the composition of the portfolio remained stable, the economic risk capital for credit risks remained at approximately the same level as for the previous year.
- As last year, we used scenarios to determine the economic risk capital requirement for operational risk. Various teams of experts in the Group have compiled the scenarios and adjust them annually. The change in economic risk capital resulted from the updating of the expert estimates.
- The diversification effect between the risk categories "property-casualty", "life and health", "market", "credit" and "operational risk" grew by €0.7bn, due primarily to a €3.6bn rise to €39.0bn in the sum of the economic risk capital requirements for the individual risk categories.

A separate analysis as at the end of 2012 showed that all the changes to the model increased the Group's economic risk capital by a total of approximately 5%.

Property-casualty
The underwriting risk capital for property-casualty is made up as follows:

Economic risk capital (ERC) – Property-casualty

	31.12.2012				Prev. year				Change
€bn	Group	Re-insurance	Primary insurance	Segment diversi-fication	Group	Re-insurance	Primary insurance	Segment diversi-fication	Group
Basic losses	4.8	4.6	0.5	–0.3	3.9	3.8	0.5	–0.4	0.9
Large and accumulation losses	9.0	8.9	0.3	–0.2	9.0	9.0	0.2	–0.2	–
Subtotal	**13.8**	**13.5**	**0.8**	**–0.5**	**12.9**	**12.8**	**0.7**	**–0.6**	**0.9**
Diversification effect	–4.1	–3.9	–0.2	–	–3.4	–3.4	–0.1	–	–0.7
Total	**9.7**	**9.6**	**0.6**	**–0.5**	**9.5**	**9.4**	**0.6**	**–0.5**	**0.2**

Losses with a potential cost exceeding €10m at Group level are classified as large losses. Accumulation losses are losses affecting more than one risk (or more than one line of business). We classify all other losses as basic losses. For basic losses, we calculate the risk of subsequent reserving being required for existing risks within a year (reserve risk) and the risk of under-rating (premium risk). To achieve this, we use analytical methods that are based on standard reserving procedures, but take into account the one-year time horizon. In the case of the basic losses, the annual readjustment of the models resulted in an increase in the economic risk capital requirement, due primarily to a recalibration of the interdependencies between the segments.

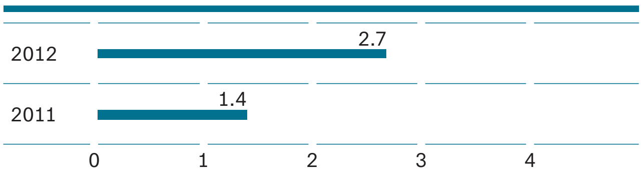
Munich Re actively manages its risk exposure. This includes restricting our exposure through limits and budgets for natural catastrophe risks, where our experts consider scenarios for possible natural events, the scientific factors, occurrence probabilities and potential loss amounts. On the basis of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

The exposures in the reinsurance segment are updated for the quarterly ERC calculations, and we use the data to adjust the stochastic models for natural hazards. The current limit utilisation is determined by a bottom-up process. As ERGO's portfolio is more stable, its exposure is only updated annually. The economic risk capital for large and accumulation losses was virtually unchanged from the previous year, with opposite effects offsetting each other. As in 2011, the largest natural catastrophe exposure for Munich Re is the €3.3bn currently retained for the "Atlantic Hurricane" scenario (value at risk for a 200-year return period). With a retention of €2.7bn, "Cyclone Australia" is the second-largest scenario. The modelling of the scenario has been fundamentally revised, leading to an increase in the value at risk calculated. The scenario was expanded geographically, and risks from other classes of business and exposures were depicted in the model. The effect of various return periods on the portfolio structure was also reflected more precisely. In addition, there has been an expansion in the business exposed to this scenario. Our exposure to European windstorms has been quantified at €2.0bn using the scenarios we have drawn up.

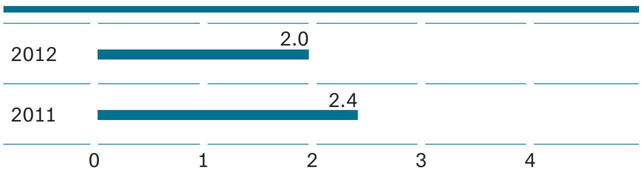
The diagrams show our estimated exposure to these peak scenarios for a return period of 200 years.

Atlantic Hurricane
Aggregate VaR (return period: 200 years)
€bn (before tax), retained

Cyclone Australia
Aggregate VaR (return period: 200 years)
€bn (before tax), retained



Storm Europe
Aggregate VaR (return period: 200 years)
€bn (before tax), retained



As a global risk carrier, we can diversify our portfolio through the broadest possible mix and spread of individual risks, significantly reducing the volatility of total claims payments and substantially increasing the value added by all parts of our business.

Life and health

In life and health business, the risk modelling takes account of countervailing developments with both short- and long-term effects on the risk drivers that influence the value of our business.

In addition to the simple risk of random fluctuations resulting in higher claims expenditure in a particular year, the countervailing developments with a short-term impact that we model notably include the risk of above-average claims that could arise on the occurrence of rare but costly events such as pandemics.

→ Further information on the value of business in force and on value sensitivities is provided in the notes to the consolidated financial statements under "Risks from life and health insurance business" on page 251 ff.

However, particularly life primary insurance products, and a large part of our health primary insurance business, are long-term in nature, and the results they produce are spread over the entire duration of the policies. We show the value of business in force and value sensitivities for such long-term portfolios in the notes to the consolidated financial statements. The countervailing development of risk drivers with a long-term impact, such as changes in the forecast mortality and disablement trends, can cause the value of the insured portfolio to fall (trend risks). The risk modelling then attributes probabilities to each modified assumption and produces a complete profit and loss distribution.

Market risks

Market risks are determined using a scenario-based simulation calculation. The scenarios are calibrated on the basis of long historical data series.

Economic risk capital (ERC) – Market

	31.12.2012				Prev. year				Change
€bn	Group	Reinsurance	Primary insurance	Segment diversification	Group	Reinsurance	Primary insurance	Segment diversification	Group
Equity risk	5.7	4.4	1.3	–	3.8	2.6	1.4	-0.2	1.9
General interest-rate risk	8.3	3.2	9.0	-3.9	7.8	3.7	7.2	-3.1	0.5
Specific interest-rate risk	6.1	2.1	5.2	-1.2	4.1	2.1	2.8	-0.8	2.0
Property risk	2.1	1.3	0.8	–	2.2	1.2	1.0	–	-0.1
Currency risk	1.9	1.8	0.2	-0.1	0.9	0.8	0.1	–	1.0
Subtotal	**24.1**	**12.8**	**16.5**	**-5.2**	**18.8**	**10.4**	**12.5**	**-4.1**	**5.3**
Diversification effect	-10.1	-6.7	-5.4	–	-7.4	-4.7	-4.0	–	-2.7
Total	**14.0**	**6.1**	**11.1**	**-3.2**	**11.4**	**5.7**	**8.5**	**-2.8**	**2.6**

Equity risk

The market value of our investments in equities, including participating interests, was €8.4bn (€6.7bn) as at 31 December 2012. As at that date, on a market-value basis the ratio of equities to total investments was 3.7% (3.2%) before taking derivatives into account, and 3.4% (2.0%) after derivatives. The rise on the previous year is the reason for the higher risk capital for equities.

Interest-rate risks

In reinsurance, the interest-rate risk on fixed-interest investments in units of modified duration (interest-rate sensitivity) was 6.7, whereas the modified duration of liabilities was 4.1. The sensitivity of available financial resources to a parallel increase of one basis point in all interest-rate curves (DV01) amounted to –€13.3m. Were such a parallel shift in the interest-rate curves to occur, the available financial resources would change by that amount.

The modified duration in primary insurance is 8.1 for fixed-interest investments and 9.2 for liabilities. This exposure to falling interest rates arises mainly out of the long-term options and guarantees in life insurance business. These risks were reduced substantially by the extensive interest-rate-risk hedging programme first implemented in 2005. The sensitivity of available financial resources to a parallel shift of one basis point in all interest-rate curves (DV01) amounts to €16.1m.

The rise in the general interest-rate risk is essentially due to the fall in interest rates compared to the previous year and the effect of that fall on life primary insurance business. The specific interest-rate risk increased as a result of an improvement in the depiction of the spread risks in life and health primary insurance.

Currency risk
The currency risk increased in relation to the end of the previous year due to somewhat higher foreign-currency exposure in the reinsurance portfolio.

Credit risks
Munich Re determines credit risks using a portfolio model, which takes into account both changes in market value caused by rating migrations and debtor default. The model is calibrated over a credit cycle.

→ Information on the ratings of our fixed-interest securities and loans can be found on page 199 ff.

The market value of our investments in fixed-interest securities and loans as at 31 December 2012 was €188.4bn, representing 83.9% of the market value of Munich Re's total investments. These securities thus made up the bulk of the portfolio.

In our internal risk model, we calculate and allocate risk capital even for highly rated government bonds.

Our provisions ceded to reinsurers and retrocessionaires were assignable to the following rating categories as at 31 December 2012:

Ceded share of technical provisions according to rating

%	31.12.2012	Prev. year
AAA	4.6	4.1
AA	50.2	52.8
A	40.0	34.8
BBB and lower	1.6	1.5
No rating available	3.6	6.8

The shifts are mainly due to the change in rating of a small number of reinsurers/retrocessionaires.

Available financial resources

We compare the economic risk capital, which equates to Munich Re's capital requirement, with the available financial resources that can be used to cover losses that exceed expectations. The available financial resources are calculated as the sum of the economic equity and the available hybrid capital. The economic equity is based essentially on Munich Re's IFRS equity with various appropriate economic adjustments.

The valuation reserves include adjustments to items in the property-casualty segment and for Munich Health that are not accounted for at fair value under IFRS, in particular to land and buildings and loans. We perform various valuation adjustments for property-casualty and life and health. In property-casualty reinsurance, we project future claims payments using actuarial methods. We discount estimated cash flows in property-casualty and for Munich Health, and add a risk margin derived in accordance with strict economic principles. In the case of business for which we show a Market-Consistent Embedded Value (MCEV), we regard the embedded value as capital available to cushion risks and take into account the portion not already included in IFRS equity. Capitalised goodwill and other intangible assets on the other hand are included in the Group's IFRS equity, but we deduct them when calculating economic equity, as they might not retain their value in crisis situations. We treat deferred tax assets recognised for loss carry-forwards under IFRS in the same way if they are not covered by an excess of deferred tax liabilities over deferred tax assets at the company concerned or in the US tax group.

Available financial resources

€bn	31.12.2012	Prev. year	Change
IFRS equity	27.4	23.3	4.1
Valuation reserves	1.2	0.9	0.3
Value adjustments for property-casualty and life and health	5.3	4.0	1.3
Goodwill and other intangible assets	–4.1	–4.2	0.1
Tax effects and other[1]	–0.1	–0.4	0.3
Economic equity	**29.7**	**23.6**	**6.1**
Hybrid capital[2]	6.8	4.7	2.1
Available financial resources	**36.5**	**28.3**	**8.2**

1 The impairment test of deferred tax assets on loss carry-forwards takes into account the US tax group for the first time (adjusted previous-year figure = €0.04bn).
2 Besides subordinated liabilities, hybrid capital now also includes the funds financing new business of German life insurance companies (adjusted previous-year figure = €5.9bn).

Hybrid capital comprises subordinated liabilities and the funds financing new business of German life primary insurance companies. In line with the future Solvency II regulations and market practice, the latter were taken into account for the first time as at 31 December 2012. Attributable neither to shareholders nor to policyholders, they are available for the preliminary financing of future new business by business in force.

The economic capital buffer is the amount by which the available financial resources exceed the economic risk capital. The economic solvency ratio is the ratio of the available financial resources (less announced but not yet completed capital measures such as the dividend payment for the year just ended) to the economic risk capital. The table below shows the changes in the figures:

Economic solvency ratio components

		31.12.2012	Prev. year	Change
(A) Economic equity	€bn	29.7	23.6	6.1
(B) Available financial resources	€bn	36.5	28.3	8.2
(C) Available financial resources after dividend and share buy-back	€bn	35.2	27.2	8.0
(D) Economic risk capital (ERC)	€bn	27.3	24.4	2.9
(B) minus (D): Economic capital buffer	€bn	9.2	3.9	5.3
(C) divided by (D): Economic solvency ratio	%	129	111	

→
We report on our regulatory solvency requirement on page 104 f.

The economic solvency ratio of 129% is 18 percentage points higher than for the previous year (111%) and reflects Munich Re's capital strength. Munich Re's economic risk capital, which produces the solvency ratio described above, corresponds to 1.75 times the capital that is likely to be necessary under Solvency II according to our internal risk model. Were we not to apply the safety cushion of 75% to the value at risk with a confidence level of 99.5% and merely to comply with the Solvency II standard, the economic solvency ratio would be 225% (195%).

→
A definition of RORAC is provided on page 37 f.

In calculating RORAC, the factor "additional available economic equity" is also relevant. It is the difference between the economic equity and the economic risk capital and amounted to €2.4bn (–€0.8bn) as at 31 December 2012.

Selected risk complexes

Overarching accumulation risks

The effects of the sovereign debt crisis
As an insurer and reinsurer, we manage not only our own financial assets, but also those of our clients. This applies in particular to insurances of the person. When we invest, we have to accept certain credit risks (the risks of deteriorations in creditworthiness and debtors defaulting), in addition to market risks. This is clearly the case for corporate bonds, but there are also considerable risks in government bonds, which were considered safe in the past. The eurozone is our home market and we thus have substantial investments in euros. These are broadly diversified and are natural assets to hold to cover the euro liabilities arising out of our insurance businesses. We use government bonds to match the currencies of our underwriting liabilities, especially for life and health primary insurance.

Notwithstanding appreciably improved sentiment on the capital markets in the second half of 2012, the euro debt crisis can be expected to continue in 2013 regardless of a growing arsenal of political countermeasures, with the ECB also introducing new instruments. For example, on 6 September 2012, the ECB Governing Council specified the modalities for "outright monetary transactions", i.e. the buying and selling of government bonds by the ECB on the secondary markets. Despite these measures, the fundamental public finance situation in several countries remains critical. The need for budget consolidation and expansion of austerity measures even in the face of recession and high unemployment present real challenges – particularly for politicians at national level. Bond yields from low-credit-risk countries are still at a historical low. This applies most notably to German and US issues. Ongoing low interest-rate levels in the eurozone in particular are a major test for life insurance companies especially. It is becoming increasingly difficult to generate the returns on investment guaranteed to or at least expected by insurance clients. The fluctuations on the capital markets give rise to considerable volatility in our investments and liabilities on the valuation dates. We monitor these risks closely and counter them with various risk management measures.

In both our insurance and reinsurance business, we review the underwriting prices calculated by our valuation and pricing systems to ensure that they take adequate account of the current interest-rate environment. Reinsurance business activities exposed to significant economic risks are reviewed and exposure limited where appropriate.

In monitoring the country risks, we do not simply rely on the customary ratings, but perform independent analyses of the political, economic and fiscal situation in those countries in which investments might potentially be made. Our experts also evaluate and draw conclusions from the movements in the market prices of the bonds issued by the country concerned. On this basis and taking account of the investment requirements of the fields of business in the respective currency areas and countries, proposals for limits or action to be taken are submitted to the Group Risk Committee. These limits are mandatory throughout the Group for investments and the insurance of political risks, and any exceptions must be approved individually by the Group Risk Committee. Our direct and indirect exposures in countries on the euro periphery are also minor due to this close monitoring.

On the basis of defined stress scenarios relating to further developments in the sovereign debt crisis, our experts forecast potential consequences for the financial markets, the market values of our investments, and the present values of our underwriting liabilities. At Group level, the high degree of diversification in both our investments and our liability structure together with our active Group-wide asset-liability management counter any negative effects.

Pandemic

Another example of an overarching accumulation is a serious pandemic, which would expose Munich Re, like other companies in the insurance industry, to risks resulting from a marked increase in mortality and morbidity and from disruptions in the capital markets. We counter this risk with a detailed analysis of our overall exposure (scenario analysis), defining suitable limits.

Climate change

Climate change represents one of the greatest risks of change for the insurance industry. In our Corporate Climate Centre, we analyse and assess this risk and are developing a holistic strategic approach. The findings are made available to all business areas of the reinsurance group, to our asset-liability management function, and to ERGO.

Whilst we are in a position to adequately assess the known risks in our portfolio on the basis of current climate research, scientific research into climate change is complex and the political and regulatory environment in which we operate is developing dynamically, so that we must remain vigilant with regard to the identification and evaluation of new and changing risks. We adopt a multidisciplinary approach, using and combining the pertinent experience and expertise of our scientists, specialist underwriters, lawyers, economists, sociologists and actuaries as appropriate for the risk situation. If new findings in climate research or actual claims development necessitate adjustments in risk assessment, we are able to make these changes promptly because the contractual periods of most of our natural hazards covers are only one year.

However, changes in the physical environment and new regulations resulting from climate change also open up many business opportunities. Applying the knowledge we have accumulated over decades, we exploit these opportunities – for example, through new insurance products for renewable energy technologies.

New and complex risks

Our early identification of risks also covers emerging risks, i.e. those that arise as a result of legislative, socio-political, scientific or technological changes and are therefore liable to have unmeasured or unknown effects on our portfolio. The degree of uncertainty as to extent of damage and occurrence probability is by nature very high.

We identify trends and faint signals in many ways, including systematic trend research, using Munich Re's knowledge management, and regular structured discussions in our "emerging risks think-tank". This group of experts investigates the possible impact of emerging risks on Munich Re, also looking at interconnections and interdependencies between different risks and other consequences related directly or indirectly to emerging risks. Cooperation with external partners complements our internal early-warning system, for example the CRO Forum's Emerging Risks Initiative.

As a consequence of increasing global dependencies and the rapid spread of technological innovations, events which are difficult to identify using traditional scenario-based risk management are occurring with greater frequency. Both the occurrence of an event and its potential consequences are more and more difficult to foresee, recent examples being the earthquake in Japan and the floods in Thailand in 2011. Not only did both natural catastrophes have a devastating impact on the population, infrastructure and economy in the regions affected, but worldwide supply chains were also hit, with industrial production being interrupted in far-away countries. Such chains of events will take on greater importance in future. We therefore adopt a system-based approach to analyse dependencies in complex risks, for which Munich Re has developed its Complex Accumulation Risk Explorer software (CARE). Using this method, risks and their interaction can be made more transparent and at least partially quantified. With CARE, we can improve the identification and structuring of complex accumulation risks for our own risk management and provide support for our clients, placing us in a position to meet the rising demand for reinsurance of these risks.

Legal, supervisory and tax risks

Legal risks

The proceedings started by the Spanish antitrust authority (CNC – Comisión Nacional de la Competencia) in 2009 against several insurers and reinsurers, including Munich Re's Spain and Portugal branch, for alleged collusion restricting competition in Spanish decennial liability business (compulsory insurance for guarantee claims in respect of contract works) continue. In December 2009, Munich Re's Spain and Portugal branch lodged an appeal against the fine of €15.9m imposed by the CNC. The court has meanwhile upheld our appeal. In response, the CNC has appealed against the court's decision within the prescribed period.

After the federal legislative procedure for the US Fairness in Asbestos Injury Resolution Act foundered in February 2006, several US states adopted legislation initiatives (tort reform), which in our view may have a positive effect on the settling of asbestos claims. Following revelations about often questionable asbestos-related disease diagnoses and the resultant lawsuits, a number of investigation committees are at work. Similar questionable practices have come to light in silicosis lawsuits. These developments indicate that US legal practice is contesting abusive liability claims with increasing resolve. However, it is too early to say whether and to what extent this will have favourable implications for future loss development in the insurance industry, particularly as plaintiff attorneys are trying hard to repel the tort reform initiatives. We are currently still being affected by late-reported claims – in some cases for high amounts – for asbestos-related diseases and similar liability complexes. Though the total number of asbestos claims is declining, the number of severe cases of mesothelioma and other types of cancer has remained relatively constant in recent years.

Former minority shareholders of ERGO Versicherungsgruppe AG have attempted to gain increased squeeze-out cash compensation by taking out company law award proceedings. The material risk is limited by the number of shares eligible for compensation (approx. 237,000) and the upper end of the scale within which the corporate value of ERGO Versicherungsgruppe AG as at the date of valuation can be set. We estimate the risk to be a single-digit million euro amount.

Following the 2012 Annual General Meeting, three of our shareholders brought actions for nullification and disclosure against Munich Reinsurance Company. Both suits were dismissed in December 2012. The disclosure action is not subject to appeal, but the dismissal of the nullification suit has been appealed against. It is our assumption that the appeal will be unsuccessful.

There are legal disputes between several former insurance intermediaries and ERGO Lebensversicherung AG, most of which have now been concluded. In connection with far-reaching claims by the former intermediaries, serious allegations have been levelled in the media since May 2011, including reports of misconduct on incentive trips and errors in the sale of insurance products at ERGO. These cases have been extensively investigated by Group Audit and ERGO's internal audit function. ERGO has initiated the rectification of errors and has established reserves for any liabilities arising. In relation to all these events, additional claims for damages against ERGO and Munich Re have been announced. Financial burdens and reputational damage for Group companies as a result of these allegations cannot be ruled out in future either.

There are currently a number of lawsuits pending against various Ideenkapital companies. The plaintiffs are fund investors, who for the main part are asserting defects in prospectuses and products. The claims filed so far amount to a total of around €6m. Ideenkapital is defending itself against these claims. The possibility of further suits cannot be excluded.

Supervisory risks

In the American Modern Insurance Group (American Modern), it was discovered that agents appointed by American Modern for its Financial Institutions Division had been quoting and charging insureds rates that were partly under but predominately over the rates approved by the regulators. Group Audit is currently investigating the processes and controls installed for the products concerned. American Modern has self-reported the rate variances to its responsible insurance supervisor in Ohio and is working with them on a Corrective Action Plan.

Tax risks

As a reaction to the financial market and sovereign debt crisis, a trend towards increased corporation tax burdens is apparent Europe-wide. In Germany, discussions are centring around the introduction of a financial transaction tax, capital tax, and the abolition of the tax-exempt status for dividends and gains on disposal from free-float shareholdings. Which of these ideas will actually be realised is not yet clear. Additional annual tax burdens in the lower three-digit million range cannot be ruled out.

Regulatory developments

The progress made in the Solvency II project in 2012 has clarified the future supervisory requirements somewhat, though some uncertainties remain, particularly concerning the dates for the transition from Solvency I to Solvency II. Considerable progress has been made on the first pillar, with the exception of the key issue of underwriting liabilities. In particular for life primary insurance, the still open questions have far-reaching implications for capitalisation under Solvency II. The risk that our life primary insurers may not meet the capital requirements cannot yet be entirely excluded. The draft implementing measures produced by the Solvency II Expert Group (SEG) have shed more light on the qualitative requirements of insurance companies and supervisory authorities laid down in Solvency II's Pillar 2. However, these measures have yet to be adopted.

At national level, implementation of the Solvency II Directive will bring about changes in German supervisory law. But this national legislative process has been delayed by unresolved questions at a European level in the ongoing Solvency II project. In the second quarter of 2012, the European Commission published a proposal for a revision of the Insurance Mediation Directive (IMD 2). Key elements which could also affect our business models include the proposals on remuneration, namely a ban on insurance companies remunerating intermediaries who offer clients independent advice on insurance investment products, comprehensive information requirements for the remuneration of insurance intermediaries and their employees, and new rules on conflicts of interest, on assessing suitability and fitness for purpose, and on reporting obligations with regard to the marketing of insurance products. At present, we anticipate that IMD 2 will enter into force in 2015.

Work is still in progress at global level on additional supervisory requirements for systemically important financial institutions (SIFIs). Systemic importance is determined not by the fundamental significance of a sector for the economy, but by the impact the insolvency of a company could have on the real global economy. The discussions, which are being held primarily by the Financial Stability Board (FSB), are currently focusing on the banking sector. The investigations relating to the insurance industry are not following the same timetable as those for banking and are being led by the International Association of Insurance Supervisors (IAIS). The insurance industry believes that its core business does not give rise to a systemic risk. Munich Re is actively participating in the consultations. We will probably have to wait until mid-2013 before we can say with any certainty whether the insurance industry as a whole, and reinsurance companies and Munich Re in particular, could be subject to additional requirements. Specific requirements for SIFIs range from additional reporting to higher capital requirements.

Other legal developments

On 1 March 2011, the European Court of Justice issued a fundamental ruling on sex discrimination in insurance, which repealed with effect from 21 December 2012 a European regulation allowing member states to permit differentiation between males and females for the purpose of calculating insurance benefits and premiums. This applies even if consideration of gender is based on accurate actuarial and statistical risk data. The relevant legislation in member states, including Germany, must be amended to comply with the ruling, which leads to significant changes in the calculation of insurance benefits and premiums. Application of the recommendations of the German Association of Actuaries (DAV) sufficiently limits or eliminates the risks.

The ongoing discussions regarding the German healthcare system, notably the “citizens' insurance scheme”, may result in further changes in the statutory framework. If, unlike now, all citizens were to be compulsorily included in the German public health insurance system, it would spell the end of at least new business for private health insurers in comprehensive health insurance. We have been monitoring this risk for many years. Similar proposals have been put forward for “citizens' long-term care insurance”.

Summary

In accordance with the prescribed processes, Munich Re's Board committees explicitly defined the risk appetite for significant risk categories in the year under review and quantified it with specific figures. We determined and documented the risk appetite across the Group hierarchy and communicated it throughout Munich Re. During the whole of 2012, risk exposures were regularly quantified and compared with the risk appetite. We assess Munich Re's risk situation as manageable and under control.

Opportunities report

- Technical progress, the demographic trend and regulatory changes offer profitable growth opportunities
- Development of emerging countries provides opportunities for expanding and further diversifying the portfolio
- Power generation from alternative energy sources triggers additional cover requirements in property business

Information on current developments is provided in our press releases on our website at www.munichre.com/press

The business model pursued by Munich Re combines primary insurance and reinsurance under one roof. We are convinced of the future potential of traditional reinsurance; and with the primary insurance activities we operate out of the reinsurance segment and our involvement in ERGO and Munich Health, we have tapped profitable growth opportunities unlikely to be available to companies that conduct reinsurance only. We assume risks from many different areas of private and economic life, and provide financial protection and risk management. In the section "Prospects", we offer an overview of how our business will probably develop under realistic parameters. We endeavour to address global trends with a long-term impact as extensively as possible. However, surprising and unforeseen developments can never be ruled out completely. To protect ourselves against risks, we have established a sophisticated risk management system described in detail in our risk report. At the same time, we are also well prepared to seize unexpected opportunities to the benefit of our Group.

Stronger economic growth leads to higher demand

It is clear, for example, that enhanced business opportunities will result for us if important macroeconomic parameters develop better than expected. A stronger economic recovery in the USA or rapid stabilisation of the situation in the eurozone, accompanied by sustained growth in the emerging countries, would trigger a demand surge and increase premium income in most classes of insurance. Besides this, such a development could lead to a gradual normalisation of the bond markets and thus to a slow rise in yields on US and German government bonds. This would result in burdens on our investment result in the short term, but also bring higher returns in the long run, thus benefiting our long-term insurance business.

Other trends and upheavals with an impact on our clients' demand for insurance and on supply include technological progress, demographic shifts and changes in the legal environment, in particular regulatory intervention. Given our good capitalisation and high degree of expertise, and a rapid adjustment of our product portfolio, Munich Re could participate in the newly emerging markets in all of its business segments.

Rules of insurance supervision and accounting that accurately reflect economic conditions and are internationally harmonised benefit clients and providers.

The business field of reinsurance thus offers many development opportunities, despite the uncertainties in the macroeconomic environment. Primary insurers will, for instance, increasingly require solutions for stabilising their financial position and sustainably optimising their capitalisation, given the more stringent regulatory requirements. Munich Re can provide significant added value as a long-term strategic partner with a strong capital base and a holistic offering ranging from overarching consultancy to the complete spectrum of reinsurance and capital market solutions.

A major impact on our business also derives from trends in the development of severe natural catastrophes. We expect climate change to lead to a long-term increase in weather-related natural catastrophes and the resultant losses, with different effects depending on the region and type of exposure. Where necessary, we are adjusting our risk models and risk management accordingly. Measures to contain climate change provide Munich Re with substantial business opportunities, as the use of new technologies, for example in the field of renewable energies, is facilitated by new kinds of risk transfer solutions.

But irrespective of this, there are long-term opportunities for expansion in reinsurance's core business, since the values in many regions exposed to natural hazards are increasing steeply and the demand for insurance is thus growing. Munich Re is excellently positioned in this regard, thanks to our expertise in analysing major-loss events.

→ You can find out more in the section "Research and development" on page 109 f.

Successful new developments for covering hitherto uninsured economic risks are another option for generating additional profitable business. We are constantly working together with our clients on pushing back the limits of insurability.

The rapid development of emerging countries also provides opportunities for expanding profitably and further diversifying our business portfolio. In many Asian and Latin American growth markets, Munich Re is the leading reinsurer and increasingly also present as a primary insurer with promising ventures.

Besides this, we see opportunities in specialty property-casualty business. As the largest single market, the USA provides further potential for organic growth from enhancing our product range and expanding our client portfolio through strategic alliances.

Additional opportunities exist in attractive niches. Crop failure insurance, for example, is seeing strong growth based on public-private partnerships, since the provision of food to a growing world population and the consequences of climate change are increasing farmers' need to protect themselves against financial risks. A market leader in this area, Munich Re has built up competence and established sustainable insurance concepts together with supervisory authorities and primary insurers. Munich Re is also carving out attractive niches in industrial insurance business, in areas where we can put our reinsurance business know-how to use, e.g. in connection with power generation and sophisticated large-scale engineering projects.

In the present economic environment, life insurance presents challenges and opportunities in view of the demand for old-age provision resulting from greater life expectancy, against the backdrop of increasingly volatile capital markets. As a reinsurer, Munich Re is a competent partner for life primary insurance companies thanks to its tailored offering of asset protection solutions. The reinsurance of longevity risks also offers measured growth potential.

ERGO stands out positively in the market with its brand proposition "To insure is to understand"

In primary insurance, ERGO stands out positively in the market with its brand proposition "To insure is to understand". In this complex industry for clients, ERGO can consolidate and expand its market position in terms of consultancy, service and products. Consumers often feel their insurance issues are not taken seriously. Surveys show that they bemoan the lack of transparency in products and services. With its clear and easy-to-understand communication, which includes shortened policy wordings, ERGO is creating the basis for a partnership-based approach.

Consumers are increasingly purchasing insurance cover using a range of different channels. ERGO is already a proven partner for banks and is steadily developing this field. Opportunities to gain profitable market share also derive from internet sales, where ERGO has acquired a great deal of experience via ERGO Direkt and is systematically expanding its position.

Turbulent capital markets and low interest rates are causing clients to seek greater investment security. Given the low-interest-rate environment, we will meet our customers' need for guaranteed benefits through the creation of new products by our life primary insurers. These will offer not only a certain participation in capital market performance but also the necessary guarantees, which we can hedge on the capital markets.

ERGO will indirectly benefit from a rising level of regulation as well. When risks from long-term life and health insurance contracts are made easier to measure and thus more transparent, and have to be backed with the requisite capital, competitive discipline should improve and the products offered should be limited to those that generate value for clients and providers. As a result, life insurance, which is particularly challenging when market interest rates are low, could become more attractive for us again in the long term.

In property business, power generation from alternative energy sources gives rise to additional cover requirements, both for damage to installations and for lost revenue. Increasingly, capacities can also be offered here in the European single market, in particular in industrial business. In the European and Asian growth markets, moreover, ERGO is exploiting its extensive know-how in products and distribution channels to implement the best business model in each case and hence to continue growing in international business.

Munich Health – Demographic trends fuel growth

The global health market in which Munich Health operates remains a strongly expanding sector, both in healthcare itself and in insurance. The main reasons for this include worldwide population growth and increasing life expectancy, combined with the rising prosperity of broad sectors of the population, particularly in developing and emerging countries. These trends are being accelerated by advances in medicine. For a global health insurer, two significant opportunities for growth present themselves in this regard: in the industrial countries, the pressure to reform historically evolved health and social security systems is rising. Private-sector solutions are gaining in attractiveness. At the same time, the developing and emerging countries are facing the challenge of swiftly establishing healthcare systems that provide large sections of the population with access to adequate healthcare. We expect Munich Health, with its global set-up and combination of primary insurance and reinsurance know-how under one roof, to benefit from this development.

Prospects

- With a consolidated result of €3.2bn for 2012, original target of €2.5bn significantly surpassed
- Dividend proposal for 2012: €7.00 per share
- Challenges remaining for the Group owing to uncertain economic environment, but also opportunities thanks to financial strength and solution competence
- Expected return on investment of around 3.3% for 2013
- Unchanged long-term result target of 15% on risk-adjusted capital (RORAC) after tax over the cycle
- Consolidated result target of close to €3bn for 2013

Our predictions for the forthcoming development of our Group are based on planning figures, forecasts and expectations. Consequently, the following outlook merely reflects our imperfect assumptions and subjective views. It follows that we do not accept any responsibility or liability in the event that they are not realised in part or in full.

Comparison of the prospects for 2012 with the result achieved

→ Further information on segment reporting can be found on page 185 ff. in the notes to the consolidated financial statements

As from 2012, we modified our segment reporting with the aim of reflecting internal management criteria more closely and thus providing for even greater transparency with regard to income and expenses. Previously, the segment balance sheet and segment income statement had reflected the situation prior to the elimination of intra-Group business (including a separate column for consolidation). Since the first quarter of 2012, both items have been shown after the elimination of intra-Group business. For this reason, the outlook we gave for 2012 in the 2011 annual report for the segments reinsurance, primary insurance and Munich Health can no longer be directly compared with the figures in this annual report for these segments. In general, the segment premiums and the segment result are lower or at most the same compared with the view prior to the elimination of intra-Group business.

Munich Re (Group)

Comparison of Munich Re (Group) targets for 2012 with results achieved

		Target 2012	Result 2012
Gross premiums written	€bn	48–50	52.0
Consolidated result	€bn	Around 2.5	3.2
Return on investment	%	Around 3.5	3.9
Return on risk-adjusted capital (RORAC)	%	15	13.2

At €52bn, gross premium was around €2bn higher than the upper limit of the target corridor, the additional income deriving from reinsurance and Munich Health.

The consolidated result target was significantly exceeded thanks to a better-than-envisaged technical result in reinsurance and a higher investment result. The investment result benefited from increased gains on disposal, because the prices of the fixed-interest financial instruments sold were higher than expected owing to lower interest-rate levels.

For this reason, the return on investment surpassed the target figure, reaching 3.9%, although regular income from investments declined.

Our long-term objective of a 15% return on our risk-adjusted capital (RORAC) after tax across the cycle of the insurance and interest-rate markets is difficult to achieve in the current low-interest-rate environment. In 2012, the RORAC of 13.2% came gratifyingly close to our long-term target.

Reinsurance

Reinsurance performed very favourably in 2012: gross premiums totalling €28.2bn clearly surpassed our target range of €25–27bn and our consolidated result, at €3.1bn, was also significantly above the €1.9–2.1bn mark.

The increase in gross premiums was attributable to both segments. Gross premiums in life reinsurance grew particularly strongly to €11.1bn, mainly owing to large-volume treaties. The target for 2012 had been around €10bn.

The technical result in life reinsurance totalling €420m surpassed the target of around €0.4bn for 2012 by 5%. The value added by new business in life reinsurance, which is calculated on the basis of Market Consistent Embedded Value Principles, was an excellent €573m. The objective we aim to achieve by 2015 is €450m a year.

At 91.0%, the combined ratio in property-casualty reinsurance was considerably better than the envisaged figure of around 96% across the market and interest-rate cycle, in part thanks to the reduction in reserves for claims from prior years.

The consolidated result improved considerably to €3.1bn, benefiting primarily from the increased investment result and better technical result.

Primary insurance

Our total premium income in primary insurance amounted to €18.6bn – below our 2012 target of just over €19bn – mainly on account of the decrease in German life primary insurance. At €17.1bn, gross premiums written were within the envisaged target corridor of €17–18bn.

In life primary insurance, total premium income amounted to €7.3bn compared with a target figure for 2012 of slightly more than €7.5bn. Gross premiums written came to €5.8bn versus an envisaged figure of just under €6bn. In the health primary insurance segment, gross premiums written totalled €5.7bn; at the beginning of the year, our assumption had been an amount of somewhat less than €6bn. In property-casualty primary insurance, gross premiums written reached €5.6bn, compared with a target figure for 2012 of marginally below €6bn.

The combined ratio in property-casualty business was 98.7% and thus above the target ratio of under 95%, because the losses actually incurred in Germany were well above our expectations, taking into account normal fluctuations.

We posted a consolidated result of €247m for the primary insurance segment and €289m for the ERGO Group. At the beginning of the year, our projected result for the ERGO Group was approximately €400m. The deviation from the target figure is chiefly due to restructuring expenses for the sales reorganisation programme, which reduced the result by around €128m.

Munich Health

At €6.7bn, gross premiums were well above our target of just over €6bn, the increase being essentially due to reinsurance treaties with a large premium volume.

The combined ratio – 100.2% – was higher than our target figure of around 99%, largely owing to increased medical costs in the USA.

Munich Health's consolidated result totalled –€92m. We fell far short of our profit guidance of €50–100m owing to write-downs for impairments of goodwill and intangible assets necessitated by the deterioration of the medium-term earnings situation of our US primary insurance subsidiary Windsor Health Group (WHG) in the Munich Health segment.

Outlook for 2013

Economic environment

Global economic growth is again likely to be only moderate in 2013. The consolidation of public finances and high unemployment will probably result in slower economic momentum in many industrialised countries. In the eurozone, we expect at most a slight recovery on an annual basis; for the USA we predict only modest growth. In the emerging economies, particularly China, India and Brazil, growth should be stronger than in 2012. Inflation rates will consequently be moderate in most industrialised countries and will only reach a somewhat higher level in a few emerging countries.

The economic outlook is clouded by great uncertainty. A sharp downturn or even an extended period of stagnation cannot be completely excluded in a number of industrialised countries. A sustained low-interest-rate environment would substantially impair the situation of life insurance companies and appreciably impact that of insurers operating in other lines of business. The high levels of debt in many countries, an escalation of the US budgetary dispute, or upheavals in the eurozone could further destabilise the global financial system and the world economy to the detriment of the insurance industry.

If there was a surprisingly strong economic recovery, the substantial interventions of the central banks and related expansion of the money supply might result in higher inflation, with corresponding inflation in claims costs for insurers.

Potential geopolitical conflicts, for instance in the Middle or Far East, remain a significant risk for the global economy and thus the insurance industry.

Capital markets

A slow upturn in economic activity over the course of 2013 (driven by further expansive ECB measures in connection with a gradually receding credit crunch in the eurozone) should improve the position on the markets for risky assets. In turn, yields on German government bonds, which are currently extremely low, should rise again. Based on the very low volatility of the stock markets recently, greater fluctuations can be expected, as political uncertainty is still high. Moreover, some market participants now anticipate that Spain will submit an official application for assistance in 2013 so as to qualify for unlimited bond-buying by the ECB. Further fiscal policy decisions which could induce major market movements are also due to be taken in the US. Given the continuing crisis in the eurozone and the greater dynamism of the economy in the US, the US dollar should gain in attractiveness against the euro.

Insurance industry

In the European Union, state supervision for primary insurers and reinsurers is set to undergo profound changes with the new rules planned under Solvency II. The first-time application of the new supervisory regulations, which will impose greater requirements on insurance companies in terms of capital, risk management and reporting, was initially postponed to 1 January 2014, and there is now the prospect of further delays. The European Union has commissioned a study to assess the impact of various measures for valuing long-term guarantees in insurance contracts (Long Term Guarantee Assessment). Given the scope of this study, the European supervisory authority EIOPA will not be able to submit its report on the outcome until sometime in 2013. This is likely to delay the first-time application of Solvency II capital requirements by at least two further years to 2016. In view of the delay until Solvency II is finally adopted, EIOPA and national supervisory authorities are currently considering introducing individual aspects of the Solvency II regime prior to 2016. Irrespective of this, Solvency II can be expected to influence insurance supply and demand even before its legal implementation. New opportunities will emerge for Munich Re in both primary insurance and reinsurance, and these will exceed the challenges from the many different additional demands.

Far-reaching changes are also on the horizon in the medium term for the accounting of insurance contracts and financial instruments in our consolidated financial statements. These changes will have major consequences for the primary and reinsurance markets. After revising its schedule several times, the International Accounting Standards Board (IASB) is due to publish its revised proposals for the future accounting of insurance contracts in the first half of 2013, which are intended to achieve a consistent international approach to the way insurance contracts are accounted for in financial statements. However, we do not expect these regulations to be finally adopted before mid-2014. Concerning the new requirements for the accounting and measurement of financial instruments under IFRS 9, which EU companies may not yet apply, the IASB submitted a revised proposal in late November 2012 for expanding the permissible measurement categories for financial assets. A further exposure draft for the new rules regarding recognition of impairments has been announced for the first quarter of 2013. The new regulations concerning the recognition of hedging relationships have been finalised. We thus currently expect IFRS 9 to be adopted in its entirety at the end of the current year.

The projected moderate growth in the global economy will lead to a solid increase in worldwide demand for insurance, albeit subject to considerable differences between individual regions and segments. Overall, we predict a growth rate for global premium in property-casualty insurance that is at least equivalent to that of global economic growth. We are proceeding on the assumption that demand for life insurance cover is likely to recover in 2013.

Nevertheless, the extremely low yields on German and US government bonds in particular present a challenge for insurers because of the significant reduction in interest earned on investments in the period between premiums being received and policy benefits being paid out. In long-tail business in particular, this intensifies the need to increase prices. Conversely, subdued economic growth is limiting demand for insurance protection and with it the scope for higher prices.

Outlook for Munich Re

Munich Re (Group) targets

		Target 2013
Gross premiums written	€bn	50–52
Consolidated result	€bn	Close to 3
Return on investment	%	Around 3.3
Return on risk-adjusted capital (RORAC)	%	15

Limits to forecasting results

Information on the special features of IFRS accounting is provided on page 41

It is not only the obvious fluctuations in the incidence of major losses that make an accurate forecast of IFRS results impossible. The pronounced volatility of the capital markets and exchange rates as well as the special features of IFRS accounting also make it difficult to provide a result forecast. Thus, there may be significant fluctuations in the investment result, currency result and consolidated result, despite the fact that our assets are geared to the characteristics of our liabilities. In particular, a rising interest-rate level will initially tend to lead to lower results, and falling interest rates to higher results, than those forecast in these prospects. Net gains or losses on the disposal of derivatives used by us as hedging instruments and/or for fine-tuning investments can influence the result, as can changes in their market value. Changes in exchange rates influence our result in different directions, depending on which foreign currencies are affected, although economically speaking we do not have any major open currency items on our books.

Reinsurance

Reinsurance continues to hold considerable promise for the future, with a wide variety of earnings opportunities. Munich Re offers its cedants specialist consulting services and extensive solutions, also for tasks such as balance sheet management, risk modelling and asset-liability management. Reinsurance is an efficient and flexible option for protecting primary insurers against major claims and accumulation losses, or strengthening their capital base. In addition to this, we devise innovative coverage concepts that go beyond the scope of traditional reinsurance. And we partner our clients in the often challenging task of adjusting to changes in regulatory requirements, which will be altered significantly in many countries in the coming years.

We see further good growth opportunities in life reinsurance. Opportunities will derive in particular from the dynamic expansion of the Asian life insurance markets and from the ongoing privatisation trends in provision for old age, long-term care and disability. Here, we analyse in detail how the related product features tie in with our risk strategy.

In addition,we see increasing demand for the management of investment risks in life insurance products. We provide our clients with comprehensive solutions for hedging options and guarantees dependent on the capital markets.

For 2013, we expect gross premiums written of €10–11bn and a technical result of around €0.4bn.

In 2010, we set ourselves the objective of achieving value added by new business of €450m a year by 2015 based on Market Consistent Embedded Value (MCEV) Principles. Given the further very good result posted in the past year, we see ourselves as well positioned to achieve this goal.

In property-casualty reinsurance, which is traditionally exposed to market cycles, Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions.

The renewals at 1 January 2013 again took place in a very competitive market environment. The demand for reinsurance cover was relatively stable overall, given the primary insurers' good capitalisation. At the same time, growth in primary insurance continued to be impacted by the difficult economic environment, but nevertheless remained largely constant. Reinsurers provided enough capacity, since their capital base continued to strengthen in 2012.

Prices generally moved sideways. Rate increases were achieved only in segments with high loss ratios, especially in marine insurance, where Windstorm Sandy and the accident involving the Costa Concordia led to significantly higher prices. US natural hazards business did not see any broad-based hardening of the market, despite Sandy. However, prices rose for loss-affected treaties; otherwise, rates remained largely stable. Latin American business showed slight price increases. In Australia, prices were maintained at the previous year's good level. By contrast, the market environment for natural catastrophe risks in Europe proved rather difficult, with further price reductions in some cases. Since the end of the last financial crisis, a certain amount of pressure on rates has also made itself felt in credit and surety business but rates are still at an acceptable level.

A premium volume of €9.2bn of our treaty business was up for renewal in January. We recorded a slight decrease of around €135m. In accordance with our profit-oriented underwriting policy, we again refrained from renewing business that did not meet our pricing requirements this year. For example, we continued to reduce European property-casualty business for cycle-related reasons. Overall, we managed to increase prices for our natural catastrophe business moderately, with the persistently low interest-rate-environment leading to price increases in casualty business. Altogether, we were able to improve the profitability of our portfolio by around 0.5% in a competitive market environment.

The renewals at 1 April 2013 (Japan and Korea) and 1 July 2013 (mainly parts of the US market, Australia and Latin America) will involve a premium volume of around €3.3bn, with a greater proportion of natural catastrophe business than the renewals in January. Altogether, we project that the markets will move sideways at a good level. Assuming the absence of major loss occurrences, we expect rates in natural catastrophe business to be stable. In casualty business, however, a further continuation of the low-interest-rate phase would favour the positive price trend.

For 2013, we anticipate gross premiums written of around €17bn in property-casualty business. We aim for a combined ratio of approximately 94% of net earned premiums. The uncertainties involved in the estimate derive in part from the random incidence of major individual losses.

If exchange rates remain constant, gross premiums in reinsurance should range between €27bn and €28bn overall in 2013. We project that the consolidated result in reinsurance will total between €2.3bn and €2.5bn in 2013.

Primary insurance

We see good opportunities not only in evolving foreign markets but also in various sectors of our German domestic market. Munich Re's consolidated financial statements show the business transacted by ERGO in the three primary insurance segments life, health, and property-casualty. For 2013, we expect premium development in the individual segments to be varied.

In life primary insurance, our total premium income is likely to be below the previous year's level at just over €7bn, with gross premiums written totalling somewhat more than €5.5bn. It should be borne in mind in this regard that developments in German and international business strongly depend on single-premium business with its volatile premium income. It remains to be seen whether clients understand that the reductions in policyholder bonuses are necessary in the interests of financial soundness and sustainability. Besides this, our assumption is that our new products will be well received.

In the health primary insurance segment, the premium adjustments for our business in force as at 1 April 2013 will be more significant than in the previous year. The prices for new business, partly as a result of the adjustment to the actuarial interest rate and the introduction of unisex pricing, will also rise appreciably. This could have an adverse impact on the ability to attract new clients, as could the political debate on private health insurance. In supplementary health insurance, we expect further growth, partly owing to the introduction of subsidised long-term care insurance. We are therefore aiming for a slight increase in gross premiums written to just under €6bn.

In property-casualty insurance, we project that gross premiums written will total slightly more than €5.5bn, some €3.3bn of this deriving from German business, where we aim to achieve moderate growth. We continue to attach great importance to risk-commensurate prices, which in our business with commercial and industrial clients are not always attainable in the current market environment. We see potential for improvement in motor business. In international business, we are aiming to return to growth in the current year. However, there will be no premium income from ERGO Daum in South Korea in 2013, as we sold this company in the year under review. The combined ratio is likely to be around 95%.

Total premium income in primary insurance should amount to around €18.5bn in 2013, while gross premiums written are likely to be slightly higher than €17bn.

For the primary insurance segment, we project a consolidated result of €400–500m, and some €350–450m for the ERGO Group. The difference between the two figures is mainly attributable to intra-Group business between primary insurance and reinsurance.

Munich Health
The burdens from US Medicare business transacted by Windsor Health Group (WHG) and the write-downs due to the deterioration of the medium-term earnings situation at WHG had a significantly negative impact on the consolidated result for 2012. In view of the restructuring costs and investments incurred for improving managed care business, WHG is likely to again post a loss for 2013.

In reinsurance, we expect growth as a result of our clients' increasing numbers of insureds and a rise in demand for non-traditional reinsurance solutions (e.g. capital substitute solutions).

We expect that gross premiums written will amount to somewhat more than €6.5bn in 2013. The combined ratio should be around 100%. Given the difficult situation at WHG, a further loss for Munich Health in 2013 cannot be ruled out. Altogether, notwithstanding the developments in the USA, we remain convinced that, owing to medical advances and improved life expectancy, there is a wide range of growth avenues for Munich Health in the international healthcare markets. And we intend to utilise these opportunities.

Investments
The 2012 financial year was characterised by political uncertainties and resultant volatilities in the capital markets. We are proceeding on the assumption that the situation in 2013 will be unstable as well. The main risks lie in the further development of the sovereign debt and banking crisis. A collapse of the European financial system, especially major banks defaulting chaotically, or a sustained low interest-rate level with simultaneously rising inflation would hit the whole insurance industry hard, as it would all major investors. We systematically limit our risks and strive for a balanced exposure, so regard ourselves as well prepared. Given our broad diversification, every scenario involves losses in individual assets, but as a rule these would entail asset gains elsewhere, because diversification effects and our Group-wide asset-liability management are designed to effectively dampen any potentially negative effect economically. Our diversifying investment strategy during the past year proved its worth in this environment and will therefore be pursued in 2013. We are planning, for instance, to further reduce our portfolio of government bonds in developed countries and to moderately build up investments in corporate bonds and emerging-market bonds. In 2012, the proportion of equities in our portfolio increased marginally. If suitable opportunities present themselves in the market, we may expand the proportion of investments in equities further to a very measured extent.

The structure of our investments is geared to that of our liabilities, thus limiting the interest-rate risk for the Group. In reinsurance, we are planning to cut the duration marginally in 2013, while in primary insurance, where investments are dominated by life primary insurance, we aim to prolong the average investment period somewhat. In so doing, we can gear our positioning even more closely to the profile of our liabilities. Besides the interest-rate risk, we also take inflation risks into account in our investments. We hedge part of our inflation-sensitive liabilities with inflation-linked bonds and inflation-linked swaps. We intend to keep the total portfolio of inflation-sensitive investments constant and to slightly expand our investments in commodities.

Provided an adequate return can be expected, we aim to invest more in renewable energy and new technologies in 2013 as well. In 2012, we were able to expand Munich Re's portfolio substantially to around €1bn. To achieve a broader spread of the portfolio's main risk drivers, i.e. technical and political risk, we are aiming to continue strongly diversifying our investments both regionally and technologically. There will be an additional focus on infrastructure projects in the next few years. By the end of 2012, Munich Re had invested around €500m. We plan to maintain our real estate portfolio unchanged in terms of both volume and orientation in 2013.

For the coming year, we do not foresee any rapid and appreciable rise in capital market interest rates; regular income from our investments is therefore likely to be a relatively low 3.5% for 2013 as well. We anticipate an annual return on investment of around 3.3%, taking into account the result from the disposal of investments, write-ups and write-downs as well as other income and expenses.

Munich Re (Group)

Our assumption for 2013 is that gross premiums written will range between €50bn and €52bn, provided there are no significant changes in exchange rates compared with the end of 2012.

We are adhering to our long-term objective of a 15% return on our risk-adjusted capital (RORAC) after tax across the cycle of the insurance and interest-rate markets. However, this target will be difficult to achieve given the currently low level of interest rates on low-risk investments.

Provided that prices in reinsurance are stable and loss experience is average, our assumption for 2013 is that Munich Re will post a technical result of the same level as in 2012.

We are aiming for a consolidated result for 2013 of close to €3bn. For 2014, we expect to be able to achieve an even higher consolidated result. This profit guidance is subject to claims experience with regard to major losses being within normal bounds and to our income statement not being impacted by severe currency or capital market movements, significant changes in fiscal parameters, or other special factors.

Our shareholders can look forward to a dividend for 2012 which – subject to approval by the Annual General Meeting – will rise by 75 cents to €7.00 per share.

Consolidated financial statements and notes

4

Consolidated balance sheet as at 31 December 2012

Assets » Consolidated balance sheet as at 31 December 2012 – Assets (XLS, 25 KB)

	Notes			31.12.2012	Prev. year		Change
		€m	€m	€m	€m	€m	%
A. Intangible assets							
I. Goodwill	(1)		3,376		3,511	–135	–3.8
II. Other intangible assets	(2)		1,518		1,581	–63	–4.0
				4,894	**5,092**	**–198**	**–3.9**
B. Investments							
I. Land and buildings, including buildings on third-party land	(3)		3,831		3,889	–58	–1.5
Thereof: Held for sale	(17)		–		13	–13	–100.0
II. Investments in affiliated companies and associates	(4)		1,467		1,154	313	27.1
Thereof: Associates accounted for using the equity method			1,257		924	333	36.0
III. Loans	(5)		54,418		53,260	1,158	2.2
IV. Other securities							
1. Held to maturity	(6)	7			13	–6	–46.2
2. Available for sale	(8)	133,196			123,677	9,519	7.7
Thereof: Held for sale		–			52	–52	–100.0
3. At fair value through profit or loss	(9)	3,015			2,536	479	18.9
			136,218		126,226	9,992	7.9
V. Deposits retained on assumed reinsurance	(10)		8,967		9,430	–463	–4.9
VI. Other investments	(11)		2,964		2,655	309	11.6
				207,865	**196,614**	**11,251**	**5.7**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				**5,958**	**5,093**	**865**	**17.0**
D. Ceded share of technical provisions	**(12)**			**5,730**	**5,634**	**96**	**1.7**
Thereof: Held for sale				–	13	–13	–100.0
E. Receivables							
I. Current tax receivables			572		802	–230	–28.7
II. Other receivables	(13)		11,475		11,292	183	1.6
				12,047	**12,094**	**–47**	**–0.4**
F. Cash at banks, cheques and cash in hand				**2,860**	**2,490**	**370**	**14.9**
G. Deferred acquisition costs	**(14)**						
Gross			9,256		9,386	–130	–1.4
Ceded share			74		44	30	68.2
Net				9,182	9,342	–160	–1.7
H. Deferred tax assets	**(15)**			**6,219**	**7,547**	**–1,328**	**–17.6**
I. Other assets	**(16)**			**3,605**	**3,674**	**–69**	**–1.9**
Total assets				**258,360**	**247,580**	**10,780**	**4.4**

Equity and liabilities » Consolidated balance sheet as at 31 December 2012 – Equity and liability (XLS, 20 KB)

	Notes		31.12.2012	Prev. year		Change
		€m	€m	€m	€m	%
A. Equity	**(18)**					
I. Issued capital and capital reserve		7,390		7,388	2	0.0
II. Retained earnings		10,946		11,588	-642	-5.5
III. Other reserves		5,650		3,384	2,266	67.0
IV. Consolidated result attributable to Munich Reinsurance Company equity holders		3,195		702	2,493	355.1
V. Non-controlling interests		242		247	-5	-2.0
			27,423	**23,309**	**4,114**	**17.6**
B. Subordinated liabilities	**(19)**		**5,504**	**4,683**	**821**	**17.5**
C. Gross technical provisions						
I. Unearned premiums	(20)	8,134		8,391	-257	-3.1
Thereof: Held for sale		–		24	-24	-100.0
II. Provision for future policy benefits	(21)	109,769		108,477	1,292	1.2
III. Provision for outstanding claims	(22)	53,751		54,392	-641	-1.2
Thereof: Held for sale		–		16	-16	-100.0
IV. Other technical provisions	(23)	13,935		10,162	3,773	37.1
			185,589	**181,422**	**4,167**	**2.3**
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**(24)**		**6,258**	**5,373**	**885**	**16.5**
E. Other accrued liabilities	**(25)**		**4,425**	**3,522**	**903**	**25.6**
F. Liabilities						
I. Bonds and notes issued	(26)	259		263	-4	-1.5
II. Deposits retained on ceded business	(27)	2,947		2,726	221	8.1
III. Current tax liabilities		3,931		3,388	543	16.0
IV. Other liabilities	(28)	13,240		13,051	189	1.4
			20,377	**19,428**	**949**	**4.9**
G. Deferred tax liabilities	**(15)**		**8,784**	**9,843**	**-1,059**	**-10.8**
Total equity and liabilities			**258,360**	**247,580**	**10,780**	**4.4**

Consolidated income statement for the financial year 2012[1]

Items[1] » Consolidated income statement for the financial year 2012 (XLS, 20 KB)

	Notes			2012	Prev. year		Change
		€m	€m	€m	€m	€m	%
Gross premiums written		**51,969**			**49,452**	**2,517**	**5.1**
1. Earned premiums	**(29)**						
Gross		52,189			49,014	3,175	6.5
Ceded		1,690			1,722	-32	-1.9
Net			50,499		47,292	3,207	6.8
2. Income from technical interest	**(30)**		**6,918**		**5,797**	**1,121**	**19.3**
3. Expenses for claims and benefits	**(31)**						
Gross		41,837			42,203	-366	-0.9
Ceded share		846			1,289	-443	-34.4
Net			40,991		40,914	77	0.2
4. Operating expenses	**(32)**						
Gross		12,906			12,305	601	4.9
Ceded share		356			316	40	12.7
Net			12,550		11,989	561	4.7
5. Technical result (1–4)				**3,876**	**186**	**3,690**	**>1,000.0**
6. Investment result	**(33)**						
Investment income		14,024			16,571	-2,547	-15.4
Investment expenses		5,588			9,815	-4,227	-43.1
Total			**8,436**		**6,756**	**1,680**	**24.9**
Thereof: Income from associates accounted for using the equity method			82		100	-18	-18.0
7. Other operating income	**(34)**		**879**		**843**	**36**	**4.3**
8. Other operating expenses	**(34)**		**923**		**808**	**115**	**14.2**
9. Deduction of income from technical interest			**-6,918**		**-5,797**	**-1,121**	**-19.3**
10. Non-technical result (6–9)				**1,474**	**994**	**480**	**48.3**
11. Operating result				**5,350**	**1,180**	**4,170**	**353.4**
12. Other non-operating result	**(35)**			**-836**	**-707**	**-129**	**-18.2**
13. Impairment losses of goodwill	**(35)**			**140**	**25**	**115**	**460.0**
14. Net finance costs	**(35)**			**-297**	**-288**	**-9**	**-3.1**
15. Taxes on income	**(36)**			**866**	**-552**	**1,418**	**-**
16. Consolidated result				**3,211**	**712**	**2,499**	**351.0**
Thereof: Attributable to Munich Reinsurance Company equity holders				3,195	702	2,493	355.1
Attributable to non-controlling interests	(18)			16	10	6	60.0
	Notes			€	€	€	%
Earnings per share	**(53)**			**17.98**	**3.94**	**14.04**	**356.3**

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

Statement of recognised income and expense

» Statement of recognised income and expense (XLS, 20 KB)

€m	2012	Prev. year
Consolidated result	**3,211**	**712**
Currency translation		
Gains (losses) recognised in equity	-67	390
Included in the income statement	–	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	2,936	1,942
Included in the income statement	-589	-1,192
Change resulting from valuation at equity		
Gains (losses) recognised in equity	26	5
Included in the income statement	–	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	–	1
Included in the income statement	1	5
Actuarial gains and losses on defined benefit plans	-382	-135
Other changes	16	-3
Income and expense recognised directly in equity	**1,941**	**1,013**
Total recognised income and expense	**5,152**	**1,725**
Thereof:		
Attributable to Munich Reinsurance Company equity holders	5,121	1,713
Attributable to non-controlling interests	31	12

Group statement of changes in equity

» Group statement of changes in equity (XLS, 25 KB)

€m	Issued capital	Capital reserve
Status at 31.12.2010	**588**	**6,800**
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Actuarial gains and losses on defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Purchase/sale of own shares	–	–
Retirement of own shares	–	–
Status at 31.12.2011	**588**	**6,800**
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Actuarial gains and losses on defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Purchase/sale of own shares	–3	5
Retirement of own shares	–	–
Status at 31.12.2012	**585**	**6,805**

	Equity attributable to Munich Reinsurance Company equity holders						Non-controlling interests	Total equity
	Retained earnings		Other reserves			Consolidated result		
	Retained earnings before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges			
	11,581	**-846**	**2,850**	**-610**	**-2**	**2,422**	**245**	**23,028**
	1,312	–	–	–	–	-1,312	–	–
	–	–	–	–	–	702	10	712
	-135	–	753	387	6	–	2	1,013
	–	–	–	387	–	–	3	390
	–	–	750	–	–	–	–	750
	2	–	3	–	–	–	–	5
	–	–	–	–	6	–	–	6
	-137	–	–	–	–	–	2	-135
	–	–	–	–	–	–	-3	-3
	-135	–	753	387	6	702	12	1,725
	-1	–	–	–	–	–	-1	-2
	–	–	–	–	–	–	–	–
	–	–	–	–	–	-1,110	-9	-1,119
	–	-323	–	–	–	–	–	-323
	-999	999	–	–	–	–	–	–
	11,758	**-170**	**3,603**	**-223**	**4**	**702**	**247**	**23,309**
	-408	–	–	–	–	408	–	–
	–	–	–	–	–	3,195	16	3,211
	-340	–	2,343	-69	-8	–	15	1,941
	–	–	–	-69	–	–	2	-67
	–	–	2,336	–	–	–	11	2,347
	28	–	7	–	-9	–	–	26
	–	–	–	–	1	–	–	1
	-374	–	–	–	–	–	-8	-382
	6	–	–	–	–	–	10	16
	-340	–	2,343	-69	-8	3,195	31	5,152
	-13	–	–	–	–	–	-33	-46
	–	–	–	–	–	–	–	–
	–	–	–	–	–	-1,110	-3	-1,113
	26	93	–	–	–	–	–	121
	–	–	–	–	–	–	–	–
	11,023	**-77**	**5,946**	**-292**	**-4**	**3,195**	**242**	**27,423**

Consolidated cash flow statement for the financial year 2012

» Consolidated cash flow statement for the financial year 2012 (XLS, 20 KB)

€m	2012	Prev. year
Consolidated result	**3,211**	**712**
Net change in technical provisions	2,528	9,857
Change in deferred acquisition costs	152	–249
Change in deposits retained and accounts receivable and payable	1,858	–2,544
Change in other receivables and liabilities	–630	–1,073
Gains and losses on the disposal of investments	–651	–1,244
Change in securities held for trading	–584	–1,120
Change in other balance sheet items	379	–176
Other income/expenses without impact on cash flow	–728	1,912
I. Cash flows from operating activities	5,535	6,075
Change from losing control of consolidated subsidiaries	35	498
Change from obtaining control of consolidated subsidiaries	–260	–310
Change from the acquisition, sale and maturities of other investments	–4,217	–3,223
Change from the acquisition and sale of investments for unit-linked life insurance	–361	–489
Other	70	–1
II. Cash flows from investing activities	–4,733	–3,525
Inflows from increases in capital and from non-controlling interests	121	–
Outflows to ownership interests and non-controlling interests	43	345
Dividend payments	1,113	1,119
Change from other financing activities	569	–1,510
III. Cash flows from financing activities	–466	–2,974
Cash flows for the financial year (I + II + III)	**336**	**–424**
Effect of exchange-rate changes on cash	34	14
Cash at the beginning of the financial year	2,490	2,900
Cash at the end of the financial year	2,860	2,490
Additional information		
Income tax paid (net)	242	845
Dividends received	399	416
Interest received	6,892	7,144
Interest paid	621	738

Notes to the consolidated financial statements

Application of International Financial Reporting Standards (IFRSs)

Munich Re's consolidated financial statements have been prepared on the basis of Section 315 a paragraph 1 of the German Commercial Code in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 concerning the application of international accounting standards. We have complied with the international accounting standards adopted in accordance with Articles 2, 3 and 6 of the aforementioned Regulation and with the Commercial Code rules designated in Section 315 a para. 1 of the German Commercial Code. The consolidated financial statements thus also meet all the requirements of IFRSs.

Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as International Financial Reporting Standards (IFRSs); the standards from previous years continue to bear the name International Accounting Standards (IASs).

In accordance with the rules of IFRS 4, underwriting items are recognised and measured on the basis of US GAAP (United States Generally Accepted Accounting Principles) at first-time adoption of IFRS 4 on 1 January 2005.

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

In November 2012, the Board of Management and Supervisory Board of Munich Reinsurance Company published an updated declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the internet.

Recognition and measurement

Use of judgements and estimates in recognition and measurement

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

Particularly in insurance and reinsurance, the use of estimates for measuring technical provisions is of substantial significance, given that measurement is invariably based on models and the development of future cash flows from insurance contracts cannot be conclusively predicted. But judgements and estimates play a significant role in the case of other items as well.

Our internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take account of new knowledge.

Owing to the uncertainties involved in estimates, the discretionary judgements to be made always include a subjective component. This may result in comparable items being measured differently by Munich Re and another company, especially as the range of realistic assumptions can be relatively great in individual cases. However, this does not mean that the measurement is not appropriate – merely that it reflects differing knowledge and assessments of future developments.

Discretionary judgements and estimates are of significance for the following items in particular and are described in more detail in the respective explanatory notes:

— Goodwill and other intangible assets
— Fair values and impairments of financial instruments
— Deferred acquisition costs
— Technical provisions
— Pension provisions
— Deferred tax
— Contingent liabilities

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as "held for sale" are recognised at the lower of carrying amount or fair value less sales cost and shown separately in the consolidated balance sheet.

Presentation currency

Our presentation currency is the euro (€). Amounts are rounded to million euros, with figures in brackets referring to the previous year.

Figures for previous years

Changes in accordance with the rules of IAS 8 necessitated the retrospective adjustment of the figures from the income statement for the financial year 2011 and the relevant items of the notes to the consolidated financial statements (see section "Changes in accounting policies and other adjustments"). In addition, our segment reporting has been modified and no longer has a consolidation column. This is described in the section "Segment reporting". The other previous-year figures have been calculated on the same basis as the figures for the financial year 2012.

Changes in accounting policies and other adjustments

Application of the recognition, measurement and disclosure methods follows the principle of consistency.

In the financial year 2012, the following new IFRSs had to be applied for the first time:

The amendments to **IFRS 7 (rev. 10/2010), Financial Instruments: Disclosures, Improving Disclosures about Financial Instruments**, contain more extensive disclosure requirements regarding the transfer of financial assets. These apply to circumstances in which a company transfers a financial asset to a contractual party but still retains contractual rights or obligations inherent in that asset. The aim of these amendments is to make more transparent the influence of such transactions on the entity's risk exposure and hence its financial situation. This change currently has no practical relevance for Munich Re.

The amendments to **IAS 12 (rev. 12/2010), Taxes on Income, Deferred Tax: Recovery of Underlying Assets**, address the issue that the measurement of deferred tax items depends on whether the carrying amount of an asset is expected to be recovered through use or through sale. In practice, the two are often difficult to distinguish. The amendments provide a solution through the introduction of a rebuttable presumption that recovery of the carrying amount will normally be through sale. These amendments are mandatory for financial years beginning on or after 1 January 2012, and were adopted into EU law in December 2012. As the clarification currently has no practical significance for Munich Re, no consequences resulted from this delay.

Our method of calculating technical interest has been modified in the primary insurance segments since the first quarter of 2012. This particularly affects the life primary insurance segment. In addition to the components used hitherto, the deposits retained on ceded business are now also taken into account as a basis for the technical interest. Thus the portion of investment income that corresponds to the deposit interest expense is included as a new component in the calculation of the technical interest and reallocated to the technical result. This change provides for a more accurate presentation of the technical result. As a result of the change, the income from technical interest in the life primary insurance segment in the financial year 2012 is higher than it would have been under the previous method. It is impracticable to determine the exact increase for the current period, but there was an increase of €55m for the same period last year, which includes the effect from the retroactive adjustment of a consolidated entry. Besides this, the income from technical interest in the health primary insurance segment was reduced by €155m for the prior period. This was due to an adjustment in posting logic for interest on technical provisions in connection with elimination of intercompany profits, based on the complete elimination of intra-Group transactions in segment reporting. Pursuant to IAS 8.22, the modification has been applied with retroactive effect and the previous year's figures have been adjusted accordingly. In addition, the estimate for policyholders' bonuses has been refined and has been used pursuant to IAS 8.32 as from the first quarter of 2012 for future periods.

The net level premiums for the products of our foreign subsidiaries that fall under FAS 97 were previously shown in accordance with local accounting regulations. We have now recognised these net level premiums as a deposit, without impact on profit or loss, in accordance with the rules of FAS 97. Pursuant to IAS 8.41, the modification has been applied with retroactive effect and the previous year's figures have been adjusted accordingly. This adjustment has no effect on the consolidated balance sheet. The adjustments in accordance with IAS 8 have the following impacts on the income statement for 2011:

Consolidated income statement

€m	2011 as originally recognised	Changes from adjustments pursuant to IAS 8 in 2011	2011
Gross premiums written	**49,572**	**–120**	**49,452**
1. Earned premiums			
Gross	49,134	–120	49,014
Net	47,412	–120	47,292
2. Income from technical interest	**5,897**	**–100**	**5,797**
3. Expenses for claims and benefits			
Gross	42,323	–120	42,203
Net	41,034	–120	40,914
5. Technical result	**286**	**–100**	**186**
9. Deduction of income from technical interest	**–5,897**	**100**	**–5,797**
10. Non-technical result	**894**	**100**	**994**

Standards or changes in standards not yet entered into force

All standards or changes in standards that have not yet entered into force will be applied by Munich Re for the first time as from the mandatory effective date for entities domiciled in the European Union.

Under the amendment to **IAS 1 (rev. 06/2011), Presentation of Financial Statements, Presentation of Items of Other Comprehensive Income**, "other comprehensive income" must now be divided into items that will be reclassified to profit or loss at a later date and items that will not. The purpose of this amendment is to improve the presentation of these items and align the approaches under IFRS and US GAAP. The amendments are mandatory for financial years beginning on or after 1 July 2012, and were adopted into EU law in June 2012.

Unless mentioned separately below, the following standards are mandatory for financial years beginning on or after 1 January 2013. Only the amendments published as part of the IFRS Annual Improvement Process and the revised IFRS 9, Financial Instruments, as well as the related changes to the group-specific standards (IFRS 10, IFRS 11, IFRS 12 and IAS 27) have not yet been adopted into European law. The other standards were adopted in June or December 2012.

IFRS 9 (11/2009 and rev. 10/2010), Financial Instruments, replaces the current requirements of IAS 39 relating to recognition and measurement of financial instruments. Given its complexity, the overall project has been subdivided into three phases. The new rules in IFRS 9 that have thus far been adopted from the first phase of the project mainly concern the classification and measurement of financial instruments. Under these rules, financial assets will in future be divided into only two primary measurement categories: amortised cost and fair value through profit or loss. The distinction is to be made on the basis of the reporting entity's business model and the contractual cash flows of the assets. In addition, for equity instruments there will be the option of measurement at fair value without affecting the income statement, although then it will not be permissible for value changes recognised in other comprehensive income to be subsequently transferred to profit or loss. There also remains the possibility of voluntary measurement at fair value (fair value option). For financial liabilities, there are no changes in the measurement rules except that if the fair value option is applied, value changes attributable to a change in the entity's credit risk must be recognised without impact on profit or loss in future.

The two other phases of the project are concerned with rules for recognising impairments and for hedge accounting. While the discussion regarding hedge accounting has practically been concluded and the new rules are to be integrated into IFRS 9 in the short term, the IASB will first be publishing another exposure draft for the rules regarding recognition of impairments.

Besides this, in November 2012, the IASB published an exposure draft providing for a further change in the new measurement rules. This is designed to make it possible to continue measuring certain debt instruments at fair value without impact on profit or loss, depending on the contractual cash flows and an additionally defined business model that contains an intention to sell.

Originally, IFRS 9 envisaged that the new provisions would be mandatorily effective as from 2013. Since discussions of the still outstanding project phases are taking longer than originally planned, the mandatory effective date of a standard amending IFRS 9 and IFRS 7 (rev. 12/2011) has been deferred to financial years beginning on or after 1 January 2015.

IFRS 10 (05/2011), Consolidated Financial Statements, supersedes the provisions of IAS 27 and SIC 12 and creates a uniform definition for control, irrespective of whether this control is based on company law or on contractual or economic circumstances. There are no longer independent provisions for structured entities (special purpose entities). A situation of control exists when an investor has the ability to direct an investee's relevant activities and is exposed to the returns from those activities. Furthermore, IFRS 10 addresses issues that have not been dealt with until now, including the regulation that a situation of control exists even if an investor holds less than a majority of the voting rights but regularly has a de facto majority of voting rights at the annual general meetings. The effects of the new standard on Munich Re's consolidated companies are currently being reviewed.

IFRS 11 (05/2011), Joint Arrangements, defines joint operations and joint ventures and specifies how they are to be recognised in the balance sheet. The changes compared with IAS 31, Interest in Joint Ventures, mainly concern the elimination of the option of proportionate consolidation for joint ventures, the amended definition of joint control, and the extended scope of application of joint operations. These may now include arrangements structured through a separate vehicle. The elimination of the option of proportionate consolidation will have no impact on Munich Re, as we do not avail ourselves of this option and already apply the equity method. The effects of the two other changes are currently being analysed.

IFRS 12 (05/2011), Disclosure of Interests in Other Entities, combines the disclosures regarding facts and circumstances governed by IFRS 10, 11 and IAS 28. The objective of the standard is to provide information on the type and risk of interests in other entities and their implication for the consolidated financial statements. As a consequence, the information provided needs to be more comprehensive than hitherto. In particular, IFRS 12 requires disclosures relating to unconsolidated structured entities, non-controlling interests, discretionary judgements and assumptions in evaluating the nature of interests in other entities, as well as detailed information on each significant joint arrangement. The precise extent to which Munich Re is affected by the extended disclosure requirements is currently being examined.

IAS 27 (rev. 05/2011), Separate Financial Statements, now deals only with balance sheet recognition of investments in subsidiaries, joint ventures and associates in separate single-entity financial statements in accordance with IFRS, including the relevant disclosures in the notes. The definition of control, and balance sheet recognition of subsidiaries in consolidated financial statements is now regulated by IFRS 10. The standard has no effect on Munich Re, as the provisions for single-entity financial statements in accordance with IFRS have remained unchanged.

IAS 28 (rev. 05/2011), Investments in Associates and Joint Ventures, specifically includes amendments following from the publication of IFRS 11 and IFRS 12. Among other things, the standard integrates the balance sheet recognition of joint ventures and circumstances previously governed by SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Furthermore, investments in associates or joint ventures held by open-ended investment funds or for unit-linked insurance, for example, are no longer excluded from the standard's scope of application. Rather, there is now an option to measure these at fair value with impact on profit or loss. The amendments do not have any major implications for Munich Re.

As mandated by the IASB, application of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 would be mandatory for financial years beginning on or after 1 January 2013. When the standards were adopted into European law, the mandatory effective date was deferred by one year, so that the standards concerned have to be applied for the first time by entities domiciled in the European Union for financial years beginning on or after 1 January 2014; voluntary application before that date is permitted.

In June 2012, the IASB adopted **IFRS Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities – Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (06/2012)**, which clarifies that the requirement to provide adjusted comparative information on first-time application is limited to the preceding comparative period only. Insofar as first-time application does not result in any change in the need to consolidate an entity at the date of first-time application, no adjusted comparative information for prior periods is necessary. In addition, the requirement to provide adjusted comparative information for prior periods is removed for unconsolidated structured entities. The effects of the changes on Munich Re are currently being analysed. The amendments are generally mandatory for financial years beginning on or after 1 January 2013. However, we expect that when they are adopted into European law, the mandatory effective date in the European Union will be deferred by one year for these amendments as well.

The **IFRS Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (10/2012)** introduces a definition of the term "investment entities" and specifies that such entities are generally excepted from the requirement to consolidate their subsidiaries in future. Rather, they are required to measure them at fair value through profit or loss. The exception from the consolidation requirement does not apply to parents of investment entities that are not themselves investment entities. Besides this, additional disclosure requirements for investment entities are provided for. The amendments, whose application is mandatory for financial years beginning on or after 1 January 2014, are not relevant for Munich Re.

IFRS 13 (05/2011), Fair Value Measurement, provides guidance on measuring items at fair value if another standard prescribes fair value measurement or fair value disclosure in the notes to the financial statements. The standard thus does not determine what items need to be measured at fair value. IFRS 13 revises the definition of fair value, defining it as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard includes detailed information on how to determine the fair value for different types of assets and liabilities. In addition, the standard requires further disclosures in the notes – for instance, the fair value hierarchy thus far only required for financial instruments under IFRS 7 has now been extended to include all items measured at fair value. On the basis of IFRS 13, we have verified whether Munich Re's fair value measurement is in compliance with the new provisions, and we will make any adjustments in measurement necessary. The new disclosures in the notes also need to be implemented.

The amendments published as part of the **IFRS Annual Improvement Process** in May 2012 concern IFRS 1, First-time Adoption of International Financial Reporting Standards, which as such is not relevant for Munich Re, as well as IAS 1, Presentation of Financial Statements, IAS 16, Property, Plant and Equipment, IAS 32, Financial Instruments: Presentation, and IAS 34, Interim Financial Reporting, and the knock-on change in the interpretation IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments. Only the amendment to IAS 1, Presentation of Financial Statements, is of practical significance for Munich Re, and this simplifies the rules currently in place. Where a retrospective change in accounting policies or a retrospective adjustment or reallocation of items under IAS 8 requires publication of a binding third comparative balance sheet, it is no longer necessary to make the relevant disclosures in the notes.

As a result of the amendments to **IAS 19 (rev. 06/2011), Employee Benefits**, the option for deferring the recognition of actuarial gains and losses, in particular the "corridor approach", has been eliminated. These gains and losses must now be recognised in equity with no effect on profit or loss. Furthermore, the past service cost for retroactive changes in a defined benefit plan is to be immediately recognised in the income statement. The return on plan assets is now to be determined on the basis of the rate used to discount the present value of defined benefit obligations. The administrative costs and taxes payable by the plan are to be deducted from the return. The requirements regarding the asset ceiling have been integrated and further specified. Moreover, additional disclosures in the notes are required, e.g. analysing pension obligations in terms of their risks and sensitivities for the actuarial assumptions. The amendments will not have any major effects on Munich Re. The extended disclosures in the notes need to be implemented.

The amendments to **IAS 32 (rev. 12/2011), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities,** and **IFRS 7 (rev. 12/2011), Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities**, clarify some issues in relation to the admissibility of offsetting financial assets and financial liabilities. They also require additional disclosures in the notes to the financial statements. These additional disclosures comprise gross and net amounts related to offsetting as well as amounts for existing rights to offset that do not satisfy the offsetting criteria. The new disclosures are mandatory for annual periods beginning on or after 1 January 2013 and the clarifications for annual periods beginning on or after 1 January 2014. We are currently proceeding on the assumption that these changes will have no practical significance for Munich Re.

IFRIC Interpretation 20 (10/2011), Stripping Costs in the Production Phase of a Surface Mine, clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This interpretation has no practical relevance for Munich Re.

Consolidation

Consolidated companies

In accordance with IAS 27, the consolidated financial statements include Munich Reinsurance Company (the parent) and all the entities in which Munich Reinsurance Company owns, directly or indirectly, more than half of the voting power or over which it
has the factual ability to exercise control (subsidiaries). Structured entities, e.g. special funds, are consolidated in Munich Re's financial statements in accordance with SIC 12 if, from an economic point of view, they are controlled by Munich Re.

Number of consolidated subsidiaries[1]

	Germany	Other countries	Total
31 Dec. previous year	98	233	331
Additions	10	22	32
Reductions	–	15	15
31 Dec. financial year	108	240	348

1 In addition, 62 German and 2 non-German special funds were included in the consolidated group.

A list of all our shareholdings can be found in the section "List of shareholdings as at 31 December 2012 in accordance with Section 313 para. 2 of the German Commercial Code".

Cash flows and net assets from obtaining and losing control of consolidated subsidiaries or other operations are shown in the tables below:

Cash flows arising from obtaining control

€m	2012	Prev. year
Total consideration for obtaining control	–274	–348
Non-cash consideration for obtaining control	–	–
Cash consideration for obtaining control	**–274**	**–348**
Cash over which control was obtained	14	38
Total	**–260**	**–310**

Net assets obtained

€m	2012	Prev. year
Goodwill/gain from bargain purchase	19	44
Other intangible assets	190	130
Investments	253	250
Cash	14	38
Other assets	41	80
Technical provisions (net)	–	29
Other liabilities	–243	–70
Total	**274**	**501**

Cash flows arising from losing control

€m	2012	Prev. year
Total consideration for losing control	39	534
Non-cash consideration for losing control	–	–
Cash consideration for losing control	**39**	**534**
Cash over which control was lost	–4	–36
Total	**35**	**498**

Net assets lost

€m	2012	Prev. year
Goodwill	–	–
Other intangible assets	2	6
Investments	172	595
Cash	4	36
Other assets	37	51
Technical provisions (net)	–95	–373
Other liabilities	–41	–286
Total	**79**	**29**

The sale of our fully consolidated subsidiaries American Modern Life Insurance Company, Amelia, Ohio, and Southern Pioneer Life Insurance Company, Jonesboro, Arkansas, resulted in a gain on disposal totalling €4m, whilst the sale of ERGO Daum Direct General Insurance Co. Ltd., Seoul, produced a loss on disposal of €25m. These are shown under "investment result" in the consolidated income statement. In addition, a loss of €6m from the sale of ERGO Daum Direct General Insurance Co. Ltd., Seoul, previously included in income and expenses recognised directly in equity, had to be reallocated from the "other reserves" to "other non-operating result".

Further information on our gains and losses from losing control can be found in the notes to the consolidated balance sheets – assets, under (17) Non-current assets and disposal groups held for sale that were sold in the reporting period.

Business combinations occurring during the reporting period

On 6 June 2012, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park operating company Magaz Fotovoltaica, S.L.U. (Magaz), Alcobendas, Spain, from BP Solar España (BP Solar), S.A.U., Alcobendas, Spain, and the BP Solar photovoltaic plant. The transaction makes the photovoltaic plant part of Magaz's assets.

A purchase price of €26.2m was paid for Magaz and the photovoltaic plant. No contingent purchase price adjustments were agreed. The purchase price comprises €4.6m for the acquisition of the acquired company's assets and a cash capital increase of €21.6m at Magaz for the acquisition of the photovoltaic plant. The goodwill of €5.2m arithmetically resulting from the transaction was written off in full after we carried out an impairment test.

On 29 June 2012, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park company Sun Energy & Partners S.r.l. (SunEnergy), Brindisi, Italy, from SunEdison Solar B.V., Amsterdam, Netherlands. SunEnergy operates a photovoltaic plant on the outskirts of the town of Brindisi (near

Lecce, in the Apulia region of Italy). A provisional purchase price of €75.2m was paid for the acquisition of SunEnergy. No contingent purchase price adjustments were agreed. The excess of net asset value over consideration paid ("gain from bargain purchase") of €4.6m arithmetically resulting from the transaction was reversed after expert evaluation, and this has been recognised in "other operating income".

On 6 July 2012, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in six wind park companies. The wind park portfolio comprises wind parks already operating in various regions of Germany with a total of 19 wind turbines and an installed capacity of 48 megawatts.

Through a purchase and share-transfer contract and an agreement on the change of general partner, MR RENT-Investment GmbH, Munich, acquired from wpd onshore GmbH & Co. KG, Bremen, all the limited partner shares in each of the following wind park companies (wpd):

— Windpark Borghorst-Laer GmbH & Co. KG, Bremen
— Windpark Westeregeln GmbH & Co. KG, Bremen
— Windpark Markee 6 GmbH & Co. KG, Bremen
— Windpark Dargelütz GmbH & Co. KG, Bremen
— Windpark Kladrum-Zölkow GmbH & Co. KG, Schwerin
— Einzelanlage Frauenmark I GmbH & Co. KG, Bremen

The provisional purchase price for the wind park companies is €27.3m and was settled in cash. The purchase price comprises various forms of conditional consideration. The goodwill of €1.4m arithmetically resulting from the transaction was written off in full after we carried out an impairment test.

On 10 August 2012, via its subsidiaries MR RENT UK Investment Limited, London, and Bagmoor Holdings Limited, London, Munich Re acquired 100% of the voting shares in three wind parks in the United Kingdom. The acquired portfolio comprises the wind parks Tir Mostyn in North Wales, Scout Moor near Manchester, and Bagmoor in Lincolnshire.

The wind park portfolio (Bagmoor/Scout Moor/Tir Mostyn) consists of the following companies:

— Bagmoor Wind Limited, Bristol
— Scout Moor Group Limited, Manchester
— Scout Moor Wind Farm Limited, Manchester
— Scout Moor Holdings (No.1) Limited, Manchester
— Scout Moor Holdings (No.2) Limited, Manchester
— Scout Moor Wind Farm (No.2) Limited, Manchester
— UK Wind Holdings Limited, London
— Tir Mostyn and Foel Goch Limited, London

A purchase price of £114.3m (€145.6m) in cash was paid for acquisition of the wind parks. It was fully financed from Munich Re's own resources. No contingent purchase price adjustments were agreed. The goodwill of €17.6m arithmetically resulting from the transaction was written off in full after we carried out an impairment test.

The acquisitions are part of the RENT programme (Renewable Energy and New Technologies), through which Munich Re invests in renewable energies and new environmental technologies.

The IFRS fair values of the assets and liabilities of the companies at the time of acquisition are as follows:

IFRS fair values of the assets and liabilities at the acquisition date

€m	Magaz	SunEnergy	wpd	Bagmoor/ Scout Moor/ Tir Mostyn
Purchase price	**26**	**75**	**27**	**146**
Cash	26	75	27	146
Liabilities incurred	–	–	–	–
Assets acquired	**22**	**90**	**85**	**301**
Intangible assets	8	19	21	142
Investments	9	52	54	138
Receivables[1]	1	10	1	1
Cash at bank, cheques and cash in hand	–	–	4	10
Deferred tax assets	4	5	5	8
Other assets	–	4	–	2
Liabilities assumed	**1**	**10**	**59**	**173**
Other reserves	–	–	1	2
Liabilities	–	3	53	124
Deferred tax liabilities	1	7	5	47
Other liabilities[2]	–	–	–	–
Revenue included in the consolidated income statement since the acquisition date	2	6	3	8
Result included in the consolidated income statement since the acquisition date	–	2	–2	–4
Contributions to the consolidated revenues as if the acquisition date for the business combination had been 1 January 2012[3]	4	11	7	22

1 The fair value of the receivables acquired as part of the transactions corresponds to the carrying amount. No defaults were expected at the acquisition date.
2 No contingent liabilities, contingent payments or separate transactions within the meaning of IFRS 3 were identified.
3 The change in the consolidated result cannot be accurately calculated owing to lack of data at the beginning of the year.

Consolidation principles

The annual financial statements of the consolidated subsidiaries and special purpose entities are subject to uniform accounting policies. The balance sheet date of the consolidated companies is generally 31 December. Some of the special funds have other balance sheet dates. These funds are consolidated on the basis of interim accounts as at 31 December. Acquisitions are accounted for by the purchase method. In order to determine the equity capital at the time of acquisition, we measure the acquired identifiable assets and liabilities of the subsidiary or special purpose entity at fair value. The consideration transferred in exchange for the acquired shares is netted against the equity capital apportionable to the Group at the time of acquisition. Any residual positive amount is capitalised as goodwill. Profits earned by the subsidiaries or special purpose entities after their first consolidation are included in Group equity. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as not being material.

Associates

Pursuant to IAS 28, associates are generally all entities which are not subsidiaries but on whose financial and operating policies the investors can exercise a significant influence. In the case of shareholdings amounting to between 20% and 50% of the voting power, the entities in question are deemed to be associates unless it can be clearly demonstrated that there is no significant influence.

Number of companies valued at equity

	Germany	Other countries	Total
31 Dec. previous year	21	28	49
Additions	2	4	6
Reductions	–	3	3
31 Dec. financial year	23	29	52

Number of other associates (not valued at equity)

	Germany	Other countries	Total
31 Dec. previous year	43	11	54
Additions	–	–	–
Reductions	1	1	2
31 Dec. financial year	42	10	52

Information on the measurement of investments in associates can be found in the notes on assets, under B – Investments.

Assets

A Intangible assets

Goodwill resulting from the first-time consolidation of subsidiaries is tested for impairment at least annually, in accordance with IAS 36. We additionally carry out ad-hoc impairment tests if there are indications of impairment. For impairment testing, the goodwill is allocated to the cash-generating units or groups of cash-generating units expected to derive benefit from the synergies of the business combination. To ascertain whether there is any impairment, the carrying amount (including allocated goodwill) of a cash-generating unit or a group of cash-generating units is compared with that unit's or group's recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. If this recoverable amount is lower than the carrying amount, a write-down is made on the goodwill. If the amount of the impairment of a cash-generating unit or group of cash-generating units is greater than the carrying amount of the goodwill allocated, the difference is generally allocated pro rata between the other relevant assets of the unit or group of units on the basis of their carrying amounts. However, the carrying amount may not be reduced below the highest of fair value less costs to sell, the value in use, and zero.

The **other intangible assets** mainly comprise acquired insurance portfolios, acquired and self-developed software, and acquired brand names, sales networks, client bases and licences.

Acquired insurance portfolios are recognised at their present value on acquisition (PVFP – present value of future profits). This is determined as the present value of expected profits from the portfolio acquired, without consideration of new business and tax effects. The acquired insurance portfolios are amortised in accordance with the realisation of the profits from the insurance portfolios underlying the PVFP calculation. They are regularly tested for impairment in accordance with IFRS 4 (liability adequacy test); cf. notes on liabilities item C. Write-downs are recognised under operating expenses.

Self-developed and other software, acquired sales networks, client bases and brand names are carried at cost. Self-developed and other software is amortised on a straight-line basis at a rate of 20–33% over its useful life – three to five years – or in exceptional circumstances at a rate of 10% over a period of up to ten years. The useful lives and depreciation rates of the acquired sales networks and client bases are 2–17 years or 6–50%, and those of the brand names 1–30 years or 3–100%; the items in question are amortised consistently in accordance with the straight-line method. Write-downs or write-ups are made if required. Write-downs and write-ups are distributed in the consolidated income statement between investment expenses, expenses for claims and benefits and operating expenses. If it is not possible to allocate the write-downs and write-ups to the functional areas, they are shown under other non-operating expenses or income.

B Investments

Land and buildings shown under investments comprise property used by third parties and are carried at cost. Maintenance expenses are recognised as an expense. Structural measures equivalent to 5% or more of the historical cost of a building are generally assessed with regard to whether they have to be capitalised. Buildings are depreciated on a straight-line basis in accordance with the component approach, depending on the weighted useful life for their specific building class. The underlying useful lives mainly range between 40 and 55 years. If the recoverable amount of land and buildings falls below their carrying amount, the carrying amount is written down to the recoverable amount. Impairment losses are recognised as investment expense in the consolidated income statement, and reversals of impairment losses as investment income.

Investments in affiliated companies that we do not consolidate because they are not material are generally carried at their fair values. If the investments are quoted on a stock exchange, we use the share prices at the balance sheet date; for unquoted investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

Investments in associates are valued by the equity method at the Group's proportionate share of their net assets. The associate's earnings attributable to the Group are included in the investment result. As a rule, the equity and annual result from the most recent individual or consolidated financial statements of the associate are used; in the case of the annual financial statements of significant associates, appropriate adjustments are made to conform them to Munich Re's accounting policies, in accordance with IAS 28.27; exceptional transactions of material importance for a true and fair picture of the associate's financial position are recognised in the same financial year. Investments in associates that are not material for assessing the Group's financial position are generally accounted for at fair value. To determine the fair value, we use the share prices at the balance sheet date if the investments are quoted on a stock exchange; for unquoted investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured 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 designated as at fair value through profit or loss or recognised under loans are accounted for at fair value, with resulting changes in value recognised in equity with no effect on profit or loss. If no quoted prices in an active market are available, fair values are based on recognised valuation methods in line with the present value principle. Unrealised gains or losses are calculated taking into account interest accrued and, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realisation (provision for deferred premium refunds), are recognised directly in equity under "other reserves".

Securities at fair value through profit or loss comprise securities held for trading and securities designated as at fair value through profit or loss. Securities held for trading are all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences. In addition, they include all derivative financial instruments with positive fair values which we have acquired to manage and hedge risks but which do not meet the requirements of IAS 39 for hedge accounting, and the positive fair values of insurance derivatives and of derivative components separated from the underlying insurance contract. Securities designated as at fair value through profit or loss comprise structured securities. This designation may only be made at the time of acquisition; reallocation to this category in later periods is not possible.

Securities at fair value through profit or loss are accounted for at fair value at the balance sheet date. If no quoted prices in an active market are available, fair values (particularly with derivatives) are based on recognised valuation methods. Munich Re uses a range of valuation models for this purpose, details of which may be obtained from the following table:

Valuation models

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
Stock options traded on the stock exchange	Quoted price	–	–
OTC stock options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate Dividend yield	Black-Scholes (European) Cox, Ross and Rubinstein (American) Monte Carlo simulation
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Equity/index futures	Quoted price	–	–
Interest-rate risks			
Interest-rate swaps	Theoretical price	Swap curve Money-market interest-rate curve	Present-value method
Swaptions/interest-rate guarantee	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve	Black-76
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Interest-rate futures	Quoted price	–	–
Inflation swaps	Theoretical price	Zero-coupon inflation swap rates Money-market interest-rate curve, swap curve	Present-value method
Bond futures	Quoted price	–	–
Quoted options on bond futures	Quoted price	–	–
Currency risks			
Currency options	Theoretical price	At-the-money volatility Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
Other transactions			
Insurance derivatives (excluding variable annuities)	Theoretical price	Market values of the cat bonds Interest-rate curve	Present-value method
Insurance derivatives (variable annuities)	Theoretical price	Biometric and lapse rates Volatilities Interest-rate curve Currency spot rates	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method ISDA CDS Standard Model
Total return swaps on commodities	Theoretical price	Listing of underlying index	Index ratio calculation
Commodity options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate	Black-Scholes (European) Cox, Ross and Rubinstein (American)

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

Deposits retained on assumed reinsurance are receivables from our cedants for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

Other investments comprise deposits with banks and tangible assets in renewable energies and forestry investments. Deposits with banks are measured at cost in accordance with the effective interest method. Tangible assets in renewable energies are generally accounted for at amortised cost. The items in question are amortised on a straight-line basis at a rate of at least 5% over a useful life of 20 years at most. In addition, these items are tested for impairment at each balance sheet date and write-downs made if required. Forestry investments are measured at fair value less estimated costs to sell.

Repurchase agreements and securities lending

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

Securities that we lend by way of securities lending continue to be recognised in our balance sheet, as the main risks and rewards remain with Munich Re; securities that we have borrowed are accounted for by the lender. Interest income from these transactions is recognised in the investment result.

Recognition of financial instruments

Financial assets are accounted for at the settlement date.

Determining fair values

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

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

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

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

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

For assets allocated to Level 3, we use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data are available. The inputs used reflect Munich Re's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data. The financial instruments allocated to this level of the fair value hierarchy largely comprise investments in private equity, in renewable energy (RENT) as well as in real-estate funds, certain credit structures, and investments in affiliated companies and associates measured at fair value. We also allocate insurance derivatives and derivative components that are separated from the host insurance contract to Level 3

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

Net investment result

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

Impairment

At each balance sheet date, we assess whether there is any substantial objective evidence of impairment in a financial asset or group of financial assets. Impairments in value are recognised as an expense in the income statement. IAS 39.59 contains a list of factors providing evidence of impairment of such financial assets. In addition, IAS 39.61 states that for equity investments, a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. These rules are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, we assume a significant decline in fair value if the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months. In the case of fixed-interest securities and loans, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer.

We determine acquisition cost on the basis of the average purchase price. In the case of an impairment, a write-down is made to the fair value at the balance sheet date, i.e. generally the publicly quoted market price. If there is a further fall in the fair value of equity investments that have already been written down once, a further write-down recognised in the income statement is made again immediately. Such impairments recognised in profit or loss may not be reversed through profit or loss. If, in a subsequent period, the reasons for the impairment of fixed-interest securities or loans cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

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

These are investments for policyholders under unit-linked life insurances. They are measured at fair value. Unrealised gains or losses from changes in fair value are included in the investment result. These are matched by corresponding changes in the technical provisions (equity and liabilities item D), which are included in the technical result. The change in technical provisions also includes changes from additional premium components. Recognising these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

D Ceded share of technical provisions

The share of technical provisions for business ceded by us is determined from the respective technical provisions in accordance with the terms of the reinsurance agreements; cf. the notes on equity and liabilities item C. Appropriate allowance is made for the credit risk.

E Receivables

Current tax receivables are accounted for in accordance with local tax regulations and other receivables at amortised cost. In impairment tests of our receivables, we generally first assess whether objective evidence of impairment exists for items that are individually significant. If this is not the case, and also in the case of individually insignificant items, the impairment test is carried out collectively on the basis of groups of similar receivables. Receivables 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 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.

Current tax receivables comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax receivables are shown under "other receivables".

F Cash at banks, cheques and cash in hand

Cash and cheques are accounted for at face value.

G Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. In life business and long-term health primary insurance, acquisition costs are capitalised and amortised over the duration of the contracts. This is done either proportionally to the premium income (FAS 60) or proportionally to the respective contracts' expected gross profit margins calculated for the relevant year of the contract term (FAS 97, 120). The allocation of individual contracts to the FASs concerned is shown in the notes on equity and liabilities item C. In determining the amount of amortisation, we take into account an actuarial interest rate and changes resulting from the disposal or withdrawal of contracts from the portfolio. In property-casualty business, short-term health primary insurance and health reinsurance, the deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using a liability adequacy test as per IFRS 4; cf. notes on equity and liabilities item C.

H Deferred tax assets

Under IAS 12, deferred tax assets must be recognised in cases where asset items have to be valued lower, or liability items higher, in the consolidated balance sheet than in the tax accounts of the Group company concerned and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. We take into account the tax rates of the countries concerned and the consolidated company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries. Changes in tax rates and tax legislation that have already been adopted by the government at the balance sheet date are taken into account. Deferred tax assets are recognised if a realisation is probable.

I Other assets

Other assets are generally carried at amortised cost. The owner-occupied property recognised under other assets is accounted for as outlined under the notes on B Investments – Land and buildings. Plant and equipment is amortised mainly on a straight-line basis, the underlying useful lives ranging between 1 and 50 years. Where required, impairment losses are recognised or reversed for the Group's owner-occupied property. These impairment losses or impairment losses reversed are distributed between the functional areas.

Equity and liabilities

A Equity

The item **issued capital and capital reserve** contains the amounts that the equity holders of Munich Reinsurance Company have paid in on shares. The actuarially calculated value of the own shares held by Munich Reinsurance Company at the balance sheet date is deducted directly from the issued capital. The amount of the acquisition costs in excess of the actuarially calculated value is deducted from the revenue reserves. The capital reserve is reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects. Furthermore, the capital reserve contains gains from the sale of own shares by Munich Reinsurance Company.

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

Own shares held by Munich Re subsidiaries at the balance sheet date have been deducted directly from retained earnings.

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

Non-controlling interests are accounted for in the balance sheet as part of equity. These are the shares of third parties in the equity of subsidiaries that are not wholly owned directly or indirectly by Munich Reinsurance Company. Direct minority interests in special funds and in partnerships are recognised under "other liabilities". The portion of the result attributable to non-controlling interests is shown in the consolidated result.

B Subordinated liabilities

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

C Gross technical provisions

The technical provisions are shown as gross figures in the balance sheet, i.e. before deduction of the ceded share; cf. the explanatory remarks on assets item D. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements. Acquisition costs for insurance contracts are capitalised and amortised over the terms of the contracts; cf. notes on assets item G. The measurement of technical provisions is based on US GAAP FAS 60, FAS 97 and FAS 120. Credit insurance contracts are accounted for in accordance with the rules of IFRS 4.

Unearned premiums are accrued premiums already written for future risk periods. For primary insurance, these premiums are calculated separately for each insurance policy pro rata temporis; for reinsurance, nominal percentages are used in some cases where the data for a calculation pro rata temporis is not available. The posting of unearned premiums is restricted to short-term underwriting business. i.e. property-casualty business and parts of accident and health business. In the case of long-term business, a provision for future policy benefits is established,

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

In reinsurance, measurement is carried out partly individually for each risk and partly collectively for reinsured portfolios, using biometric actuarial assumptions based on the tables of the national actuarial associations. These are adjusted for the respective reinsured portfolio, in line with the probabilities observed for the occurrence of an insured event. Discount rates are chosen that reflect the best estimate of expected investment income, less a safety margin. For the major part of the portfolio, these assumptions are fixed at the beginning of the contract and not changed over its duration.

In primary insurance, measurement is generally carried out individually for each risk. For German life primary insurance, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used. We also largely use the tables of the national actuarial associations for the rest of the primary insurance business. The actuarial interest rate employed for discounting in life primary insurance is limited by the respective maximum actuarial interest rate prescribed by the supervisory authorities. In health primary insurance, discount rates are chosen that reflect the best estimate of expected investment income, less a safety margin.

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 provisions for future policy benefits depends on the type of contract, being based either on FAS 60 (life primary insurance without performance-related participation in surplus, health primary insurance and the bulk of reinsurance treaties), on FAS 97 (life primary insurance on the universal life model, unit-linked life insurance and life reinsurance for assumed policies based on FAS 97) or on FAS 120 (life primary insurance with performance-related participation in surplus).

For contracts in accordance with FAS 60, the provision for future policy benefits is calculated from the present value of estimated future policy benefits (including claims adjustment expenses) less the present value of future net level premiums. Net level premium is that part of the gross premium that is needed to finance future policy benefits. Life primary insurance contracts with limited premium payment are generally valued in accordance with FAS 97.

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

In the case of contracts as per FAS 120, the provision for future policy benefits comprises the net level premium reserve and liabilities for terminal dividends. The net level premium reserve is calculated from the present value of guaranteed policy benefits (including acquired bonuses but excluding claims adjustment expenses) less the present value of future net level premiums. The net level premium is the net premium less the portion of the premium envisaged for covering claims adjustment expenses. The actuarial assumptions are generally the same as those used for premium calculation. The provision for terminal dividends is built up proportionally with a fixed share of the expected gross profit margins. The same method is used for this as for determining the amortisation of the deferred acquisition costs.

The **provision for outstanding claims** is for payment obligations arising from insurance contracts in primary insurance and reinsurance where the size of the claim or the timing of the payment is still uncertain. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims whose occurrence is not yet known (e.g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustment expenses. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological factors). Future payment obligations are generally not discounted; exceptions are some provisions for occupational disability pensions and annuities in workers' compensation and other lines of property-casualty business, which we discount. For determining the provision for outstanding claims, Munich Re uses a range of actuarial projection methods, including the chain ladder and the Bornhuetter-Ferguson method. In applying the statistical methods, we regard large exposures separately. The standard actuarial methods we use are applied both to the run-off triangles for the payments and to the run-off triangles for the reported claims, so that we obtain a range of estimates for the ultimate loss. Within this range, a realistic estimated value for the ultimate loss is determined.

Other technical provisions mainly include the provision for premium refunds in primary insurance and the provision for profit commission in reinsurance. Provisions for premium refunds are posted in life and health primary insurance for obligations involving policyholder bonuses and rebates that have not yet been irrevocably allocated to individual contracts at the balance sheet date. Where these provisions are posted on the basis of national regulations, a retrospective approach is usually taken based on supervisory or individual contract regulations. The provision for premium refunds based on national regulations relates only to German primary insurance business. The provision for premium refunds also incorporates the provision for premium loadings and the provision for future premium reductions in German health primary insurance.

For life insurance companies, health insurance companies and pension funds subject to supervision by the German Federal Financial Supervisory Authority, the supervisory rules in accordance with the German Insurance Control Act and with the respective statutory orders have to be observed.

Besides this, there are provisions for deferred premium refunds, which are posted for the amounts apportionable to policyholders from the valuation differences between IFRS and local GAAP on the basis of the expected future participation quotas. For unrealised gains and losses on investments available for sale, which are recognised directly in equity (see assets item B), the resultant provision for deferred premium refunds is also posted without impact on profit or loss; otherwise, changes in this provision are recognised in the income statement.

All technical provisions are regularly subjected to a **liability adequacy test in accordance with IFRS 4**. If current experience shows that the provisions posted on the basis of the original assumptions – less the related deferred acquisition costs and the present value of the related premiums – are inadequate to cover the expected future benefits, we adjust the relevant technical provisions with recognition in profit or loss and disclose this under impairment losses/unscheduled changes in the notes to the consolidated balance sheet; see (2) Other intangible assets, (14) Deferred acquisition costs and (21) Provision for future policy benefits. The appropriateness of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future amount to be paid. The appropriateness of the provision for future policy benefits is assessed on the basis of realistic estimates of the actuarial assumptions, the proportional investment result and, for contracts with participation in surplus, the future profit sharing.

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

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

E Other accrued liabilities

This item includes **provisions for post-employment benefits**. Munich Re companies generally give commitments to their staff in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the staff member's length of service and salary. Under defined contribution plans, the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations. Under defined benefit plans, the staff member is promised a particular level of retirement benefit either by the companies or by a pension fund. The companies' contributions needed to finance this are not fixed in advance. If pension obligations are covered by assets held by a legally separate entity (e.g. a fund or a contractual trust agreement in the form of a two-way trust) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets. If the fair value of the assets exceeds the related outsourced pension commitments, this reimbursement right is recognised under "other receivables".

Pension obligations are recognised in accordance with IAS 19, using the projected unit credit method and based on actuarial studies. The calculation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

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

The **other provisions** included in this item are established in the amount of the probable requirement. Such amounts are not discounted if the interest-rate effect is insignificant.

F Liabilities

This item comprises bonds and notes issued, deposits retained on ceded business, current tax liabilities, and other liabilities. Financial liabilities are generally recognised at amortised cost. Derivatives (derivative financial instruments, insurance derivatives and derivative components separated from the host insurance contract) are recognised at fair value. Details of how the fair value is determined are provided under assets item B.

Current tax liabilities comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax liabilities are shown under "other liabilities".

Tax liabilities for current taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

Deferred tax obligations are shown under equity and liabilities item G.

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

G Deferred tax liabilities

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

Currency translation

Munich Re's presentation currency is the euro (€). The balance sheets of foreign subsidiaries whose national currency is not the euro are translated in accordance with the functional currency principle using the year-end exchange rates, and their income statements using quarterly average exchange rates. Any exchange differences arising in the process are recognised in equity (reserve for currency translation adjustments).

In contrast to this, currency translation differences are largely recognised in profit or loss in our subsidiaries' individual financial statements. This involves the translation of foreign currency items into the respective functional currency in accordance with IAS 21. An excess of assets over liabilities in a particular foreign currency results on balance in a gain if that currency appreciates, and in a loss if it falls in value. The reverse applies if cover is insufficient.

The object of our asset-liability management, on which we report on page 41, is to economically minimise excess or insufficient cover in foreign currencies within the Group. Insofar as this is done across Group companies with different functional currencies, it produces economically non-existent fluctuations in the consolidated result. Where exchange gains or losses occur in the translation of foreign-currency transactions into the national currencies of the consolidated companies, they are accounted for under "other non-operating income" and "other non-operating expenses" respectively.

Beyond this, the impact of changes in exchange rates is reflected in period-to-period comparisons of all items in the income statement.

The following table shows the exchange rates of the most important currencies for our business:

Currency translation rates

	Balance sheet		Income statement				Income statement			
Rate for €1	31.12.2012	Prev. year	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Australian dollar	1.26990	1.26620	1.24945	1.20458	1.27053	1.24301	1.33147	1.34548	1.35471	1.36117
Canadian dollar	1.31270	1.32185	1.28592	1.24578	1.29628	1.31298	1.37857	1.38415	1.39349	1.34905
Pound sterling	0.81110	0.83530	0.80782	0.79195	0.81098	0.83444	0.85711	0.87730	0.88272	0.85434
Rand	11.18580	10.48050	11.27420	10.33260	10.41550	10.17240	10.90820	10.08520	9.77872	9.56836
Swiss franc	1.20680	1.21390	1.20783	1.20345	1.20146	1.20792	1.22905	1.16407	1.25180	1.28747
US dollar	1.31840	1.29815	1.29740	1.25111	1.28368	1.31077	1.34715	1.41210	1.43956	1.36872
Yen	113.9960	99.8797	105.3770	98.3731	102.8660	103.9420	104.1610	109.6890	117.3950	112.5780

Segment reporting

In accordance with the "management approach", the segmentation of our business operations is based on the way in which Munich Re is managed internally.

We have consequently identified seven segments to be reported:

— Life reinsurance (global life reinsurance business)
— Property-casualty reinsurance (global property-casualty reinsurance business)
— Life primary insurance (global life primary insurance business)
— Health primary insurance (German health primary insurance business and global travel insurance business)
— Property-casualty primary insurance (global property-casualty primary insurance business)
— Munich Health (global health reinsurance business and health primary insurance business outside Germany)
— Asset management (management of assets for the Group and for external investors)

Munich Re's primary insurance segments comprise all the activities of the ERGO Insurance Group (ERGO). Certain primary insurers whose business requires special solution-finding competence are coupled to reinsurance as the risk carrier. We therefore transact their business from within reinsurance and consequently allocate them to the reinsurance segment.

From the first quarter of 2012, our segment reporting under IFRS 8 no longer has a consolidation column. It thus reflects internal management criteria more closely and provides for greater transparency with regard to the result contributions of the individual segments. The previous year's figures have been adjusted accordingly.

The changeover does not lead to any changes to the consolidated result. The adjustments result in shifts within and between the segments. This applies to both technical and non-technical items.

The segments reported under IFRS 8 are now shown after elimination of all intra-Group transactions (mainly dividend payments, sales, reinsurance transactions, receivables and corresponding interest income).

The conventions for the allocation of provisions for premium refunds have been defined Group-wide. In the case of intra-Group sales of assets where a provision for premium refunds has to be posted, the latter always has to be shown by the selling segment. When the international DKV companies were transferred to Munich Health Holding in 2011, a provision for deferred premium refunds totalling €50m was posted in the acquiring segment, i.e. Munich Health. This reserve has been allocated retroactively to health primary insurance and the figure for 2011 adjusted accordingly.

Intra-Group loans are completely eliminated in the balance sheet through consolidation. By contrast, the expenditure for the borrowers and income for the lenders is shown unconsolidated in the item "other non-operating result, impairment losses of goodwill and net finance costs" for the segments concerned. All intra-Group shareholdings are consolidated, and all earnings and expenditure of the subsidiaries are shown in their segments.

Segment assets

» Segment assets (XLS, 25 KB)

	Reinsurance Life		Reinsurance Property-casualty	
€m	31.12. 2012	Prev. year	31.12. 2012	Prev. year
A. Intangible assets	**170**	**169**	**2,050**	**2,007**
B. Investments				
I. Land and buildings, including buildings on third-party land	245	257	1,224	1,187
Thereof: Held for sale	–	–	–	–
II. Investments in affiliated companies and associates	21	89	775	453
Thereof: Associates accounted for using the equity method	1	75	682	386
III. Loans	18	14	52	56
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	15,399	14,489	54,651	51,355
Thereof: Held for sale	–	–	–	52
3. At fair value through profit or loss	605	549	1,042	909
	16,004	15,038	55,693	52,264
V. Deposits retained on assumed reinsurance	7,240	7,784	1,181	1,196
VI. Other investments	242	193	1,142	943
	23,770	23,375	60,067	56,099
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of technical provisions	**1,140**	**929**	**2,186**	**2,517**
Thereof: Held for sale	–	–	–	13
E. Other segment assets	**6,019**	**5,877**	**9,765**	**11,153**
Total segment assets	**31,099**	**30,350**	**74,068**	**71,776**

Segment equity and liabilities

» Segment equity and liabilities (XLS, 20 KB)

	Reinsurance Life		Reinsurance Property-casualty	
€m	31.12. 2012	Prev. year	31.12. 2012	Prev. year
A. Subordinated liabilities	**1,343**	**1,350**	**3,838**	**3,041**
B. Gross technical provisions				
I. Unearned premiums	37	45	5,776	6,070
Thereof: Held for sale	–	–	–	24
II. Provision for future policy benefits	13,352	13,682	32	–
III. Provision for outstanding claims	5,652	5,087	39,097	40,670
Thereof: Held for sale	–	–	–	16
IV. Other technical provisions	432	489	81	79
	19,473	**19,303**	**44,986**	**46,819**
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholder	–	–	–	–
D. Other accrued liabilities	**198**	**164**	**721**	**672**
E. Other segment liabilities	**6,600**	**5,778**	**10,406**	**11,132**
Total segment liabilities	**27,614**	**26,595**	**59,951**	**61,664**

	Primary insurance						Munich Health		Asset management		Total	
	Life		Health		Property-casualty							
	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year
	1,031	**1,104**	**677**	**683**	**932**	**911**	**23**	**199**	**11**	**19**	**4,894**	**5,092**
	1,393	1,445	777	796	95	109	30	31	67	64	3,831	3,889
	–	13	–	–	–	–	–	–	–	–	–	13
	132	132	151	98	214	226	93	82	81	74	1,467	1,154
	109	101	138	86	172	148	90	71	65	57	1,257	924
	34,977	33,910	17,138	16,934	2,210	2,323	23	23	–	–	54,418	53,260
	7	13	–	–	–	–	–	–	–	–	7	13
	37,151	34,352	15,592	13,073	6,348	6,089	3,602	4,080	453	239	133,196	123,677
	–	–	–	–	–	–	–	–	–	–	–	52
	1,174	989	155	70	22	9	17	10	–	–	3,015	2,536
	38,332	35,354	15,747	13,143	6,370	6,098	3,619	4,090	453	239	136,218	126,226
	147	165	1	1	4	4	394	280	–	–	8,967	9,430
	583	925	82	76	594	139	66	114	255	265	2,964	2,655
	75,564	71,931	33,896	31,048	9,487	8,899	4,225	4,620	856	642	207,865	196,614
	5,957	**5,092**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**–**	**5,958**	**5,093**
	1,862	**1,816**	**22**	**11**	**340**	**310**	**180**	**51**	**–**	**–**	**5,730**	**5,634**
	–	–	–	–	–	–	–	–	–	–	–	13
	7,893	**8,354**	**3,575**	**3,459**	**4,456**	**3,938**	**2,085**	**2,229**	**120**	**137**	**33,913**	**35,147**
	92,307	**88,297**	**38,170**	**35,201**	**15,215**	**14,058**	**6,514**	**7,100**	**987**	**798**	**258,360**	**247,580**

	Primary insurance						Munich Health		Asset management		Total	
	Life		Health		Property-casualty							
	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year	31.12. 2012	Prev. year
	75	**72**	**–**	**–**	**–**	**–**	**248**	**220**	**–**	**–**	**5,504**	**4,683**
	15	8	99	97	1,755	1,728	452	443	–	–	8,134	8,391
	–	–	–	–	–	–	–	–	–	–	–	24
	69,508	69,334	25,544	24,216	425	409	908	836	–	–	109,769	108,477
	1,648	1,581	917	944	5,483	5,034	954	1,076	–	–	53,751	54,392
	–	–	–	–	–	–	–	–	–	–	–	16
	4,688	2,378	8,475	7,009	149	152	110	55	–	–	13,935	10,162
	75,859	**73,301**	**35,035**	**32,266**	**7,812**	**7,323**	**2,424**	**2,410**	**–**	**–**	**185,589**	**181,422**
	6,257	**5,372**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**–**	**6,258**	**5,373**
	590	**506**	**293**	**222**	**2,396**	**1,756**	**178**	**160**	**49**	**42**	**4,425**	**3,522**
	6,973	**7,234**	**1,108**	**1,160**	**2,233**	**2,126**	**1,682**	**1,751**	**159**	**90**	**29,161**	**29,271**
	89,754	**86,485**	**36,436**	**33,648**	**12,441**	**11,205**	**4,533**	**4,542**	**208**	**132**	**230,937**	**224,271**
Equity											**27,423**	**23,309**
Total equity and liabilities											**258,360**	**247,580**

Segment income statement[1] » Segment income statement (XLS, 29 KB)

	Reinsurance			
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Gross premiums written	**11,130**	**9,481**	**17,052**	**16,557**
1. Earned premiums				
Gross	11,139	9,489	17,323	16,284
Ceded	450	427	650	857
Net	10,689	9,062	16,673	15,427
2. Income from technical interest	658	647	1,323	1,385
3. Expenses for claims and benefits				
Gross	8,536	7,170	10,393	13,724
Ceded share	286	222	193	786
Net	8,250	6,948	10,200	12,938
4. Operating expenses				
Gross	2,831	2,540	5,085	4,803
Ceded share	154	133	77	116
Net	2,677	2,407	5,008	4,687
Thereof: Amortisation and impairment losses of acquired insurance portfolios	3	6	–	–
5. Technical result (1–4)	**420**	**354**	**2,788**	**–813**
6. Investment result				
Investment income	1,966	2,523	5,077	6,439
Investment expenses	1,053	1,640	2,929	4,568
Total	913	883	2,148	1,871
Thereof: Interest and similar income	728	751	1,520	1,615
Interest charges and similar expenses	3	23	13	104
Write-downs of investments	636	892	1,107	1,684
Write-ups of investments	616	711	1,041	1,298
Income from associates accounted for using the equity method	–	13	16	62
7. Other operating income	133	96	263	278
Thereof: Interest and similar income	95	19	39	34
Write-ups of other operating assets	11	23	27	53
8. Other operating expenses	89	57	280	201
Thereof: Interest charges and similar expenses	38	12	49	16
Write-downs of other operating assets	4	5	13	11
9. Deduction of income from technical interest	–658	–647	–1,323	–1,385
10. Non-technical result (6–9)	**299**	**275**	**808**	**563**
11. Operating result	**719**	**629**	**3,596**	**–250**
12. Other non-operating result, net finance costs and impairment losses of goodwill	–126	–148	–344	–383
13. Taxes on income	98	147	691	–802
14. Consolidated result	**495**	**334**	**2,561**	**169**
Thereof: Attributable to Munich Reinsurance Company equity holders	495	335	2,561	173
Attributable to non-controlling interests	–	–1	–	–4

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

Primary insurance						Munich Health		Asset management		Total	
Life		Health		Property-casualty							
2012	Prev. year	2012	Prev. year	2012	Prev. year	2012	Prev. year	2012	Prev. year	2012	Prev. year
5,798	**6,142**	**5,732**	**5,710**	**5,554**	**5,595**	**6,703**	**5,967**	**–**	**–**	**51,969**	**49,452**
5,791	6,141	5,729	5,696	5,514	5,450	6,693	5,954	–	–	52,189	49,014
135	137	48	22	214	206	193	73	–	–	1,690	1,722
5,656	6,004	5,681	5,674	5,300	5,244	6,500	5,881	–	–	50,499	47,292
3,289	2,250	1,372	1,314	224	158	52	43	–	–	6,918	5,797
7,816	7,107	6,016	5,859	3,653	3,540	5,423	4,803	–	–	41,837	42,203
97	91	23	11	157	118	90	61	–	–	846	1,289
7,719	7,016	5,993	5,848	3,496	3,422	5,333	4,742	–	–	40,991	40,914
1,228	1,314	689	692	1,843	1,822	1,230	1,134	–	–	12,906	12,305
19	17	18	5	41	34	47	11	–	–	356	316
1,209	1,297	671	687	1,802	1,788	1,183	1,123	–	–	12,550	11,989
43	45	5	5	–	1	–	–	–	–	51	57
17	**-59**	**389**	**453**	**226**	**192**	**36**	**59**	**–**	**–**	**3,876**	**186**
4,613	4,634	1,587	1,783	564	893	196	262	21	37	14,024	16,571
987	2,207	348	772	188	485	81	143	2	–	5,588	9,815
3,626	2,427	1,239	1,011	376	408	115	119	19	37	8,436	6,756
2,792	2,973	1,277	1,250	291	310	101	126	5	8	6,714	7,033
3	29	2	9	1	9	–	3	–	–	22	177
260	1,375	74	431	77	141	32	54	2	1	2,188	4,578
404	725	81	144	33	46	19	26	2	3	2,196	2,953
-5	–	5	5	46	-4	14	3	6	21	82	100
127	116	59	49	147	149	100	88	50	67	879	843
6	35	17	2	2	5	21	14	3	9	183	118
33	2	6	1	10	2	9	14	–	–	96	95
114	133	77	105	235	206	91	64	37	42	923	808
14	20	20	28	59	53	26	6	1	1	207	136
10	18	6	10	33	41	4	4	–	1	70	90
-3,289	-2,250	-1,372	-1,314	-224	-158	-52	-43	–	–	-6,918	-5,797
350	**160**	**-151**	**-359**	**64**	**193**	**72**	**100**	**32**	**62**	**1,474**	**994**
367	**101**	**238**	**94**	**290**	**385**	**108**	**159**	**32**	**62**	**5,350**	**1,180**
-128	-36	-101	-39	-344	-313	-222	-79	-8	-22	-1,273	-1,020
75	-2	50	32	-50	7	-22	44	24	22	866	-552
164	**67**	**87**	**23**	**-4**	**65**	**-92**	**36**	**–**	**18**	**3,211**	**712**
165	69	87	23	-18	49	-95	35	–	18	3,195	702
-1	-2	–	–	14	16	3	1	–	–	16	10

Non-current assets by country[1] » Non-current assets by country (XLS, 16 KB)

€m	31.12.2012	Prev. year
Germany	7,601	7,721
USA	1,915	2,109
UK	548	296
Austria	390	441
Italy	273	201
Sweden	253	245
Poland	163	129
France	157	159
Netherlands	145	160
Spain	127	161
Switzerland	96	99
Portugal	66	69
Others	259	287
Total	**11,993**	**12,077**

1 The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property, as well as investments in renewable energy (RENT).

Investments in long-term assets per segment[1]

€m	31.12.2012	Prev. year
Reinsurance life	97	89
Reinsurance property-casualty	434	330
Primary insurance life	52	69
Primary insurance health	13	26
Primary insurance property-casualty	161	182
Munich Health	28	115
Asset management	2	7
Total	**787**	**818**

1 The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property, as well as investments in renewable energy (RENT).

Gross premiums written[1, 2]

	Reinsurance		Primary insurance		Munich Health		Total	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year	2012	Prev. year
Europe								
Germany	1,081	1,155	13,086	13,228	117	40	14,284	14,423
UK	4,451	3,951	237	212	401	395	5,089	4,558
Belgium	35	31	447	419	445	429	927	879
Spain	455	468	56	63	664	628	1,175	1,159
Poland	8	8	1,009	1,012	–	–	1,017	1,020
Others	2,750	2,611	2,121	2,327	192	109	5,063	5,047
	8,780	8,224	16,956	17,261	1,819	1,601	27,555	27,086
North America								
USA	7,510	7,014	–	–	1,249	1,046	8,759	8,060
Canada	4,866	3,912	2	–	3,167	2,892	8,035	6,804
	12,376	10,926	2	–	4,416	3,938	16,794	14,864
Asia and Australasia								
Australia	1,632	1,308	–	–	–	–	1,632	1,308
China	1,061	1,664	1	1	51	53	1,113	1,718
Japan	712	660	1	1	2	2	715	663
Taiwan	567	395	–	–	43	14	610	409
Others	689	636	114	173	96	71	899	880
	4,661	4,663	116	175	192	140	4,969	4,978
Africa, Near and Middle East								
South Africa	425	406	–	–	–	–	425	406
United Arab Emirates	16	39	1	1	187	151	204	191
Others	349	320	2	3	71	68	422	391
	790	765	3	4	258	219	1,051	988
Latin America	1,575	1,460	7	7	18	69	1,600	1,536
Total	**28,182**	**26,038**	**17,084**	**17,447**	**6,703**	**5,967**	**51,969**	**49,452**

1 The premiums are generally allocated according to the location of the risks insured.
2 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

Notes to the consolidated balance sheet – Assets

1 Goodwill

Development of goodwill

€m	Reinsurance		Primary insurance		Munich Health	Total
Goodwill from the acquisition of	Munich Re America	Other	ERGO Insurance Group	Other	Other	
	2012	2012	2012	2012	2012	2012
Gross carrying amount at 31 Dec. previous year	1,062	435	1,754	554	154	3,959
Accumulated impairment losses at 31 Dec. previous year	–	27	–	381	40	448
Carrying amount at 31 Dec. previous year	1,062	408	1,754	173	114	3,511
Currency translation differences	–16	–5	–	–	2	–19
Additions	–	24	–	–	–	24
Reclassifications	–	–	–	–	–	–
Impairment losses	–	24	–	–	116	140
Carrying amount at 31 Dec. financial year	**1,046**	**403**	**1,754**	**173**	**–**	**3,376**
Accumulated impairment losses at 31 Dec. financial year	–	51	–	381	156	588
Gross carrying amount at 31 Dec. financial year	1,046	454	1,754	554	156	3,964

→

€m	Reinsurance		Primary insurance		Munich Health	Total
Goodwill from the acquisition of	Munich Re America	Other	ERGO Insurance Group	Other	Other	
	Prev. year	Prev. year	Prev. year	Prev. year	Prev. year	Prev. year
Gross carrying amount at 31 Dec. previous year	1,028	427	1,754	554	113	3,876
Accumulated impairment losses at 31 Dec. previous year	–	22	–	361	40	423
Carrying amount at 31 Dec. previous year	1,028	405	1,754	193	73	3,453
Currency translation differences	34	11	–	–	2	47
Additions	–	5	–	–	39	44
Reclassifications	–	–8	–	–	–	–8
Impairment losses	–	5	–	20	–	25
Carrying amount at 31 Dec. financial year	**1,062**	**408**	**1,754**	**173**	**114**	**3,511**
Accumulated impairment losses at 31 Dec. financial year	–	27	–	381	40	448
Gross carrying amount at 31 Dec. financial year	1,062	435	1,754	554	154	3,959

Allocation of goodwill to cash-generating units

For impairment testing, the goodwill is allocated to the cash-generating units or groups of cash-generating units that derive benefit from the synergies of the business combination. At the same time, the unit or group of units to which the goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes. In reinsurance, we have allocated the goodwill to divisions or groups of divisions, while in primary insurance it has been allocated to legal entities or groups of legal entities. In the case of Munich Health, goodwill is allocated to the segment bearing that name. Details of our divisions are provided on page 32 f. in the management report.

Our goodwill was fully allocated to the following cash-generating units or groups of cash-generating units:

Allocation of goodwill to cash-generating units

€m	Reinsurance property-casualty segment	ERGO	Various cash-generating units
Goodwill at 31 December 2012	1,433	1,754	189

The goodwill from the acquisition of Munich Re America has been allocated to the cash-generating unit "reinsurance property-casualty segment." The carrying amount shown includes other goodwill that is impairment-tested on the basis of cash-generating units at the level of divisions or groups of divisions within the segment, with the goodwill allocated to each unit not being significant in comparison with the total carrying amount of goodwill. As a rule, the recoverable amounts of these cash-generating units are based on the same key assumptions as those given for the reinsurance property-casualty segment in the following table. The goodwill from the acquisition of shares in the ERGO Insurance Group has been allocated to the cash generating unit "ERGO".

Goodwill allocated across other multiple cash-generating units or groups of cash-generating units is not significant in comparison with the total carrying amount of goodwill in any instance. In cases where the recoverable amounts of these cash-generating units or groups of cash-generating units are based on the same key assumptions, the aggregate carrying amount of the goodwill allocated is not significant in comparison with the total carrying amount of goodwill either. We regard as "significant" within the meaning of IAS 36.134 and IAS 36.135 amounts of 10% or more of total Group goodwill.

Assumptions for determining the recoverable amount in impairment testing

Impairment tests for cash-generating units allocated a significant portion of the goodwill were carried out on the basis of the following assumptions:

Cash-generating unit or group of cash-generating units	Reinsurance property-casualty segment	ERGO
Method for calculating the recoverable amount	Value in use	Value in use
Key assumptions regarding cash flow planning (at the time of the planning)	In the detailed planning phase (two years), we expect a slight rise in premium income with an improvement in the loss ratios. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.	For the detailed planning (three years), growth in results is expected. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level
Growth rates used for extrapolating beyond the cash flow planning based on financial plans/forecasts	0.5%	0.5%
Discount rates	9.6%	10.0%

The calculation of these values in use is based on cash flow forecasts derived from the current market environment and the latest corporate planning approved by management. Prepared in an interactive process involving the operational units, the controlling units responsible and the Board of Management, the corporate plans are reviewed and updated at least every quarter. After the detailed planning phase, we estimate the growth achievable long term by extrapolating the adjusted cash flows of the last plan year.

The discount rates have been determined in the form of the weighted average cost of capital, with the proportionate cost of capital derived using the Capital Asset Pricing Model (CAPM). Calculations are based on cash flows after consideration of normalised taxes. In the above table, for disclosure purposes, a corresponding pre-tax interest rate is given in each case. Sensitivity analyses were performed for the discount rates, the growth rates for extrapolations, and the cash flows. No potential impairments were identified.

Amount of impairment losses recognised in profit or loss during the period

In the financial year 2012, our impairment testing of goodwill identified an impairment of €140m. This has been recognised in the item "impairment losses of goodwill" in the income statement and is attributable in particular to the following:

In the case of the cash-generating unit Munich Health, which corresponds to the reporting segment, the goodwill was completely written off in the fourth quarter of 2012. This was due both to the deterioration of the earnings situation in the US primary insurance market and to the generally low interest-rate environment. The impairment was identified by determining the value in use, with a pre-tax discount rate of 9.6% (9.3%). The impairment loss of €116m was recognised in the Munich Health segment.

After impairment testing, we have completely written off the goodwill of €24m arithmetically resulting from our acquisitions in the RENT programme.

2 Other intangible assets

Development of other intangible assets

	Acquired insurance portfolios		Self-developed		Software Other	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Gross carrying amount at 31 Dec. previous year	1,359	1,378	342	329	814	774
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	826	774	184	152	605	567
Carrying amount at 31 Dec. previous year	533	604	158	177	209	207
Currency translation differences	–4	–1	–	–	2	–2
Additions						
Business combinations	–	–	–	–	–	1
Other	–	4	8	18	90	74
Disposals						
Loss of control	–	3	1	1	1	2
Other	16	–	1	2	7	2
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	66	70	34	32	63	62
Impairment losses	–	1	–	2	–	5
Carrying amount at 31 Dec. financial year	**447**	**533**	**130**	**158**	**230**	**209**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	864	826	220	184	659	605
Gross carrying amount at 31 Dec. financial year	1,311	1,359	350	342	889	814

→	Acquired brand names		Acquired distribution networks/client bases		Acquired licences/ patents	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Gross carrying amount at 31 Dec. previous year	286	272	744	997	122	41
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	201	185	311	524	12	8
Carrying amount at 31 Dec. previous year	85	87	433	473	110	33
Currency translation differences	–	2	–1	7	–	1
Additions						
Business combinations	1	11	–	35	177	80
Other	1	2	–	–	–	1
Disposals						
Loss of control	–	–	–	–	–	–
Other	2	–	–	–	–	–
Reclassifications	–	–	–	6	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	17	16	60	80	8	5
Impairment losses	27	1	29	8	7	–
Carrying amount at 31 Dec. financial year	**41**	**85**	**343**	**433**	**272**	**110**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	242	201	367	311	19	12
Gross carrying amount at 31 Dec. financial year	283	286	710	744	291	122

Continued on next page

€m	Self-developed 2012	Self-developed Prev. year	Miscellaneous Other 2012	Miscellaneous Other Prev. year	Total 2012	Total Prev. year
Gross carrying amount at 31 Dec. previous year	5	5	82	70	3,754	3,866
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	5	3	29	20	2,173	2,233
Carrying amount at 31 Dec. previous year	–	2	53	50	1,581	1,633
Currency translation differences	–	–	1	–	–2	7
Additions						
Business combinations	–	–	12	3	190	130
Other	–	–	–	6	99	105
Disposals						
Loss of control	–	–	–	–	2	6
Other	–	–	4	–	30	4
Reclassifications	–	–	–	–	–	6
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	–	–	7	5	255	270
Impairment losses	–	2	–	1	63	20
Carrying amount at 31 Dec. financial year	**–**	**–**	**55**	**53**	**1,518**	**1,581**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	–	5	28	29	2,399	2,173
Gross carrying amount at 31 Dec. financial year	–	5	83	82	3,917	3,754

The impairment losses are distributed between the following different Group segments: in primary insurance, – (€19m) is apportionable to property-casualty and €13m (1m) to life; €50m (–) is apportionable to Munich Health.

In Munich Health's case, the intangible assets from the acquisition of Sterling Life Insurance Company and the Windsor Health Group, Inc. were completely written off. The fair values less the costs to sell were determined using valuation procedures that had been applied when the purchase prices were allocated. When updated with the latest market and planning figures, the calculation led to the complete write-off of the intangible assets, owing to the deterioration of the medium-term earnings situation of the US subsidiary Windsor Health Group. The impairment loss of €50m was recognised in the Munich Health segment.

Assets pledged as security and other restrictions on title amount to – (€5m). Commitments to acquire other intangible assets total €3m (4m). Costs of €4m (20m) for research and development incurred in connection with software projects were not capitalised but recognised as expenses.

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

Development of investments in land and buildings, including buildings on third-party land

€m	2012	Prev. year
Gross carrying amount at 31 Dec. previous year	4,903	5,142
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	1,014	895
Carrying amount at 31 Dec. previous year	3,889	4,247
Currency translation differences	9	–4
Additions		
Business combinations	–	4
Other	32	56
Disposals		
Loss of control	–	260
Other	36	41
Impairment losses reversed	33	7
Depreciation and impairment losses		
Depreciation	77	88
Impairment losses	40	57
Reclassification	21	25
Carrying amount at 31 Dec. financial year	**3,831**	**3,889**
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	1,081	1,014
Gross carrying amount at 31 Dec. financial year	4,912	4,903

The write-ups are distributed between the following different Group segments: in reinsurance, €4m (1m) is apportionable to life and €18m (1m) to property-casualty; in primary insurance, €9m (5m) is apportionable to life, €1m (–) to health and €1m (–) to property-casualty.

Write-ups derive chiefly from German real estate, whose increase in value was triggered by the growth phase in the German market.

The impairment losses are distributed between the following segments: In reinsurance, – (€2m) is apportionable to life and – (€5m) to property-casualty; in primary insurance, €36m (46m) is apportionable to life, €3m (3m) to health and €1m (1m) to property-casualty.

The impairment losses are mainly due to vacancies, falling market rents and risk premiums on real-estate returns.

The fair value of investment property at the balance sheet date amounted to €5,350m (5,324m). Valuations for the directly held portfolio are performed by valuers within the Group, and those for the indirectly held portfolio by external valuers, in keeping with the legal regulations for investment companies. Determining the sustainability of cash inflows and outflows, taking into account the market conditions at the respective property location, is material for the valuation. The fair value is determined individually per item by discounting the future cash flow to the valuation date. Depending on the type and the opportunity/risk profile of the property, discount rates of 3.00% to 5.50% are used for residential buildings, 4.00% to 8.00% for office buildings, and 4.00% to 8.25% for retail.

Property pledged as security and other restrictions on title amount to €724m (742m). Expenditures recognised in the carrying amount for assets in the course of construction total €31m (37m) at the balance sheet date, and contractual commitments to acquire property amount to €35m (18m).

4 Investments in affiliated companies and associates

Breakdown of investments in affiliated companies and associates

€m	31.12.2012	Prev. year
Affiliated companies		
accounted for at fair value	194	214
Associates		
accounted for using the equity method	1,257	924
accounted for at fair value	16	16
Total	**1,467**	**1,154**

The fair value of investments in associates accounted for using the equity method amounted to €1,621m (1,250m) at the balance sheet date. In the financial year, shares of losses of associates amounting to €4m (11m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet totalled €30m (26m).

The aggregated assets of all associates amount to €9,301m (8,429m), liabilities to €5,759m (5,585m), results for the year to €149m (122m), and revenue to €2,285m (1,603m). For associates not accounted for using the equity method, assets amount to €149m (160m), liabilities to €116m (85m), results for the year to €3m (–), and revenue to €127m (120m).

A list of all our shareholdings can be found in the section "List of shareholdings as at 31 December 2012 in accordance with Section 313 para. 2 of the German Commercial Code".

5 Loans

Breakdown of loans

	Carrying amounts	
€m	31.12.2012	Prev. year
Mortgage loans	4,439	4,421
Loans and advance payments on insurance policies	605	602
Other loans	49,374	48,237
Total	**54,418**	**53,260**

The other loans mainly comprise covered bonds, government bonds and borrowers' note loans of banks.

The fair value of the loans, based on recognised valuation methods in line with the present value principle and taking observable market parameters into account, totalled €63,248m (56,893m) at the reporting date.

Contractual period to maturity

	Carrying amounts	
€m	31.12.2012	Prev. year
Up to one year	1,252	2,011
Over one year and up to two years	1,985	1,361
Over two years and up to three years	2,980	2,118
Over three years and up to four years	2,015	3,015
Over four years and up to five years	2,550	2,194
Over five years and up to ten years	13,034	13,394
Over ten years	30,602	29,167
Total	**54,418**	**53,260**

Rating of "other loans" according to carrying amounts

€m	31.12.2012	Prev. year
AAA	21,951	23,957
AA	20,553	17,251
A	4,085	4,712
BBB or lower	2,295	925
No rating	490	1,392
Total	**49,374**	**48,237**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the loans represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7. Virtually no credit risk exists in respect of the mortgage loans or the loans and advance payments on insurance policies.

6 Other securities held to maturity

At 31 December 2012, the category "Other securities held to maturity" contains debt securities issued by banks of €7m (13m). The fair value of these debt securities amounts to €8m (13m). This is based on recognised valuation methods in line with the present value principle and taking observable market parameters into account.

Contractual period to maturity

	Carrying amounts		Fair values	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Up to one year	3	6	3	6
Over one year and up to two years	4	3	5	3
Over two years and up to three years	–	4	–	4
Total	**7**	**13**	**8**	**13**

Based on the rating categories of the leading rating agencies, the debt securities disclosed here have a rating of A. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

7 Hierarchy for the fair value measurement of investments

At 31 December 2012, around 83% of the investments measured at fair value are allocated to Level 1 of the fair value hierarchy, 14% to Level 2 and 3% to Level 3.

Allocation of investments measured at fair value[1] to levels of the fair value hierarchy

				31.12.2012
€m	Level 1	Level 2	Level 3	Total
Investments in affiliated companies measured at fair value	–	–	194	194
Investments in associates measured at fair value	–	–	16	16
Other securities available for sale				
Fixed-interest	104,453	16,928	2,118	123,499
Non-fixed-interest	7,651	68	1,978	9,697
Other securities at fair value through profit or loss				
Held for trading	754	2,368	33	3,155
Designated as at fair value through profit or loss	–	169	–	169
Investments for the benefit of life insurance policyholders who bear the investment risk	5,958	–	–	5,958
Total	**118,816**	**19,533**	**4,339**	**142,688**

→				Prev. year
€m	Level 1	Level 2	Level 3	Total
Investments in affiliated companies measured at fair value	–	–	214	214
Investments in associates measured at fair value	–	–	16	16
Other securities available for sale				
Fixed-interest	94,746	19,847	626	115,219
Non-fixed-interest	6,661	595	1,202	8,458
Other securities at fair value through profit or loss				
Held for trading	815	1,808	8	2,631
Designated as at fair value through profit or loss	–	166	–	166
Investments for the benefit of life insurance policyholders who bear the investment risk	5,093	–	–	5,093
Total	**107,315**	**22,416**	**2,066**	**131,797**

1 Including hedging derivatives.

Information on the criteria for allocation to the individual levels of the fair value hierarchy can be found in the notes to asset items under B – Investments, Determining fair values.

In the financial year, we reallocated further portions of the residual mortgage-backed securities (RMBSs) in our portfolio from Level 3 to Level 2, it now being possible owing to the increased liquidity to value these portfolios solely on the basis of observable market inputs again. At the same time, we reallocated collateralised loan obligations (CLOs) and commercial mortgage-backed securities (CMBSs) from Level 2 to Level 3, since we did not use inputs observable in the market for valuing them in the financial year given the markets' lack of liquidity.

The only investments held for trading that are allocated to Level 3 are derivatives. The strong increase in the fixed-interest securities allocated to Level 3 derive mainly from a reassessment of the allocation of CMBSs amounting to €1,800m. By contrast, the reassessment of the level allocation of RMBSs resulted in a much smaller reduction of only €256m.

The following table presents the reconciliation from the beginning balances to the ending balances for investments allocated to Level 3.

Reconciliation for investments allocated to Level 3

	Other securities available for sale			
	Fixed-interest		Non-fixed-interest	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Carrying amount at 31 Dec. previous year	626	549	1,202	1,078
Gains and losses	12	37	27	4
Gains (losses) recognised in the income statement	-3	-6	-30	11
Gains (losses) recognised in equity	15	43	57	-7
Acquisitions	459	194	834	301
Disposals	523	38	168	424
Transfer to/out of Level 3	1,544	-116	82	243
Changes in the market value of derivatives	–	–	1	–
Carrying amount at 31 Dec. financial year	**2,118**	**626**	**1,978**	**1,202**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	3	–	-28	4

→

	Investments in affiliated companies measured at fair value		Investments in associates measured at fair value	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Carrying amount at 31 Dec. previous year	214	194	16	18
Gains and losses	30	-26	–	-1
Gains (losses) recognised in the income statement	-8	-26	-2	-1
Gains (losses) recognised in equity	38	–	2	–
Acquisitions	7	283	1	–
Disposals	60	21	2	1
Transfer to/out of Level 3	3	-216	1	–
Changes in the market value of derivatives	–	–	–	–
Carrying amount at 31 Dec. financial year	**194**	**214**	**16**	**16**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	-8	-14	-2	–

Continued on next page

→

	Held for trading		Other securities at fair value through profit or loss – Designated as at fair value through profit or loss		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Carrying amount at 31 Dec. previous year	8	17	–	–	2,066	1,856
Gains and losses	-12	222	–	–	57	236
Gains (losses) recognised in the income statement	-12	222	–	–	-55	200
Gains (losses) recognised in equity	–	–	–	–	112	36
Acquisitions	11	–	–	–	1,312	778
Disposals	–	221	–	–	753	705
Transfer to/out of Level 3	26	-10	–	–	1,656	-99
Change in the market value of derivatives	–	–	–	–	1	–
Carrying amount at 31 Dec. financial year	**33**	**8**	**–**	**–**	**4,339**	**2,066**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	-12	8	–	–	-47	-2

8 Other securities available for sale

Breakdown of other securities available for sale

	Carrying amounts		Unrealised gains/losses		Amortised cost	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Fixed-interest securities						
Government bonds						
Germany	10,682	11,222	1,066	746	9,616	10,476
Rest of EU	22,162	21,761	1,610	-187	20,552	21,948
USA	13,546	12,927	1,407	1,225	12,139	11,702
Other	13,062	11,955	1,055	996	12,007	10,959
Corporate debt securities	52,501	47,398	3,907	1,648	48,594	45,750
Other	11,546	9,956	935	464	10,611	9,492
	123,499	**115,219**	**9,980**	**4,892**	**113,519**	**110,327**
Non-fixed-interest securities						
Shares	6,177	4,911	1,247	553	4,930	4,358
Investment funds						
Equity funds	329	308	35	18	294	290
Bond funds	1,224	1,552	69	22	1,155	1,530
Real estate funds	536	529	18	11	518	518
Other	1,431	1,158	134	89	1,297	1,069
	9,697	**8,458**	**1,503**	**693**	**8,194**	**7,765**
Total	**133,196**	**123,677**	**11,483**	**5,585**	**121,713**	**118,092**

Over half the corporate debt securities are covered bonds or issues by development banks and comparable institutions. The remaining portfolio is composed of securities issued by companies outside the banking sector (with each individual risk making up less than 1%), bonds issued by banks and state central savings banks (with state guarantees), and asset-backed securities/mortgage-backed securities that largely have implicit state guarantees or an above-average rating.

Assets pledged as security and other restrictions on title amount to €8,503m (10,142m). Some €1,303m (1,419m) of the securities shown are loaned to third parties. These securities are not derecognised, as the main resultant risks and rewards remain with Munich Re. Of the €11,483m (5,585m) in unrealised gains and losses, €5,709m (3,404m) has been recognised in equity (other reserves), after deduction of provisions for deferred premium refunds, deferred taxes, non-controlling interests and consolidation effects.

Disposal proceeds in the financial year

€m	2012	Prev. year
Fixed-interest securities	46,079	57,885
Non-fixed-interest securities		
Quoted	14,393	17,779
Unquoted	986	1,354
Total	**61,458**	**77,018**

Realised gains and losses

€m	2012	Prev. year
Gains on disposal	1,850	2,480
Fixed-interest securities	1,129	1,621
Non-fixed-interest securities	721	859
Losses on disposal	832	1,182
Fixed-interest securities	635	860
Non-fixed-interest securities	197	322
Total	**1,018**	**1,298**

Contractual period to maturity of fixed-interest securities

	Carrying amounts		Amortised cost	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Up to one year	11,526	10,914	12,131	10,846
Over one year and up to two years	8,747	9,429	8,501	9,282
Over two years and up to three years	10,858	10,303	10,259	10,019
Over three years and up to four years	10,599	9,920	9,984	9,667
Over four years and up to five years	10,679	9,411	10,030	8,862
Over five years and up to ten years	34,145	32,131	30,897	31,066
Over ten years	36,945	33,111	31,717	30,585
Total	**123,499**	**115,219**	**113,519**	**110,327**

Rating of fixed-interest securities according to fair values

€m	31.12.2012	Prev. year
AAA	54,883	56,747
AA	32,735	27,779
A	17,935	16,427
BBB	15,576	10,739
Lower	2,229	3,362
No rating	141	165
Total	**123,499**	**115,219**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

9 Other securities at fair value through profit or loss

Securities at fair value through profit or loss comprise securities of €2,846m (2,370m) held for trading and securities of €169m (166m) designated as at fair value through profit or loss.

The securities held for trading are made up of fixed-interest securities totalling €702m (567m), non-fixed-interest securities totalling €33m (31m) and derivatives held for trading amounting to €2,111m (1,772m). The securities designated as at fair value through profit or loss comprise €167m (161m) assignable to fixed-interest securities and €2m (5m) to non-fixed interest securities.

Rating of fixed-interest securities according to fair values

€m	31.12.2012	Prev. year
AAA	392	306
AA	233	222
A	199	157
BBB	45	32
Lower	–	–
No rating	–	11
Total	**869**	**728**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Derivative financial instruments are used by Munich Re to manage and hedge against interest-rate, currency, and other market risks. This is done at the Group companies within the framework of individual supervisory regulations and additional internal company directives. The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, Munich Re selects only top-quality counterparties for such transactions.

As at 31 December 2012, Munich Re held collateral for derivatives in the form of securities with a rating of at least AA that may either be sold or transferred as collateral. The fair value of this collateral amounts to €1,154m (668m).

Disclosure of derivatives by balance sheet item

€m			31.12.2012	Prev. year
Fair value	Qualifying for hedge accounting	Balance sheet item		
Positive	No	Investments, other securities held for trading	2,111	1,772
	Yes	Other assets	309	261
Negative	No Yes	Liabilities, other liabilities	–969	–1,344
Total			**1,451**	**689**

The following table shows the fair values and the related notional amounts of all our open positions, broken down according to risk types. Positive and negative fair values have been netted. At 31 December 2012, the open positions amounted to €1,451m (689m), or 0.6% (0.3%) of the balance sheet total.

Open positions

Periods to maturity in years	< 1	1–2	2–3	3–4	4–5	> 5	31.12. 2012	Prev. year
€m								
Interest-rate risks								
Traded on the stock exchange								
Fair values	6	–	–	–	–	–	6	41
Notional amounts	8,609	–	–	–	–	–	8,609	4,660
Over-the-counter								
Fair values	65	107	75	87	301	676	1,311	725
Notional amounts	525	2,283	1,120	4,719	3,048	16,843	28,538	19,535
Total interest-rate risks								
Fair values	71	107	75	87	301	676	1,317	766
Notional amounts	9,134	2,283	1,120	4,719	3,048	16,843	37,147	24,195
Currency risks								
Traded on the stock exchange								
Fair values	–	–	–	–	–	–	–	–
Notional amounts	21	–	–	–	–	–	21	20
Over-the-counter								
Fair values	-11	–	–	–	–	-3	-14	-35
Notional amounts	20,008	–	–	–	–	218	20,226	17,691
Total currency risks								
Fair values	-11	–	–	–	–	-3	-14	-35
Notional amounts	20,029	–	–	–	–	218	20,247	17,711
Equity and index risks								
Traded on the stock exchange								
Fair values	38	–	–	–	–	–	38	69
Notional amounts	2,014	–	–	–	–	–	2,014	5,575
Over-the-counter								
Fair values	–	1	16	–	–	–	17	13
Notional amounts	290	48	63	3	–	–	404	284
Total equity and index risks								
Fair values	38	1	16	–	–	–	55	82
Notional amounts	2,304	48	63	3	–	–	2,418	5,859
Credit risks								
Over-the-counter								
Fair values	–	–	–	–	-10	4	-6	-111
Notional amounts	17	67	18	20	2,513	197	2,832	4,639
Weather risks								
Over-the-counter								
Fair values	6	–	–	–	–	–	6	-28
Notional amounts	51	3	–	–	–	–	54	95
Commodity risks								
Over-the-counter								
Fair values	–	9	9	3	1	–	22	16
Notional amounts	1,015	282	331	135	41	–	1,804	1,829
Insurance risks								
Over-the-counter								
Fair values	-87	9	41	54	51	65	133	71
Notional amounts	1,934	596	934	1,019	1,054	9,322	14,859	17,257
Other risks								
Over-the-counter								
Fair values	–	–	–	–	–	-62	-62	-72
Notional amounts	–	–	–	–	–	1,156	1,156	1,214
Total of all risks								
Fair values	**17**	**126**	**141**	**144**	**343**	**680**	**1,451**	**689**
Notional amounts	**34,484**	**3,279**	**2,466**	**5,896**	**6,656**	**27,736**	**80,517**	**72,799**

Under the risk type “insurance risks”, we essentially subsume for property-casualty business the derivative portions of natural catastrophe bonds, individually structured insurance derivatives and derivative components separated from their host contract. For life and health business, the risk type “insurance risks” essentially includes the derivative components from securitisations of mortality and morbidity risks and of variable annuities. The securitisation of variable annuities is also accounted for under the risk type “insurance risks”.

Interest-rate risks in life insurance are hedged using swaptions and total return swaps. These derivatives providing the right to receive a fixed interest rate are shown in the category “interest-rate risks/over-the-counter”. At the reporting date, the fair values of the above-mentioned derivatives totalled €427m (537m), and the underlying notional amounts €2,841m (5,090m). The investment result from derivatives includes a loss of €125m (355m) from fluctuations in value of these items.

Although the derivatives used by Munich Re essentially serve to hedge against risks, only an amount of €296m (254m) meets the requirements of IAS 39 for hedge accounting.

IAS 39 distinguishes between fair value hedges and cash flow hedges.

Fair value hedges In the case of fair value hedges, the change in the fair value of the hedging instrument and the change in the fair value of the hedged instrument are generally recognised in profit or loss under the items “investment income” and “investment expenses” in the income statement. With Munich Reinsurance Company’s hedged subordinated bond, this information is shown under net finance costs. Munich Re uses hedging relationships in the form of fair value hedges to selectively and efficiently mitigate interest-rate and other market risks. The main types of transaction employed for hedging are swaps and forwards. The fair value of the subordinated liabilities (stock market value) at the balance sheet date amounted to €249m (215m). In 2012, the following changes in value were recognised in the consolidated income statement: €34m for the hedging instruments and –€33m for the relevant underlyings.

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. Munich Re uses cash flow hedges chiefly to hedge against interest-rate risks, with interest-rate swaps the main instruments employed. Changes in the fair value of the hedging instrument are recognised directly in equity for this purpose. Only when the actual cash inflow or outflow takes place, as a result of the hedged circumstance, is the relevant equity item reversed with recognition in profit or loss.

The change in fair value assignable to the ineffective portion of the hedging was negligible at the reporting date.

At the balance sheet date, there is an equity item of –€4m (4m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €47m (39m) at the balance sheet date.

Periods to maturity and amount of the hedged cash flows at the balance sheet date

€m	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	31.12.2012	Prev. year
Notional amounts of hedged transactions	–	25	–	25	25	314	389	389

10 Deposits retained on assumed reinsurance

Deposits retained on assumed reinsurance serve directly as collateral for technical provisions covering business assumed from cedants in reinsurance. They do not trigger any cash flows and may not be used by the cedant independently. The credit risk is therefore limited. The amount of and changes in deposits retained on assumed reinsurance in the financial year generally derive from the values for the changes in the related technical provisions for the reinsured business. Deposits retained on assumed reinsurance business thus do not have a fixed maturity date, their release generally being dependent on the run-off of the corresponding provisions.

11 Other investments

Other investments comprise deposits with banks totalling €2,461m (2,392m), our tangible assets in renewable energies amounting to €500m (260m), and forestry investments of €3m (3m). Deposits with banks include receivables of €142m (104m) from borrowers under repurchase agreements that have been booked by us as the lender.

As the deposits with banks mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts. Assets pledged as security and other restrictions on title amount to €19m (31m) for deposits with banks.

In deviation from the purely economic view, the carrying amount of these other investments represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Development of tangible assets in renewable energies

€m	2012	Prev. year
Gross carrying amount at 31 Dec. previous year	282	55
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	22	9
Carrying amount at 31 Dec. previous year	260	46
Changes due to currency translation	–	–
Additions		
Business combinations	259	203
Other	2	20
Disposals		
Loss of control	–	–
Other	–	–
Impairment losses reversed	1	–
Depreciation and impairment losses		
Depreciation	22	12
Impairment losses	–	–
Reclassification	–	3
Carrying amount at 31 Dec. financial year	**500**	**260**
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	45	22
Gross carrying amount at 31 Dec. financial year	545	282

The fair values of tangible assets in renewable energies at the balance sheet date amount to €500m (267m). The tangible assets include items pledged as security and other restrictions on title amounting to €219m (97m).

12 Ceded share of technical provisions

Ceded share of technical provisions

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Unearned premiums	–	–	124	134
Provision for future policy benefits	743	645	–	–
Provision for outstanding claims	387	278	2,053	2,383
Other technical provisions	10	6	9	–
Total	**1,140**	**929**	**2,186**	**2,517**

	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Unearned premiums	1	–	12	3	72	67
Provision for future policy benefits	1,845	1,806	–	–	–	–
Provision for outstanding claims	16	10	10	8	264	220
Other technical provisions	–	–	–	–	4	23
Total	**1,862**	**1,816**	**22**	**11**	**340**	**310**

	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Unearned premiums	95	9	304	213
Provision for future policy benefits	7	7	2,595	2,458
Provision for outstanding claims	78	35	2,808	2,934
Other technical provisions	-	-	23	29
Total	**180**	**51**	**5,730**	**5,634**

Details of the ceded share of technical provisions are shown in (20) Unearned premiums, (21) Provisions for future policy benefits, (22) Provisions for outstanding claims, (23) Other technical provisions and (39) Credit risks from ceded reinsurance business.

13 Other receivables

Breakdown of other receivables

€m	31.12.2012	Prev. year
Amounts receivable on primary insurance business	1,427	1,552
Accounts receivable on reinsurance business	4,731	4,909
Interest and rent	2,872	2,880
Miscellaneous receivables	2,445	1,951
Total	**11,475**	**11,292**

€460m (672m) of the amounts receivable on primary insurance business is apportionable to receivables from insurance agents. The miscellaneous receivables contain receivables of €708m (519m) resulting from reinsurance contracts without significant risk transfer, which do not fall within the scope of IFRS 4.

Assets pledged as security and other restrictions on title amount to €78m (–).

In deviation from the purely economic view, the carrying amount of the receivables represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Contractual period to maturity of other receivables

	Carrying amounts	
€m	31.12.2012	Prev. year
Up to one year	10,474	10,578
Over one year and up to two years	109	50
Over two years and up to three years	272	233
Over three years and up to four years	136	84
Over four years and up to five years	77	28
Over five years and up to ten years	69	88
Over ten years	338	231
Total	**11,475**	**11,292**

As the other receivables mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts.

As at 31 December 2012, our accounts receivable on ceded business were split between the following ratings (based on those of Standard & Poor's):

Rating of accounts receivable

€m	31.12.2012	Prev. year
AAA	–	9
AA	384	158
A	38	109
BBB and lower	1	8
No external rating	181	147

€429m (331m) of all our receivables on underwriting business at the balance sheet date was outstanding for more than 90 days. The average defaults of the last three years amount to €158m (144m).

14 Deferred acquisition costs

Deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	1,984	1,947	1,271	1,431
Ceded share	1	-14	29	26
Net	**1,983**	**1,961**	**1,242**	**1,405**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	3,430	3,502	1,721	1,679	748	702
Ceded share	7	10	4	1	14	6
Net	**3,423**	**3,492**	**1,717**	**1,678**	**734**	**696**

→	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	102	125	9,256	9,386
Ceded share	19	15	74	44
Net	**83**	**110**	**9,182**	**9,342**

Development of gross deferred acquisition costs

	Reinsurance				Primary insurance						Munich Health		Total	
	Life		Property-casualty		Life		Health		Property-casualty					
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Status at 31 Dec. previous year	1,947	1,848	1,431	1,322	3,502	3,623	1,679	1,583	702	663	125	126	9,386	9,165
Currency translation differences	14	50	7	29	4	–4	–	–	21	–25	–14	3	32	53
Change in consolidated group/Other	–	–	–7	–	–	–4	–	–1	–2	–2	–	–	–9	–7
New deferred acquisition costs	340	309	1,982	1,861	350	372	235	260	380	356	277	176	3,564	3,334
Changes														
Amortisation	–327	–259	–2,142	–1,785	–257	–236	–193	–163	–330	–290	–286	–180	–3,535	–2,913
Impairment losses	10	–1	–	4	–169	–249	–	–	–23	–	–	–	–182	–246
Status at 31 Dec. financial year	**1,984**	**1,947**	**1,271**	**1,431**	**3,430**	**3,502**	**1,721**	**1,679**	**748**	**702**	**102**	**125**	**9,256**	**9,386**

The amortisation includes accrued interest as well as write-downs. The impairment losses comprise write-ups and write-downs stemming from changes in the assumptions underlying the calculations which require an adjustment in the measurement.

In the primary insurance segment, assumptions regarding long-term interest-rate levels were adjusted in 2012 on the basis of the long-term regular return on investments. The now lower interest margin and adjustment of other assumptions led to impairment losses of deferred acquisition costs.

15 Deferred tax

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

Deferred tax

	31.12.2012		Prev. year	
€m	Assets	Liabilities	Assets	Liabilities
Assets				
A. Intangible assets	205	331	203	345
B. Investments	1,809	3,678	3,100	4,643
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	3	–	2
E. Receivables	84	35	228	21
I. Other assets	595	783	547	790
Total assets	**2,693**	**4,830**	**4,078**	**5,801**
Equity and liabilities				
C. Net technical provisions	1,836	3,480	2,024	3,525
E. Other accrued liabilities	923	450	582	483
F. Liabilities	259	24	340	34
Total equity and liabilities	**3,018**	**3,954**	**2,946**	**4,042**
Off balance sheet				
Loss carry-forwards and tax credits	508	–	523	–
Total	**6,219**	**8,784**	**7,547**	**9,843**

The deferred taxes for technical provisions include the deferred taxes for deferred acquisition costs and €1,916m (1,888m) for claims equalisation provisions, which are not posted under IFRS.

The excess of deferred tax liabilities over deferred tax assets amounts to €2,565m (2,296m). The change of –€269m (804m) was recognised as follows: –€579m (–367m) without impact on profit or loss and €358m (1,184m) in earnings. The remaining change is due to obtaining or losing control and to currency translation.

No deferred taxes were posted for temporary differences of €48m (45m) in connection with investments in subsidiaries and associates, also referred to as outside basis differences.

Deferred tax assets are recognised for unused loss carry-forwards to the extent that, on the basis of tax result planning, it is sufficiently probable that they will be utilised. We have broken down the existing deferred tax assets relating to loss carry-forwards and the loss carry-forwards themselves.

Development of deferred tax assets for loss carry-forwards and tax credits

€m	Prev. year	Subsequent additions and reductions due to changes in valuation allowances	Additions due to new losses	Set off against income/ Deconsolidation	31.12.2012
Deferred tax assets for					
Corporation tax loss carry-forwards	424	106	38	154	414
Trade tax loss carry-forwards	62	6	13	27	54
Loss carry-forwards from capital losses	–	–	2	–	2
Tax credits	37	–	1	–	38
Total	**523**	**112**	**54**	**181**	**508**

The column “Set off against income/Deconsolidation” includes changes due to losing control and changes in exchange rates.

Tax loss carry-forwards and tax credits

			31.12.2012			Prev. year
€m	For which deferred tax assets are recognised	For which deferred tax assets are not recognised	Total	For which deferred tax assets are recognised	For which deferred tax assets are not recognised	Total
Corporation tax loss carry-forwards						
Expiring in up to three years	30	192	222	27	81	108
Expiring in over three years and up to ten years	856	520	1,376	224	83	307
Expiring in over ten years	67	396	463	765	1,147	1,912
Not expiring	476	827	1,303	390	997	1,387
	1,429	**1,935**	**3,364**	**1,406**	**2,308**	**3,714**
Trade tax loss carry-forwards						
Not expiring	330	132	462	370	169	539
	330	**132**	**462**	**370**	**169**	**539**
Loss carry-forwards from capital losses						
Expiring in up to three years	9	–	9	–	–	–
Expiring in over three years and up to ten years	–	–	–	–	–	–
Expiring in over ten years	–	–	–	–	–	–
Not expiring	–	–	–	–	–	–
	9	**–**	**9**	**–**	**–**	**–**
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	38	–	38	37	–	37
	38	**–**	**38**	**37**	**–**	**37**

16 Other assets

These mainly comprise owner-occupied property totalling €2,391m (2,385m), plant and equipment of €273m (294m), advance payments on insurance amounting to €393m (437m), derivatives totalling €309m (261m), miscellaneous deferred items of €130m (129m), and recoveries from policyholders totalling €23m (25m). Some €15m (18m) of the owner-occupied property involves finance leases.

Development of property, plant and equipment

€m	Owner-occupied property 2012	Operating and office equipment 2012	Other 2012	Total 2012
Gross carrying amount at 31 Dec. previous year	3,385	976	57	4,418
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	1,000	682	30	1,712
Carrying amount at 31 Dec. previous year	2,385	294	27	2,706
Currency translation differences	3	2	–1	4
Additions				
Business combinations	–	–	–	–
Other	75	90	2	167
Disposals				
Loss of control	–	–	–	–
Other	7	9	2	18
Impairment losses reversed	27	–	–	27
Depreciation and impairment losses				
Depreciation	60	104	5	169
Impairment losses	15	–	–	15
Reclassification	–17	–	–	–17
Carrying amount at 31 Dec. financial year	**2,391**	**273**	**21**	**2,685**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	1,026	689	34	1,749
Gross carrying amount at 31 Dec. financial year	3,417	962	55	4,434

→

€m	Owner-occupied property Prev. year	Operating and office equipment Prev. year	Other Prev. year	Total Prev. year
Gross carrying amount at 31 Dec. previous year	3,353	948	54	4,355
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	942	664	25	1,631
Carrying amount at 31 Dec. previous year	2,411	284	29	2,724
Currency translation differences	2	2	1	5
Additions				
Business combinations	–	1	–	1
Other	88	131	4	223
Disposals				
Loss of control	5	2	–	7
Other	6	17	1	24
Impairment losses reversed	8	–	–	8
Depreciation and impairment losses				
Depreciation	56	108	6	170
Impairment losses	34	2	–	36
Reclassification	–23	5	–	–18
Carrying amount at 31 Dec. financial year	**2,385**	**294**	**27**	**2,706**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	1,000	682	30	1,712
Gross carrying amount at 31 Dec. financial year	3,385	976	57	4,418

The write-ups are distributed between the following different Group segments: in reinsurance, €2m (2m) is apportionable to life and €2m (5m) to property-casualty; in primary insurance, the write-ups amount to €16m (–) in life, €6m (–) in health, and €1m (1m) in Munich Health.

Write-ups for owner-occupied property derive chiefly from German real estate, whose increase in value was triggered by the growth phase in the German market.

The impairment losses are distributed between the following different Group segments: in reinsurance €5m (8m) is apportionable to life and €6m (14m) to property-casualty; in primary insurance, the impairment losses amount to €2m (1m) in life, – (€7m) in health, – (€2m) in property-casualty, and €2m (4m) in Munich Health.

The impairment losses for owner-occupied property were largely triggered by vacancies, falling market rents and risk premiums on real-estate returns.

The fair value of the property amounts to €2,698m (2,689m). The methodology for determining the fair values is described in (3) Land and buildings, including buildings on third-party land.

The expenditures recognised in the carrying amount for assets in the course of construction total €158m (133m) for property and €17m (16m) for plant and equipment. Commitments to acquire property total €33m (22m) and commitments to acquire plant and equipment €12m (16m). Assets pledged as security and other restrictions on title amount to – (€3m) for plant and equipment.

17 Non-current assets and disposal groups held for sale and sold during the reporting period

We decided in the second quarter of 2011 to sell our fully consolidated subsidiaries American Modern Life Insurance Company, Amelia, Ohio, and Southern Pioneer Life Insurance Company, Jonesboro, Arkansas. A contract regarding the sale of these companies, with economic effect from January 2012, was signed in the third quarter of 2011; the sales price was around €26m.

In the fourth quarter of 2011, with economic effect from March 2012, the ERGO Insurance Group sold an office investment property with a carrying amount of €13m. The sales price was €52m.

In the first quarter of 2012, the ERGO Insurance Group decided to sell its fully consolidated subsidiary San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino. A contract for the sale of this company, with economic effect from July 2012, was signed in the second quarter of 2012; the sales price totalled €5m.

In the second quarter of 2012, with economic effect in October 2012, the ERGO Insurance Group sold its shares in the fully consolidated subsidiary ERGO Daum Direct General Insurance Co. Ltd., Seoul.

How the non-current assets held for sale and disposal groups are allocated between the segments is shown in the segment reporting.

Notes to the consolidated balance sheet – Equity and liabilities

18 Equity

The total share capital of €587,725,396.48 at 31 December 2012 is divided into 179,341,212 no-par-value registered shares, each fully paid up and entitled to one vote. In the year under review, the number of shares in circulation developed as follows:

Development of shares in circulation

Number of shares	2012	Prev. year
Status at 31 Dec. previous year	177,588,750	180,378,583
Additions		
Disposals from hedging stock appreciation rights under long-term incentive plans	1,020,083	247,758
Reductions		
Acquisition of shares for retirement (share buy-back programme)	–	3,037,591
Acquisition of shares to hedge stock appreciation rights under long-term incentive plans	81,563	–
Status at 31 Dec. financial year	**178,527,270**	**177,588,750**

On 31 December 2012, a total of 813,942 Munich Reinsurance Company shares with a calculated nominal value of around €2.7m were held by Group companies. This represents around 0.5% of the share capital.

Owing to the potential effects of the still-volatile capital market environment and possible capital requirements for organic growth, Munich Reinsurance Company's Board of Management only availed itself of the authorisation granted by the Annual General Meeting on 20 April 2011, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act – merely in connection with hedging obligations arising from the long-term incentive plans.

As in the previous year, no employee share programmes were set up in 2012 for the employees of Munich Reinsurance Company or of dependent Group companies or enterprises in which the Company has a majority shareholding. There are no shares remaining from former employee share programmes.

One subsidiary, which at the beginning of the year held 1,423,055 shares to hedge stock appreciation rights granted to the Board of Management and top Munich Reinsurance Company executives since 1999, assigned its full portfolio of Munich Re shares to Munich Reinsurance Company in the 2012 calendar year. Munich Reinsurance Company, in turn, did not acquire further shares for hedging obligations arising from long-term incentive plans but began to sell shares to the market as part of the release of these hedges. In the year under review, it consequently sold a total of 711,055 shares at an average price of €130.59. The proceeds of the sale amounting to €92.9m were used to strengthen liquid funds. At 31 December 2012, there were 712,000 shares remaining.

In the financial year 2012, companies of the ERGO Insurance Group acquired no shares to cover future commitments from the long-term incentive plans launched since 2002, but sold a total of 155,633 shares at a price of €126.69 each, also as part of the reduction of hedges for these obligations. The proceeds of the sale totalling €19.7m were used to strengthen liquid funds. Together with the remaining Munich Re shares acquired to hedge the stock appreciation rights granted in prior years, the ERGO Insurance Group had a total portfolio of 21,835 shares at 31 December 2012.

MEAG MUNICH ERGO AssetManagement GmbH acquired 81,563 shares at an average price of €124.46 in the financial year 2012 to safeguard obligations from its long-term incentive plan, and sold 153,395 shares at an average price of €124.52, leaving it with a portfolio of 80,107 Munich Re shares. The sale produced proceeds of €19.1m, which were used to strengthen liquid funds.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €79,304,499.26.

In the year under review, a total of €1,110m was distributed to Munich Reinsurance Company's equity holders for the financial year 2011 in the form of a dividend of €6.25 per dividend-bearing share.

Composition of the capital authorised for capital increases

€m	31.12.2012
Authorised Capital Increase 2009 (until 21 April 2014)	280
Authorised Capital Increase 2011 (until 19 April 2016)	10
Total	**290**

Composition of contingent capital

€m	31.12.2012
Contingent Capital Increase 2010 (until 27 April 2015)	117
Total	**117**

Composition of equity

€m	31.12.2012	Prev. year
Issued capital	585	588
Capital reserve	6,805	6,800
Retained earnings	10,946	11,588
Other reserves	5,650	3,384
Consolidated result attributable to Munich Reinsurance Company equity holders	3,195	702
Non-controlling interests	242	247
Total equity	**27,423**	**23,309**

After taking into account tax effects, externally generated costs directly connected with equity capital measures and deducted from the capital reserve amount to €31m.

Retained earnings of €2,374m (1,317m) are allocable to Munich Reinsurance Company.

Also included in the retained earnings are equalisation reserves of €5,243m (4,791m). These provisions are established under national regulations to smooth fluctuations in loss experience in future years. In IFRS accounting, they are recognised in equity.

The "other reserves" include –€292m (–223m) from currency translation and –€4m (4m) resulting from valuation of cash flow hedges. In addition, "other reserves" contain unrealised gains and losses distributed between the different items as follows:

Unrealised gains and losses

€m	31.12.2012	Prev. year
Non-consolidated affiliated companies and associates not accounted for using the equity method	175	143
Associates accounted for using the equity method	79	72
Other securities available for sale		
Fixed-interest	9,980	4,892
Non-fixed-interest	1,503	693
Less		
Provision for deferred premium refunds recognised in equity	3,696	847
Deferred taxes recognised in equity	2,005	1,276
Non-controlling interests	20	10
Consolidation and currency translation effects	70	64
Total	**5,946**	**3,603**

Tax effects in the income and expenses recognised directly in equity

			2012			Prev. year
€m	Before tax	Tax	After tax	Before tax	Tax	After tax
Currency translation	-67	–	-67	390	–	390
Unrealised gains and losses on investments	3,076	729	2,347	1,421	671	750
Change resulting from valuation at equity	26	–	26	5	–	5
Change resulting from cash flow hedges	1	–	1	9	3	6
Actuarial gains and losses on defined benefit plans	-553	-171	-382	-209	-74	-135
Other changes	16	–	16	-3	–	-3
Income and expense recognised directly in equity	**2,499**	**558**	**1,941**	**1,613**	**600**	**1,013**

The taxes of €558m (600m) recognised directly in equity comprise current taxes on unrealised gains of –€21m (233m) on assets, with the remainder of €579m (367m) being deferred tax assets.

Non-controlling interests

€m	31.12.2012	Prev. year
Unrealised gains and losses	20	10
Consolidated result	16	10
Other equity	206	227
Total	**242**	**247**

The non-controlling interests are mainly minority interests in individual companies of the primary insurance group. We disclose direct minority interests in special funds and in partnerships under “other liabilities”. In the financial year 2012, we acquired a further stake of 25.4% in ERGO Versicherung Aktiengesellschaft, Vienna (formerly VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna).

Information on capital management and minimum capital requirements is provided in the sections on those items under “Financial position – Capital management” and “Financial position – Group solvency”.

19 Subordinated liabilities

Breakdown of subordinated liabilities

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2012	Prev. year
Munich Reinsurance Company, Munich, 6.25% until 2022, thereafter floating, €900m, Bonds 2012/2042	WKN: A1ML16 ISIN: XS0764278528 Reuters: DE076427852= Bloomberg: MUNRE	a+	A	–	A	892	–
Munich Reinsurance Company, Munich, 6.625% until 2022, thereafter floating, £450m, Bonds 2012/2042	WKN: A1ML15 ISIN: XS076427828= Reuters: DE076427828= Bloomberg: MUNRE	a+	A	–	A	552	–
Munich Reinsurance Company, Munich, 6.00% until 2021, thereafter floating, €1,000m, Bonds 2011/2041	WKN: A1KQYJ ISIN: XS0608392550 Reuters: DE060839255= Bloomberg: MUNRE	a+	A	–	A	989	987
Munich Reinsurance Company, Munich, 5.767% until 2017, thereafter floating, €1,349m, Bonds 2007/perpetual	WKN: A0N4EX ISIN: XS0304987042 Reuters: DE030498704= Bloomberg: MUNRE	a+	A	A3 (hyb)	A	1,596	1,562
Munich Reinsurance Company, Munich, 6.75% until 2013, thereafter floating, €1,000m[1], Bonds 2003/2023	WKN: 843278 ISIN: XS0166965797 Reuters: DE016696579= Bloomberg: MUNRE	a+	A	A2 (hyb)	A	995	1,669
Munich Reinsurance Company, Munich, 7.625% until 2018, thereafter floating, £300m, Bonds 2003/2028	WKN: 843449 ISIN: XS0167260529 Reuters: DE016726052= Bloomberg: MUNRE	a+	A	A2 (hyb)	A	368	357
Bank Austria Creditanstalt Versicherung AG, Vienna, 4.95%, €50m, Registered bonds 2004/2014		–	–	–	–	51	51
Bank Austria Creditanstalt Versicherung AG, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €12m[2], Registered bonds 2001/perpetual		–	–	–	–	12	10
Bank Austria Creditanstalt Versicherung AG, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m[3], Registered bonds 1998/perpetual		–	–	–	–	12	11
HSB Group Inc., Delaware, LIBOR +91 BP, US$ 76m, Bonds 1997/2027		–	–	–	–	37	36
Total						**5,504**	**4,683**

1 In the financial year 2012, the issuer bought back bonds with a nominal value of €678m.
2 ERGO International AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
3 ERGO Versicherungsgruppe AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.

On 29 March 2012, we issued two subordinated bonds of €900m and £450m. Each with a term of 30 years, the bonds are first callable on 26 May 2022. Up to then, they have a coupon rate of 6.25% and 6.625% p.a. respectively. As part of our active capital management, we bought back a nominal value of €678m of Munich Reinsurance Company's subordinated bond 2003/2023 in the period under review.

In the case of Munich Reinsurance Company's bonds, annual outflows of liquidity occur until the first possible call dates in 2022, 2021, 2017, 2013 and 2018. In the financial year, these amounted to €278m. Thereafter, the liquidity outflows will vary, depending on the respective interest-rate level. In the case of the Bank Austria Creditanstalt Versicherung AG registered bonds from 2004, the annual outflow of liquidity is €2m. For its registered bonds from 2001, the annual outflow for the first ten years amounted to €1m. Since then, the payments for these bonds and the registered bonds from 1998, like those for the HSB Group bonds, have been variable, depending on the respective interest-rate levels.

The fair value of the subordinated bond issued by Munich Reinsurance Company in June 2007 is hedged in respect of the risk-free interest rate by means of an interest-rate swap. The hedged changes in value of the subordinated liabilities and of the interest-rate swap are shown in the net finance costs with impact on profit or loss in each case.

The fair value of the subordinated liabilities at the balance sheet date amounted to €5,953m (4,254m). For the Munich Reinsurance Company bonds, we take the stock market prices as fair values. For the other subordinated liabilities, we determine the fair values using net present value methods with observable market parameters.

20 Unearned premiums

Unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	37	45	5,776	6,070
Ceded share	–	–	124	134
Net	**37**	**45**	**5,652**	**5,936**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	15	8	99	97	1,755	1,728
Ceded share	1	–	12	3	72	67
Net	**14**	**8**	**87**	**94**	**1,683**	**1,661**

→

	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	452	443	8,134	8,391
Ceded share	95	9	304	213
Net	**357**	**434**	**7,830**	**8,178**

Development of gross unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Status at 31 Dec. previous year	45	52	6,070	5,600
Currency translation effects	1	1	–	197
Change in consolidated group	–	–	-23	–
Gross premiums written	11,130	9,481	17,052	16,557
Earned premiums	11,139	9,489	17,323	16,284
Status at 31 Dec. financial year	**37**	**45**	**5,776**	**6,070**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year[1]	31.12.2012	Prev. year	31.12.2012	Prev. year
Status at 31 Dec. previous year	8	1	97	96	1,728	1,687
Currency translation effects	–	6	-1	-6	62	-84
Change in consolidated group	–	–	–	-7	-75	-20
Gross premiums written	5,798	6,142	5,732	5,710	5,554	5,595
Earned premiums	5,791	6,141	5,729	5,696	5,514	5,450
Status at 31 Dec. financial year	**15**	**8**	**99**	**97**	**1,755**	**1,728**

→	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Status at 31 Dec. previous year	443	443	8,391	7,879
Currency translation effects	-1	-13	61	101
Change in consolidated group	–	–	-98	-27
Gross premiums written	6,703	5,967	51,969	49,452
Earned premiums	6,693	5,954	52,189	49,014
Status at 31 Dec. financial year	**452**	**443**	**8,134**	**8,391**

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

21 Provision for future policy benefits

Provision for future policy benefits

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	13,352	13,682	32	–
Ceded share	743	645	–	–
Net	**12,609**	**13,037**	**32**	**–**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	69,508	69,334	25,544	24,216	425	409
Ceded share	1,845	1,806	–	–	–	–
Net	**67,663**	**67,528**	**25,544**	**24,216**	**425**	**409**

→	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	908	836	109,769	108,477
Ceded share	7	7	2,595	2,458
Net	**901**	**829**	**107,174**	**106,019**

Gross provision for future policy benefits according to type of insurance cover

€m	31.12.2012	Prev. year
Life	**82,860**	**83,016**
Reinsurance	13,352	13,682
Primary insurance	69,508	69,334
Term life insurance	2,937	2,889
Other life insurance	36,331	37,530
Annuity insurance	29,027	27,763
Disability insurance	1,194	1,138
Contracts with combination of more than one risk	19	14
Health	**26,452**	**25,052**
Munich Health	908	836
Primary insurance	25,544	24,216
Property-casualty	**457**	**409**
Reinsurance	32	–
Primary insurance	425	409
Total	**109,769**	**108,477**

The provision for future policy benefits in life reinsurance largely involves contracts where the mortality or morbidity risk predominates. In reinsurance, annuity contracts have a significantly lower weight than in primary insurance.

Essentially the same actuarial assumptions have been used as in the previous year for measuring the provisions for future policy benefits for business in force. For German primary insurance, to which approximately 87% of the provisions for future policy benefits are apportionable, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used.

In 2012, the German Federal Court of Justice reached a decision regarding issues of fundamental importance for the termination of life insurance contracts. Central points of the decision concern the offsetting of acquisition costs and the amount of surrender values. On the basis of this judgement, our provision for future policy benefits in German life primary insurance was increased.

Further information on the underwriting risks and discount rates can be found under (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business.

Development of gross provision for future policy benefits

€m	2012	Prev. year
Status at 31 Dec. previous year	108,477	104,413
Currency translation differences	–194	81
Change in consolidated group/Other	559	3,680
Changes		
Scheduled	899	289
Unscheduled	28	14
Status at 31 Dec. financial year	**109,769**	**108,477**

The change under "Other" contains €453m in savings premiums for capitalisation products and €170m for portfolio entries and withdrawals. Scheduled changes in the provision for future policy benefits contain the changes deriving from prospective calculation as a result of premium payments, benefit cases and the unwinding of discount in the year under review.

22 Provisions for outstanding claims

Provision for outstanding claims

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	5,652	5,087	39,097	40,670
Ceded share	387	278	2,053	2,383
Net	**5,265**	**4,809**	**37,044**	**38,287**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	1,648	1,581	917	944	5,483	5,034
Ceded share	16	10	10	8	264	220
Net	**1,632**	**1,571**	**907**	**936**	**5,219**	**4,814**

→	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Gross	954	1,076	53,751	54,392
Ceded share	78	35	2,808	2,934
Net	**876**	**1,041**	**50,943**	**51,458**

Gross provision by type

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Annuity claims provision	3,402	3,057	252	245
Case reserve	958	883	18,783	19,766
IBNR reserve	1,292	1,147	20,062	20,659
Total	**5,652**	**5,087**	**39,097**	**40,670**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Annuity claims provision	1,172	1,103	1	1	413	372
Case reserve	287	289	859	893	3,845	3,589
IBNR reserve	189	189	57	50	1,225	1,073
Total	**1,648**	**1,581**	**917**	**944**	**5,483**	**5,034**

→	Munich Health		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year
Annuity claims provision	34	34	5,274	4,812
Case reserve	580	278	25,312	25,698
IBNR reserve	340	764	23,165	23,882
Total	**954**	**1,076**	**53,751**	**54,392**

The provision for annuity claims involves periodic payments for disability cases and is usually due long term. A major part of this provision is established in the life reinsurance and life primary insurance segment for future annuity payments; a small part refers to provisions for annuities in personal accident, liability and workers' compensation insurance. The biometric actuarial assumptions are selected using appropriate actuarial principles. Provisions for annuity claims are calculated as the present value of the expected future payments. The discount rates used are shown under (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business.

The case reserve reflects the amount which is expected to be needed to settle claims which are known and have already been reported at the balance sheet date. The major part of this provision is measured at face value. The IBNR reserve is calculated using actuarial methods on the basis of historical claims development data and taking into account foreseeable future trends.

Expected payments from the provisions for outstanding claims (property-casualty only)

	Reinsurance		Primary insurance	
%	31.12.2012	Prev. year	31.12.2012	Prev. year
Up to one year	30.6	31.4	36.5	39.2
Over one year and up to five years	44.2	44.1	39.6	38.6
Over five years and up to ten years	13.7	13.2	14.1	13.0
Over ten years and up to fifteen years	5.3	5.0	5.9	5.2
Over fifteen years	6.2	6.3	3.9	4.0

The expected timing of payments from the provisions for outstanding claims may involve considerable uncertainty.

Development of the claims reserve in the property-casualty segment

			2012			Prev. year
€m	Gross	Ceded share	Net	Gross	Ceded share	Net
Status at 31 Dec. previous year	45,704	2,603	43,101	41,540	2,310	39,230
Currency translation differences	–158	–6	–152	1,039	26	1,013
Change in consolidated group	–38	–11	–27	–53	–4	–49
Claims expenses						
For the year under review	14,898	365	14,533	17,931	895	17,036
For previous years	–1,019	–15	–1,004	–809	41	–850
Total claims expenses	13,879	350	13,529	17,122	936	16,186
Unwinding of discount	59	3	56	82	3	79
Less payments						
For the year under review	6,120	110	6,010	5,930	172	5,758
For previous years	8,746	512	8,234	8,096	496	7,600
Total payments	14,866	622	14,244	14,026	668	13,358
Status at 31 Dec. financial year	**44,580**	**2,317**	**42,263**	**45,704**	**2,603**	**43,101**

The claims expenses for the year under review show both payments made for the year under review and expenses for posting the claims reserve in that year. The provisions set up for claims from previous years are regularly updated using best estimates based on exposure and claims information and past claims experience. The respective change is shown under claims expenses for previous years.

In the year under review, most sectors experienced comparatively low claims-reporting activity from previous years, which had a positive influence on the ultimate-loss projection.

Net run-off results in property-casualty business The values in the following run-off triangles cover more than 99% of our Group's portfolio of property-casualty business.

Claims payments for the individual accident years (per calendar year, net)

€m	Accident year											
Calendar year	**≤ 2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
2002	10,851											
2003	6,805	4,078										
2004	4,435	2,210	3,871									
2005	2,760	921	2,881	3,487								
2006	2,061	404	916	3,587	3,341							
2007	1,704	415	401	1,665	2,489	4,165						
2008	1,835	317	460	507	1,343	2,791	4,217					
2009	1,426	240	249	484	547	1,245	3,182	4,351				
2010	1,016	251	249	261	434	796	1,611	3,142	4,882			
2011	1,458	153	135	157	274	504	598	1,283	3,252	5,779		
2012	794	99	81	102	171	198	424	485	1,580	4,255	5,689	13,878

Claims reserves for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	**≤ 2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
31.12.2002	29,138											
31.12.2003	23,091	8,276										
31.12.2004	19,416	5,776	7,650									
31.12.2005	17,873	4,076	4,867	8,957								
31.12.2006	16,100	3,528	3,974	5,519	7,449							
31.12.2007	15,119	2,776	3,350	3,941	4,859	7,760						
31.12.2008	13,717	2,299	2,544	3,039	3,422	5,193	8,769					
31.12.2009	12,334	1,995	2,036	2,545	2,722	3,890	5,834	8,539				
31.12.2010	11,685	1,719	1,488	1,848	1,985	2,986	4,193	5,349	8,536			
31.12.2011	10,189	1,566	1,345	1,521	1,617	2,436	3,328	3,687	5,506	11,770		
31.12.2012	9,367	1,461	1,182	1,223	1,291	1,886	2,799	3,110	3,793	7,716	8,502	42,330

Ultimate loss for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	**≤ 2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
31.12.2002	39,989											
31.12.2003	40,747	12,354										
31.12.2004	41,507	12,064	11,521									
31.12.2005	42,724	11,285	11,619	12,444								
31.12.2006	43,012	11,141	11,642	12,593	10,790							
31.12.2007	43,735	10,804	11,419	12,680	10,689	11,925						
31.12.2008	44,168	10,644	11,073	12,285	10,595	12,149	12,986					
31.12.2009	44,211	10,580	10,814	12,275	10,442	12,091	13,233	12,890				
31.12.2010	44,578	10,555	10,515	11,839	10,139	11,983	13,203	12,842	13,418			
31.12.2011	44,540	10,555	10,507	11,669	10,045	11,937	12,936	12,463	13,640	17,549		
31.12.2012	44,512	10,549	10,425	11,473	9,890	11,585	12,831	12,371	13,507	17,750	14,191	169,084
Net run-off result	–4,523	1,805	1,096	971	900	340	155	519	–89	–201	n/a	973
Change 2011 to 2012	28	6	82	196	155	352	105	92	133	–201	n/a	948

The ultimate loss of an accident year comprises all payments made for that accident year up to the reporting date, plus the claims reserve at the reporting date. Given complete information regarding all losses incurred up to the balance sheet date, the ultimate loss status for each accident-year period would remain the same. In practice, however, it may be assumed that the ultimate-loss status (based on estimates) is exposed to fluctuations that reflect the growth in knowledge about the claims cases. Changes in the consolidated group, especially new acquisitions or the composition of segments to be reported, can also have an influence on the ultimate-loss status.

The run-off triangles are prepared on a currency-adjusted basis. To this end, all figures are translated from the respective local currency into the Group currency (euro), consistently using the exchange rates applicable at the end of the year under review (i.e. at 31 December 2012). This ensures that currency translation does not lead to run-off effects.

23 Other technical provisions

Breakdown of other technical provisions

	Reinsurance		Primary insurance[1]		Munich Health[1]		Total	
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Provision for premium refunds based on national regulations	3	–	6,400	5,711	–	–	6,403	5,711
Provision for deferred premium refunds	–	–	6,817	3,709	7	3	6,824	3,712
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	–	–	3,687	873	15	3	3,702	876
Thereof resulting from other revaluations (recognised in profit or loss)	–	–	3,130	2,836	-8	–	3,122	2,836
Provision for profit commission	483	566	–	–	13	20	496	586
Other	27	2	95	119	90	32	212	153
Total (gross)	**513**	**568**	**13,312**	**9,539**	**110**	**55**	**13,935**	**10,162**

1 Previous year's figures adjusted owing to transfer between segments; see "Segment reporting".

Of the provision for premium refunds based on national regulations, €85m (74m) is apportionable to property-casualty insurance. The provision for deferred premium refunds is established solely for life and health insurance.

The ceded share of "other technical provisions" amounts to €23m (29m), of which €1m (1m) is apportionable to the ceded share of the provision for premium refunds based on national regulations.

Development of provision for premium refunds based on national regulations

€m	2012	Prev. year
Status at 31 Dec. previous year	5,711	5,213
Change in consolidated group	–	–
Allocations/Withdrawals	692	498
Status at 31 Dec. financial year	**6,403**	**5,711**

Development of provision for deferred premium refunds

€m	2012	Prev. year
Status at 31 Dec. previous year	3,712	3,557
Change in consolidated group	–	–8
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	2,826	258
Change resulting from other revaluations (recognised in profit or loss)	286	–95
Status at 31 Dec. financial year	**6,824**	**3,712**

The above change resulting from unrealised gains and losses on investments reflects the proportional allocation to expected future policyholders' bonuses of the change in fair values that has occurred in the past year. Changes in the provision for deferred premium refunds are only recognised in the income statement to the extent that they result from valuation differences recognised in profit or loss.

In German life primary insurance, an "additional interest reserve" was posted in accordance with local regulations. The reserve must be established for contracts whose guaranteed interest rate is higher than a reference interest rate determined in accordance with local regulations. This increases the valuation differences recognised in profit or loss and thus the provision for deferred premium refunds. In Belgian life primary insurance, a similar reserve is posted in accordance with local regulations. To determine the portion of the valuation differences allocable to the provision for deferred premium refunds, rates of between 50% and 92.5% after tax were used. We increased the assumption regarding the extent to which policyholders in German primary insurance will participate in surplus. The quotas for determining the allocation to the provision for deferred premium refunds were adjusted accordingly.

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

Development of gross provision

€m	2012	Prev. year
Status at 31 Dec. previous year	5,373	5,210
Change in consolidated group and other influences	8	22
Savings premiums	760	782
Unrealised gains/losses on fund assets	603	–259
Withdrawal for expenses and risk	79	73
Withdrawal for benefits	407	309
Status at 31 Dec. financial year	**6,258**	**5,373**

These provisions are valued retrospectively. The withdrawal for underwriting risks from the premiums and provision for future policy benefits is made on the basis of prudent assumptions regarding expected mortality and morbidity. Here, as with the provision for future policy benefits for non-unit-linked life insurance, we base the underlying calculation on best estimates, with appropriate provisions for adverse deviation.

The provisions are directly covered by the investments for the benefit of life insurance policyholders who bear the investment risk. Small differences in relation to these investments arise as a result of including unearned revenue liability in these provisions.

25 Other accrued liabilities

Breakdown of other accrued liabilities

€m	31.12.2012	Prev. year
Provisions for post-employment benefits	2,324	1,691
Other provisions	2,101	1,831
Total	**4,425**	**3,522**

Provisions for post-employment benefits

Munich Re companies generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan.

Expenses for defined contribution plans in the year under review totalled €66m (56m), while expenses for contributions to state plans totalled €122m.

In the case of defined benefit plans, the amount of the defined benefits is largely dependent on salary and length of service. These benefits may be partially or fully financed through plan assets.

Change in the present value of obligations under defined benefit plans

€m	2012	Prev. year
Status at 31 Dec. previous year	3,345	2,952
Currency translation differences	-6	31
Change in consolidated group	–	-2
Current service cost	100	107
Interest cost	140	133
Actuarial gains/losses	787	210
Paid pension benefits	-115	-103
Plan curtailments	-2	-3
Past service cost	16	9
Other	-31	11
Status at 31 Dec. financial year	**4,234**	**3,345**

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to €223m (163m) at the balance sheet date.

Change in the plan assets for defined benefit plans

€m	2012	Prev. year
Status at 31 Dec. previous year	1,725	1,449
Currency translation differences	1	18
Change in consolidated group	–	–4
Expected return	74	73
Actuarial gains/losses	174	26
Capital transfer to plan assets	96	214
Paid pension benefits	–41	–48
Other	–29	–3
Status at 31 Dec. financial year	**2,000**	**1,725**

Change in the reimbursement rights for defined benefit plans

€m	2012	Prev. year
Status at 31 Dec. previous year	143	126
Expected return	7	6
Actuarial gains/losses	24	–1
Capital transfer	13	14
Paid pension benefits	–4	–2
Other	–16	–
Status at 31 Dec. financial year	**167**	**143**

The reimbursement rights derive from insurance concluded to cover the benefit obligations.

Funded status of defined benefit plans

€m	31.12.2012	Prev. year
Unfunded obligations		
Present value	2,032	1,445
Past service cost not yet recognised	10	12
Net balance sheet liability	2,042	1,457
Wholly/partly funded obligations		
Present value	2,202	1,900
Plan assets	–2,000	–1,725
Other receivables	78	56
Other	2	3
Net balance sheet liability	282	234
Total net balance sheet liability	**2,324**	**1,691**

Change in the provision for defined benefit plans

€m	2012	Prev. year
Status at 31 Dec. previous year	1,691	1,562
Currency translation differences	–7	15
Change in consolidated group	–	2
Expenses	173	168
Payments	–70	–53
Capital transfer to plan assets	–96	–214
Transfer to other receivables	21	13
Actuarial gains/losses recognised in equity	597	196
Other	15	2
Status at 31 Dec. financial year	**2,324**	**1,691**

Breakdown of expenses booked in the financial year

€m	2012	Prev. year
Current service cost	100	107
Interest cost	140	133
Less		
Expected return on plan assets	–74	–73
Expected return on reimbursements	–7	–6
Amortisation of past service cost	15	9
Effects of plan curtailments	–1	–3
Other	–	1
Total	**173**	**168**

The actual return on plan assets amounts to €248m (99m), and the actual return on reimbursements to €31m (5m).

The expenses are shown mainly under “operating expenses” and “expenses for claims and benefits” in the consolidated income statement.

Included in the recognised income and expenses are actuarial losses amounting to €585m (211m) in the financial year and €1,397m (812m) cumulative, taking currency fluctuations into account.

Breakdown of plan assets to cover pension obligations

%	31.12.2012	Prev. year
Non-fixed-interest securities	19.5	20.3
Fixed-interest securities and loans	78.3	78.0
Real estate	0.1	0.1
Other	2.1	1.6
Total	**100.0**	**100.0**

The fair value of the plan assets does not include any own shares.

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

Actuarial assumptions

%	2012	Prev. year
Discount rate	3.1	4.2
Expected rate of return on fund assets	4.2	4.9
Expected rate of return on reimbursements	3.5	4.9
Future increases in entitlement/salary	2.3	2.3
Future pension increases	1.6	1.5
Medical cost trend rate	4.1	4.4

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields.

For the financial year 2013, capital transfers of €57m (72m) to plan assets are expected.

A change in the medical cost trend rate by one percentage point would have the following effects on the present value of defined benefit obligations and pension expenses:

Effects of change in the medical cost trend rate

€m	Increase by one percentage point	Reduction by one percentage point
Present value of defined benefit obligations	36	–27
Pension expenses	3	–2

Other figures for the current financial year and previous years

€m	2012	2011	2010	2009	2008
Present value of defined benefit obligations (excluding medical-care benefits)	4,011	3,182	2,807	2,489	2,178
Plan assets	–2,000	–1,725	–1,449	–1,229	–989
Not covered by plan assets	2,011	1,457	1,358	1,260	1,189
Experience adjustments arising on the plan liabilities	23	14	–3	–44	7
Experience adjustments arising on the plan assets	177	20	52	20	–100

Other provisions

Other provisions

€m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2012
Restructuring	262	287	61	7	2	483
Early retirement benefits/semi-retirement	196	8	30	–	–44	130
Earned commission	180	777	806	11	64	204
Outstanding invoices	149	146	126	22	1	148
Bonuses	137	75	76	4	–	132
Anniversary benefits	75	13	3	1	2	86
Holiday and overtime pay	59	51	42	3	–	65
Miscellaneous	773	542	363	62	–37	853
Total	**1,831**	**1,899**	**1,507**	**110**	**–12**	**2,101**

The provisions for restructuring also included in this item mainly concern €219m (244m) for the ERGO Group's "Continuous improvement of our competitive position" project and €258m (–) for the comprehensive restructuring of its sales organisation. The miscellaneous other provisions comprise a large number of different items, including €91m (50m) for medium- and long-term incentive plans, €106m (61m) for salary obligations, €57m (44m) for other remuneration for desk and field staff, €17m (21m) for competitions for sales staff, and €46m (28m) for litigation risks.

The provisions for early-retirement benefits/semi-retirement, anniversary benefits and medium- and long-term incentive plans are mainly long term, whereas the provisions for earned commission, outstanding invoices, bonuses, holiday and overtime pay, and miscellaneous are essentially short term.

26 Bonds and notes issued

Breakdown of bonds and notes issued

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2012	Prev. year
Munich Re America Corporation, Wilmington, 7.45%, US$ 342m, Senior Notes 1996/2026	CUSIP-Nr.: 029163AD4 ISIN, Reuters: – Bloomberg: AMER RE CORP MUNRE	a–	A+	A2	A–	259	263
Total						**259**	**263**

Outflows of liquidity occur annually in the amount of the interest payments until the notes mature. These totalled US$ 25m in the financial year. We calculate the fair value of the notes issued using a recognised valuation method with observable market inputs. The fair value at the reporting date amounts to €340m (304m).

27 Deposits retained on ceded business

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires, and do not trigger any cash flows. As a rule, the changes in deposits retained on ceded business derive from the changes in the relevant technical provisions covering ceded business. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

28 Other liabilities

Breakdown of other liabilities

€m	31.12.2012	Prev. year
Amounts payable on primary insurance business	3,648	3,788
Accounts payable on reinsurance business	5,097	4,146
Amounts due to banks	493	616
Miscellaneous liabilities	4,002	4,501
Total	**13,240**	**13,051**

The accounts payable on primary insurance business mainly contain liabilities towards policyholders resulting from accumulated participation in surplus, premium deposits and insurance contracts without significant risk transfer.

€174m of the amounts owed to banks are attributable to bank borrowing by Group companies acquired by Munich Re under its RENT (Renewable Energy and New Technologies) programme.

The miscellaneous liabilities contain liabilities of €415m (312m) resulting from reinsurance contracts without significant risk transfer, derivative financial instruments with a negative fair value of €508m (871m), insurance derivatives and derivative components separated from the host insurance contract and hedging derivatives for variable annuities with a negative fair value totalling €461m (473m). The miscellaneous liabilities also include €14m (15m) for social security and €250m (227m) for interest and rent.

The following table provides information on the remaining contractual maturities of the items shown under "other liabilities". Since the amounts payable on primary insurance business are directly linked to the underlying insurance business, we analyse the liquidity risk arising from these together with the corresponding insurance contracts. This currently also applies to the derivatives embedded in variable annuity business. For information on this, see (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business. The derivatives listed below are recognised at market value.

Remaining terms of the other liabilities according to carrying amounts
(excluding amounts payable on primary insurance business and excluding liabilities from derivative components embedded in variable annuities)

	Carrying amounts	
€m	31.12.2012	Prev. year
Up to one year	7,739	7,801
Over one year and up to two years	53	47
Over two years and up to three years	47	73
Over three years and up to four years	85	36
Over four years and up to five years	60	136
Over five years and up to ten years	556	730
Over ten years	597	440
Total	**9,137**	**9,263**

The major portion of the liabilities up to one year involve interest-free items, where the carrying amounts and the undiscounted cash flows are identical. €42m (258m) of the amounts owed to banks and €537m (648m) of the liabilities from derivatives are due within one year. Any deviations in the liabilities with remaining terms of over one year from the undiscounted cash flows are not material for the presentation and significance of the financial liabilities for our financial position and performance.

The following table shows the allocation of the other liabilities measured at fair value to levels of the fair value hierarchy.

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy

				31.12.2012				Prev. year
€m	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Other liabilities								
Derivatives	29	749	191	969	27	1,074	243	1,344

In the other liabilities, only derivatives with a negative market value are currently recognised at fair value. Of these, we allocated the derivative portions of catastrophe bonds, weather derivatives and the derivative components of variable annuities to Level 3 of the fair value hierarchy.

The following table presents the reconciliation from the beginning balances to the ending balances for other liabilities allocated to Level 3.

Reconciliation for other liabilities allocated to Level 3

	Other liabilities at fair value through profit or loss	
€m	31.12.2012	Prev. year
Carrying amount at 31 Dec. previous year	243	19
Gains and losses	51	–71
Gains (losses) recognised in the income statement	51	–71
Gains (losses) recognised in equity	–	–
Acquisitions	38	8
Disposals	39	52
Transfer to/out of Level 3	–	211
Change in the market value of derivatives	–	14
Carrying amount at 31 Dec. financial year	191	243
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	49	–36

Notes to the consolidated income statement

29 Premiums

Premiums[1]

	Reinsurance			
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Total gross premiums	11,130	9,481	17,052	16,557
Gross premiums written	11,130	9,481	17,052	16,557
Change in unearned premiums – Gross	–9	–8	–271	273
Gross earned premiums	**11,139**	**9,489**	**17,323**	**16,284**
Ceded premiums written	450	427	650	697
Change in unearned premiums – Ceded share	–	–	–	–160
Earned premiums ceded	**450**	**427**	**650**	**857**
Net earned premiums	**10,689**	**9,062**	**16,673**	**15,427**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Total gross premiums	7,268	7,893	5,732	5,710	5,554	5,595
Gross premiums written	5,798	6,142	5,732	5,710	5,554	5,595
Change in unearned premiums – Gross	7	1	3	14	40	145
Gross earned premiums	**5,791**	**6,141**	**5,729**	**5,696**	**5,514**	**5,450**
Ceded premiums written	135	137	58	23	222	217
Change in unearned premiums – Ceded share	–	–	10	1	8	11
Earned premiums ceded	**135**	**137**	**48**	**22**	**214**	**206**
Net earned premiums	**5,656**	**6,004**	**5,681**	**5,674**	**5,300**	**5,244**

→

	Munich Health		Total	
€m	2012	Prev. year	2012	Prev. year
Total gross premiums	6,703	5,967	53,439	51,203
Gross premiums written	6,703	5,967	51,969	49,452
Change in unearned premiums – Gross	10	13	–220	438
Gross earned premiums	**6,693**	**5,954**	**52,189**	**49,014**
Ceded premiums written	280	75	1,795	1,576
Change in unearned premiums – Ceded share	87	2	105	–146
Earned premiums ceded	**193**	**73**	**1,690**	**1,722**
Net earned premiums	**6,500**	**5,881**	**50,499**	**47,292**

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

The total gross premiums include not only the gross premiums written but also savings premiums from unit-linked life insurances and capitalisation products. Premiums from long-term insurance business, especially in the life primary insurance segment, are recognised in full as earned premiums and income when they become due. Under gross premiums written, only those parts of the premium from unit-linked life business are included that are used to cover the risks and associated costs.

Of the gross premiums written from short-term insurance business, the portions attributable to periods after the balance sheet date are posted as unearned premiums; cf. (20) Unearned premiums. Unearned premiums are reversed in accordance with the reduction in risk, over the duration of the contracts.

30 Income from technical interest

Income from technical interest[1]

			Reinsurance	
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Income from technical interest	658	647	1,323	1,385

→					Primary insurance	
	Life		Health		Property-casualty	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Income from technical interest	3,289	2,250	1,372	1,314	224	158

→	Munich Health		Total	
€m	2012	Prev. year	2012	Prev. year
Income from technical interest	52	43	6,918	5,797

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

The income from technical interest is the amount earned by assumed insurance business from the mainly risk-free investment of assets covering the technical provisions. In the primary insurance segments, the deposits retained on ceded business are also taken into account as a basis for the technical interest. Thus the portion of investment income corresponding to the deposit interest expense is included as a component in the calculation of the technical interest and reallocated to the technical result.

In terms of the assets required to cover the technical provisions, the composition of the technical interest varies from segment to segment, depending on the type of insurance business conducted and the related statutory regulations.

In the primary insurance and reinsurance property-casualty segments, we allow for the fact that provisions established in prior years were invested at higher interest rates than the current level of market interest rates. The income from technical interest therefore corresponds to the risk-free interest on our discounted technical provisions at the respective historical interest rate, taking into account the relevant period of insurance and currency. For balance sheet provisions in excess of the discounted provisions, short-term interest rates are applied.

For the life segment in reinsurance, the interest on the provisions is essentially based on contractually agreed allocations of interest (in Germany, for example, at least the guaranteed interest rate).

For the life primary insurance segment, the income from technical interest for German life primary insurance companies comprises the gains and losses from unit-linked life insurance plus the guaranteed interest rate and profit sharing on the basis of the non-technical result sources. 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, the gains and losses from unit-linked life insurance, and profit sharing where there are types of contract providing for this.

In the health primary insurance segment, the income from technical interest for German insurance 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 allocation of interest to the provision for non-performance-related premium refunds, on the investment result exceeding the actuarial interest rate, and on policyholders' participation in the other non-technical result components.

In the Munich Health segment, the income from technical interest for international primary insurance business is based on the interest on technical provisions at the relevant national risk-free interest rate and, where applicable, on the interest allocated to the provision for future policy benefits. In the case of long-term reinsurance treaties, the interest corresponds to the contractually agreed allocations of interest. For short-term reinsurance business, the income from technical interest is calculated on the basis of the risk-free interest on technical provisions at the relevant national interest rate.

31 Expenses for claims and benefits

Expenses for claims and benefits[1]

			Reinsurance	
		Life		Property-casualty
€m	2012	Prev. year	2012	Prev. year
Gross				
Claims and benefits paid	7,993	6,479	11,714	10,747
Change in technical provisions				
Provision for future policy benefits	–45	179	–	–5
Provision for outstanding claims	581	511	–1,364	2,931
Provision for premium refunds	–	–	6	10
Other technical result	7	1	37	41
Gross expenses for claims and benefits	**8,536**	**7,170**	**10,393**	**13,724**
Ceded share				
Claims and benefits paid	272	298	497	560
Change in technical provisions				
Provision for future policy benefits	–67	–38	–	–
Provision for outstanding claims	108	–9	–304	261
Provision for premium refunds	–	–	–	–
Other technical result	–27	–29	–	–35
Expenses for claims and benefits – Ceded share	**286**	**222**	**193**	**786**
Net				
Claims and benefits paid	7,721	6,181	11,217	10,187
Change in technical provisions				
Provision for future policy benefits	22	217	–	–5
Provision for outstanding claims	473	520	–1,060	2,670
Provision for premium refunds	–	–	6	10
Other technical result	34	30	37	76
Net expenses for claims and benefits	**8,250**	**6,948**	**10,200**	**12,938**

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

Continued on next page

€m	Life 2012	Life Prev. year	Health 2012	Health Prev. year	Primary insurance Property-casualty 2012	Primary insurance Property-casualty Prev. year
Gross						
Claims and benefits paid	6,374	7,029	3,906	3,912	3,152	3,279
Change in technical provisions						
Provision for future policy benefits	327	-689	1,074	1,068	16	2
Provision for outstanding claims	67	78	-29	13	436	247
Provision for premium refunds	867	504	1,067	871	27	30
Other technical result	181	185	-2	-5	22	-18
Gross expenses for claims and benefits	**7,816**	**7,107**	**6,016**	**5,859**	**3,653**	**3,540**
Ceded share						
Claims and benefits paid	117	108	22	6	125	108
Change in technical provisions						
Provision for future policy benefits	40	62	–	–	–	–
Provision for outstanding claims	7	-9	1	5	35	10
Provision for premium refunds	–	1	–	–	-2	–
Other technical result	-67	-71	–	–	-1	–
Expenses for claims and benefits – Ceded share	**97**	**91**	**23**	**11**	**157**	**118**
Net						
Claims and benefits paid	6,257	6,921	3,884	3,906	3,027	3,171
Change in technical provisions						
Provision for future policy benefits	287	-751	1,074	1,068	16	2
Provision for outstanding claims	60	87	-30	8	401	237
Provision for premium refunds	867	503	1,067	871	29	30
Other technical result	248	256	-2	-5	23	-18
Net expenses for claims and benefits	**7,719**	**7,016**	**5,993**	**5,848**	**3,496**	**3,422**

€m	Munich Health 2012	Munich Health Prev. year	Total 2012	Total Prev. year
Gross				
Claims and benefits paid	5,400	4,707	38,539	36,153
Change in technical provisions				
Provision for future policy benefits	72	78	1,444	633
Provision for outstanding claims	-112	18	-421	3,798
Provision for premium refunds	–	-1	1,967	1,414
Other technical result	63	1	308	205
Gross expenses for claims and benefits	**5,423**	**4,803**	**41,837**	**42,203**
Ceded share				
Claims and benefits paid	47	34	1,080	1,114
Change in technical provisions				
Provision for future policy benefits	–	–	-27	24
Provision for outstanding claims	43	27	-110	285
Provision for premium refunds	–	–	-2	1
Other technical result	–	–	-95	-135
Expenses for claims and benefits – Ceded share	**90**	**61**	**846**	**1,289**
Net				
Claims and benefits paid	5,353	4,673	37,459	35,039
Change in technical provisions				
Provision for future policy benefits	72	78	1,471	609
Provision for outstanding claims	-155	-9	-311	3,513
Provision for premium refunds	–	-1	1,969	1,413
Other technical result	63	1	403	340
Net expenses for claims and benefits	**5,333**	**4,742**	**40,991**	**40,914**

The change in the provision for future policy benefits (net) contains €603m (–259m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, €966m (972m) is for the allocation to the provision for premium refunds on the basis of national regulations, €286m (42m) for the change in the provision for deferred premium refunds recognised in the income statement, and €251m (397m) for direct crediting. The "other technical result" for life primary insurance mainly includes interest on policyholders' accumulated credit.

Expenses for profit commission in reinsurance are shown under operating expenses, not under expenses for claims and benefits.

32 Operating expenses

Operating expenses

	Reinsurance			
		Life		Property-casualty
€m	2012	Prev. year	2012	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	2,609	2,265	3,770	3,844
Administrative expenses	314	310	1,179	1,077
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	–92	–35	136	–118
Gross operating expenses	**2,831**	**2,540**	**5,085**	**4,803**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	152	139	65	86
Ceded share of changes in deferred acquisition costs and contingent commissions	2	–6	12	30
Operating expenses – Ceded share	**154**	**133**	**77**	**116**
Net operating expenses	**2,677**	**2,407**	**5,008**	**4,687**

→

	Primary insurance					
		Life		Health		Property-casualty
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	854	894	568	618	1,178	1,185
Administrative expenses	246	250	158	167	712	702
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	128	170	–37	–93	–47	–65
Gross operating expenses	**1,228**	**1,314**	**689**	**692**	**1,843**	**1,822**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	16	15	21	5	43	34
Ceded share of changes in deferred acquisition costs and contingent commissions	3	2	–3	–	–2	–
Operating expenses – Ceded share	**19**	**17**	**18**	**5**	**41**	**34**
Net operating expenses	**1,209**	**1,297**	**671**	**687**	**1,802**	**1,788**

Continued on next page

→ €m	Munich Health 2012	Prev. year	Total 2012	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	1,023	959	10,002	9,765
Administrative expenses	185	170	2,794	2,676
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	22	5	110	–136
Gross operating expenses	**1,230**	**1,134**	**12,906**	**12,305**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	72	11	369	290
Ceded share of changes in deferred acquisition costs and contingent commissions	–25	–	–13	26
Operating expenses – Ceded share	**47**	**11**	**356**	**316**
Net operating expenses	**1,183**	**1,123**	**12,550**	**11,989**

33 Investment result

Investment result by type of investment and segment (before deduction of income from technical interest)

			Reinsurance	
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Land and buildings, including buildings on third-party land	**20**	**22**	**108**	**107**
Investments in affiliated companies	**4**	**7**	**6**	**-9**
Investments in associates	**–**	**13**	**16**	**62**
Loans	**–**	**2**	**-1**	**5**
Other securities held to maturity	**–**	**–**	**–**	**–**
Other securities available for sale				
Fixed-interest	571	580	1,931	1,858
Non-fixed-interest	91	71	428	316
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	–	–	10	11
Non-fixed-interest	–	–	3	–
Derivatives	13	-63	-219	-268
Designated at fair value through profit or loss				
Fixed-interest	–	–	–	–
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	**265**	**285**	**42**	**-46**
Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	**–**	**–**	**–**
Expenses for the management of investments, other expenses	**51**	**34**	**176**	**165**
Total	**913**	**883**	**2,148**	**1,871**

€m	Life 2012	Life Prev. year	Health 2012	Health Prev. year	Primary insurance Property-casualty 2012	Primary insurance Property-casualty Prev. year
Land and buildings, including buildings on third-party land	108	57	52	59	14	40
Investments in affiliated companies	3	5	-11	-20	-26	263
Investments in associates	-5	–	5	5	46	-4
Loans	1,539	1,465	663	635	98	100
Other securities held to maturity	–	1	–	–	–	–
Other securities available for sale						
Fixed-interest	1,214	792	520	395	227	183
Non-fixed-interest	104	-24	10	3	52	-38
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	10	11	–	–	–	–
Non-fixed-interest	–	–	–	–	–	–
Derivatives	191	563	53	-6	-17	-107
Designated at fair value through profit or loss						
Fixed-interest	22	-7	–	–	–	–
Non-fixed-interest	–	-3	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	9	-8	1	-5	7	-2
Investments for the benefit of life insurance policyholders who bear the investment risk	603	-263	–	–	–	–
Expenses for the management of investments, other expenses	172	162	54	55	25	27
Total	3,626	2,427	1,239	1,011	376	408

€m	Munich Health 2012	Munich Health Prev. year	Asset management 2012	Asset management Prev. year	Total 2012	Total Prev. year
Land and buildings, including buildings on third-party land	2	3	5	4	309	292
Investments in affiliated companies	–	1	3	4	-21	251
Investments in associates	14	4	5	21	81	101
Loans	1	–	–	–	2,300	2,207
Other securities held to maturity	–	–	–	–	–	1
Other securities available for sale						
Fixed-interest	107	118	5	5	4,575	3,931
Non-fixed-interest	–	10	–	–	685	338
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	–	–	20	22
Non-fixed-interest	–	–	–	–	3	–
Derivatives	-4	-9	–	–	17	110
Designated at fair value through profit or loss						
Fixed-interest	–	–	–	–	22	-7
Non-fixed-interest	–	–	–	–	–	-3
Deposits retained on assumed reinsurance, and other investments	1	1	1	4	326	229
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–	603	-263
Expenses for the management of investments, other expenses	6	9	–	1	484	453
Total	115	119	19	37	8,436	6,756

The result for land and buildings includes rental income of €334m (340m). The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling €57m (43m). We earned interest income of €2,242m (2,174m) on loans and – (€1m) on other securities held to maturity. Other securities available for sale earned regular income of €4,425m (4,647m).

Investment income by segment (before deduction of income from technical interest)

	Reinsurance			
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Regular income	910	942	1,933	1,977
Thereof: Interest income	728	751	1,520	1,615
Income from write-ups	616	711	1,041	1,298
Gains on the disposal of investments	440	870	2,103	3,164
Other income	–	–	–	–
Total	**1,966**	**2,523**	**5,077**	**6,439**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Regular income	2,994	3,186	1,412	1,414	368	350
Thereof: Interest income	2,792	2,973	1,277	1,250	291	310
Income from write-ups	404	725	81	144	33	46
Gains on the disposal of investments	564	586	94	225	162	496
Other income	651	137	–	–	1	1
Total	**4,613**	**4,634**	**1,587**	**1,783**	**564**	**893**

→	Munich Health		Asset management		Total	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Regular income	123	140	15	30	7,755	8,039
Thereof: Interest income	101	126	5	8	6,714	7,033
Income from write-ups	19	26	2	3	2,196	2,953
Gains on the disposal of investments	54	96	2	1	3,419	5,438
Other income	–	–	2	3	654	141
Total	**196**	**262**	**21**	**37**	**14,024**	**16,571**

Investment expenses by segment (before deduction of income from technical interest)

			Reinsurance	
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Write-downs of investments	636	892	1,107	1,684
Losses on the disposal of investments	325	684	1,599	2,613
Management expenses, interest charges and other expenses	92	64	223	271
Thereof:				
Interest charges	3	23	13	104
Total	**1,053**	**1,640**	**2,929**	**4,568**

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					Primary insurance	
	Life		Health		Property-casualty	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Write-downs of investments	260	1,375	74	431	77	141
Losses on the disposal of investments	504	242	209	267	88	310
Management expenses, interest charges and other expenses	223	590	65	74	23	34
Thereof:						
Interest charges	3	29	2	9	1	9
Total	**987**	**2,207**	**348**	**772**	**188**	**485**

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	Munich Health		Asset management		Total	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Write-downs of investments	32	54	2	1	2,188	4,578
Losses on the disposal of investments	42	78	–	–	2,767	4,194
Management expenses, interest charges and other expenses	7	11	–	–1	633	1,043
Thereof:						
Interest charges	–	3	–	–	22	177
Total	**81**	**143**	**2**	**–**	**5,588**	**9,815**

Write-downs of investments

€m	2012	Prev. year
Land and buildings, including buildings on third-party land	117	145
Investments in affiliated companies	33	22
Investments in associates	52	6
Loans	9	62
Other securities available for sale	205	1,721
Other securities held for trading	1,747	2,610
Other investments	25	12
Total	**2,188**	**4,578**

34 Other operating result

Other operating result

	Reinsurance			
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Other operating income	133	96	263	278
Other operating expenses	89	57	280	201

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Other operating income	127	116	59	49	147	149
Other operating expenses	114	133	77	105	235	206

→	Munich Health		Asset management		Total	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Other operating income	100	88	50	67	879	843
Other operating expenses	91	64	37	42	923	808

Other operating income mainly comprises income of €491m (486m) from services rendered, interest and similar income of €183m (118m), income of €135m (181m) from the release/reduction of miscellaneous provisions and adjustments of values for receivables, and income of €49m (45m) from owner-occupied property, some of which is also leased out.

In addition to expenses of €356m (335m) for services rendered, other operating expenses chiefly include interest charges and similar expenses of €207m (136m), other write-downs of €60m (63m), and other tax of €43m (47m). They also contain expenses of €17m (44m) for owner-occupied property, some of which is also leased out.

35 Other non-operating result, impairment losses of goodwill and net finance costs

Other non-operating result, impairment losses of goodwill and net finance costs

	Reinsurance			
	Life		Property-casualty	
€m	2012	Prev. year	2012	Prev. year
Other non-operating income	826	587	1,056	1,034
Other non-operating expenses	882	676	1,242	1,273
Impairment losses of goodwill	4	1	20	4
Net finance costs[1]	–66	–58	–138	–140

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Other non-operating income	141	153	434	299	254	264
Other non-operating expenses	311	231	541	349	476	432
Impairment losses of goodwill	–	–	–	–	–	20
Net finance costs[1]	42	42	6	11	–122	–125

→	Munich Health		Asset management		Total	
€m	2012	Prev. year	2012	Prev. year	2012	Prev. year
Other non-operating income	467	392	6	7	3,184	2,736
Other non-operating expenses	559	457	9	25	4,020	3,443
Impairment losses of goodwill	116	–	–	–	140	25
Net finance costs[1]	–14	–14	–5	–4	–297	–288

1 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".

The other non-operating income and expenses are unrelated to the conclusion, administration or settlement of insurance contracts or the administration of investments.

Besides foreign currency exchange gains of €3,040m (2,582m), the other non-operating income contains other non-technical income of €144m (154m).

The other non-operating expenses comprise foreign currency exchange losses of €3,229m (2,812m), write-downs of €154m (110m) on other intangible assets, and other non-technical expenses of €637m (521m), such as expenses unrelated to the accounting period, project costs and other amounts that cannot be allocated elsewhere and restructuring expenses.

By net finance costs we understand all interest expenses, interest income and other expenses directly attributable to strategic debt. They also include income and expenses from intra-Group financing that cancel each other out. Debt has a strategic character for us if it does not have an original, direct link with our operative business.

Net finance costs by financing instrument

€m	2012	Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich	–266	–241
Senior notes of Munich Re America Corporation, Wilmington	–20	–26
Subordinated bonds of BACAV AG, Vienna	–6	–6
Bank borrowing of Munich Reinsurance Company, Munich	–1	–12
Other	–4	–3
Total	**–297**	**–288**

Information on the Group's strategic debt can be found in the management report on page 100 and under (19) Subordinated liabilities and (26) Bonds and notes issued.

36 Taxes on income

This item shows the corporation tax and municipal trade earnings tax paid by the German consolidated companies (including solidarity surcharge) and the comparable taxes on earnings paid by the foreign consolidated companies in the Group. In accordance with IAS 12, the determination of taxes on income includes the calculation of deferred taxes.

Recognised tax expenses/income broken down according to Germany and other countries

€m	2012	Prev. year
Current tax	1,224	631
Germany	735	381
Other countries	489	250
Deferred tax	–358	–1,183
Germany	–210	–965
Other countries	–148	–218
Taxes on income	**866**	**–552**

Main components of tax expenses/income

€m	2012	Prev. year
Current tax for financial year	1,159	984
Current tax for other periods	65	–353
Deferred tax resulting from the occurrence or reversal of temporary differences	–369	–798
Deferred tax resulting from the occurrence or utilisation of loss carry-forwards	127	76
Valuation allowances for deferred taxes/loss carry-forwards	–111	–462
Effects of changes in tax rates on deferred tax	–5	1
Taxes on income	**866**	**–552**

The current tax for the year under review is derived from the tax results of the financial year, to which the local tax rates of the respective Group companies are applied.

The following table shows the reconciliation between the expected taxes on income and the tax on income actually shown. The expected tax expenses are calculated by multiplying the operating result before taxes on income (after "other tax") by the Group tax rate. The applicable Group tax rate amounts to 33%. This takes into account corporation tax including solidarity surcharge, and trade tax. The trade-tax municipal factors range from 240% to 490%.

Reconciliation to effective tax expenses/income

€m	2012	Prev. year
Result before taxes on income (after "other tax")	4,077	160
Group tax rate in %	33.0	33.0
Derived taxes on income	1,346	53
Tax effect of:		
Tax rate differences	–188	–129
Tax-free income	–466	–59
Non-deductible expenses	330	253
Valuation allowances for deferred taxes/loss carry-forwards	–111	–462
Change in tax rates and tax legislation	–5	1
Tax for prior years	–114	–250
Trade tax adjustments	28	1
Other	46	40
Taxes on income shown	**866**	**–552**

The effective tax burden is the ratio between the taxes on income recognised and the result before taxes on income (after "other tax"). In the year under review, there was a tax burden of 21% (previous year: tax relief of 345%).

"Tax-free income" is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividends and other tax-free income.

The non-deductible expenses mainly comprise losses on the disposal of equities, goodwill impairments and interest on back tax payments.

The tax effect of –€111m (–462m) from changes in valuation allowances for deferred taxes/loss carry-forwards mainly involves an amount of –€7m (–300m) in income from the subsequent recognition of deferred tax assets for loss carry-forwards and of an amount of –€105m (–180m) in tax savings from the offsetting of positive taxable income with tax loss carry-forwards for which no deferred tax assets had previously been recognised. The remaining amount involves counter-effects from the change in valuation allowances for deferred tax assets from temporary differences.

The income from changes in tax rates and tax legislation primarily relates to the UK.

"Tax for prior years" is for actual and expected changes to tax assessments for previous years and includes deferred tax for other periods totalling –€179m (103m) as well as current tax for other periods amounting to €65m (–353m).

Disclosures on risks from insurance contracts and financial instruments

Munich Re's reporting is based on various legal regulations governing risks it is exposed to as a result of its business operations:

IFRS 4 prescribes disclosures on the type and extent of risks from insurance contracts. Under IFRS 7, analogous disclosures on risks from financial instruments are required. Besides this, Section 315 para. 2 item 2 of the German Commercial Code prescribes disclosures in the management report on risk management objectives and methods, hedging and risks in connection with financial instruments. These requirements are specified in more detail in the German Accounting Standard No. 15 (DRS 15) for management reports as well as DRS 5 and DRS 5-20 for risk reporting and risk reporting at insurance companies.

Risk reporting concerns not only accounting but also the activities of integrated risk management (IRM) at Munich Re. To take both perspectives into account, information on risks is provided in the risk report within the management report, in the disclosures on risks from insurance contracts and in the disclosures on financial instruments in the notes to the financial statements. The disclosures in the risk report largely adopt a purely economic view. The report provides a detailed account of the organisation of risk management and Munich Re's risk strategy, briefly outlines the main risks we are exposed to and describes in detail the economic risk capital calculated by means of our internal risk model and available financial resources. Information on specific risk complexes completes the report.

The notes to the financial statements deal in detail with the various risks from insurance contracts and describe uncertainties in measuring them. In accordance with the requirements of IFRS 4, the effects of a change in the assumptions underlying the measurement of insurance contracts and/or in the market environment are also quantified. For risks from financial instruments, IFRS 7 stipulates that the disclosures must comprise information on the maximum credit risk exposure, the remaining terms, the rating, and a sensitivity analysis regarding the market risk. This information is also relevant for assessing the risk.

To obtain a complete overview of the risks to which Munich Re is exposed, the reader needs to refer to both the risk report and the disclosures on risks from insurance contracts and financial instruments in the notes to the financial statements, along with further information in the notes. Where necessary, we refer to the relevant information in the risk report and information on the respective items.

37 Risks from life and health insurance business

The risks presented in this section concern business from the segments life and health primary insurance, life reinsurance and Munich Health. The Munich Health segment comprises primary insurance and reinsurance contracts. Since the disclosures are geared to the presentation of the relevant risks, Munich Health is not shown separately but reflected either in primary insurance or reinsurance, depending on the type of business involved.

Of primary importance for these insurance contracts are biometric risks, interest-rate risks and lapse risks. The measurement of technical provisions and deferred acquisition costs is based on biometric calculation tables, i.e. on assumptions with regard to mortality, disablement and morbidity, and on the respective contract- or plan-specific discount rates and actuarial interest rates. Besides this, measurement includes assumptions regarding the lapse rate and profit sharing. In addition, other market risks from unit-linked contracts and risks from embedded derivatives, as well as the liquidity risk, have to be taken into account.

Biometric risks Our portfolios' degree of exposure to biometric risks depends on the type of insurance contracts:

Biometric risks

Product category	Characteristics	Important risks
Life primary insurance		
Endowment and term life insurance	– Long-term contracts with a death benefit – In most cases, a lump-sum payment on termination – Actuarial assumptions fixed when contract is concluded; premium adjustments not possible	Mortality (short term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): – Increase in claims expenditure due to sustained rise in mortality in the portfolio
Annuity insurance	– In most cases, guaranteed lifetime annuity payment – Actuarial assumptions mainly fixed when contract is concluded	Longevity: – Increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
Disability insurance	– Long-term contracts with a guaranteed limited annuity in the event of disablement – Actuarial assumptions fixed when contract is concluded	Disablement: – Increased expenditure due to rise in the number of cases of disablement in the portfolio or a reduction in the average age at which the insured event occurs Longevity: – Increased expenditure due to rise in the average duration of annuity period
Life reinsurance		
	– Largely long-term contracts under which mainly mortality, longevity and disability risks are assumed from cedants	Mortality (short term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): – Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios Disablement: – Increased expenditure for disability insurances in cedants' portfolios Longevity: – Increase in expected expenditure for annuities due to a sustained rise in life expectancy in cedants' portfolios.
Health primary insurance		
	– Largely long-term contracts guaranteeing assumption of costs for medical treatment; provisions are established for covering increased costs on ageing – Variable actuarial assumptions; premium adjustment generally possible if there are sustained changes in the cost structure	Morbidity: – Increase in medical costs that cannot be absorbed through premium adjustments – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)
Health reinsurance		
	– In most cases, short-term contracts under which morbidity risks are assumed from cedants	Morbidity (short term): – Increase in costs of medical treatment within the risk period – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)

The quantitative structure of our business is shown in the notes under (21) Provision for future policy benefits.

The biometric assumptions we use for measuring insurance contracts in our portfolios are regularly reviewed on the basis of updated portfolio information. Especially in primary insurance, this includes considering country-specific reviews by supervisory authorities.

We also take account of market standards when checking the adequacy of biometric actuarial assumptions and the trend assumptions included in them. This may result in a change in the provision for adverse deviation allowed for in the actuarial assumptions. The amount of the technical provisions or the deferred acquisition costs is not directly affected as long as there is provision for adverse deviation. In the view of the appointed actuaries, the biometric actuarial assumptions used by us are deemed sufficient. However, in long-term health insurance, we are proceeding on the assumption that there will be further advances in medical treatment, potentially giving rise to higher costs. For this business, it is generally possible to modify the actuarial assumptions by means of a premium adjustment to reflect the changes.

For short-term health insurance business, on the other hand, the main risk is a sudden increase in expenses due to exceptional one-off events.

Interventions by legislators or courts in the distribution of risks and rewards underlying the contracts concluded between the parties to insurance may mask or aggravate the biometric risks described, making it necessary to adjust the provision.

We measure sensitivity to changes in biometric assumptions in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. page 257 f.

Interest-rate risks A distinction must be made between risks of changes in interest rates on the one hand and interest-rate guarantee risks on the other. Risks of changes in interest rates would result from the discounting of the provision for future policy benefits and of parts of the provision for outstanding claims. In accordance with accounting valuation rules, the discount rate is fixed at contract commencement and will generally not be adjusted during the term of the contract. To this extent, the accounting valuation of these technical provisions does not depend directly on the level of the market interest rates.

Economically, however, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision.

In reinsurance, we use the following discount rates for the provision for future policy benefits and the provision for outstanding claims:

Discount rates used for provisions – Reinsurance (gross)

€m	31.12.2012	Prev. year
Without discount rate	2,616	2,625
Discount rate ≤ 1.5%	184	435
1.5% < discount rate ≤ 2.5%	210	284
2.5% < discount rate ≤ 3.5%	1,758	172
3.5% < discount rate ≤ 4.5%	1,551	2,405
4.5% < discount rate ≤ 5.5%	4,119	4,044
5.5% < discount rate ≤ 6.5%	1,176	1,120
6.5% < discount rate ≤ 7.5%	473	453
Discount rate > 7.5%	128	126
Covered by deposits retained on assumed reinsurance	7,351	7,815
Total	**19,566**	**19,479**

If provisions are covered by deposits retained on assumed reinsurance, the interest is directly secured by an inflow of investment income generally guaranteed by the cedants. Consequently, for provisions for which at least the discount rate is guaranteed by the cedants, there is no interest-rate risk. For deposits amounting to €1,078m (1,096m), cedants do not provide any interest-rate guarantee. Therefore, for the remaining group of all provisions whose interest is not guaranteed by cedants, the application of the liability adequacy test as per IFRS 4 ensures that the expected income from the investments covering the technical provisions is sufficient to meet future obligations as a whole.

In life primary insurance, an implicit or explicit interest-rate guarantee is granted for the majority of contracts over their whole duration, based on a fixed interest rate applying at the time the contract is concluded. The discount rate used to calculate the provision for future policy benefits is identical with this interest rate for the majority of contracts in our portfolios. An appropriate minimum return needs to be earned in the long term from the investment result (possibly also with assistance from the technical result) for the contractually guaranteed benefits. In health primary insurance, a discount rate is also used for calculating the provision for future policy benefits, but for long-term business this rate can generally be altered by way of premium adjustment. For short-term business, there is no direct interest-rate risk.

The discount rates relevant for the portfolio in calculating the provision for future policy benefits and the provision for outstanding claims are as follows:

Discount rates used for provisions – Primary insurance (gross)

		Life		Health		Total
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Without discount rate	4,205	4,516	1,456	1,450	5,661	5,966
Discount rate ≤ 2.0%	2,302	1,816	18	17	2,320	1,833
2.0% < discount rate ≤ 2.5%	7,154	5,550	33	32	7,187	5,582
2.5% < discount rate ≤ 3.0%	16,125	18,244	2	15	16,127	18,259
3.0% < discount rate ≤ 3.5%	27,398	26,644	2,745	1,288	30,143	27,932
3.5% < discount rate ≤ 4.0%	13,915	14,100	2,903	2,706	16,818	16,806
4.0% < discount rate ≤ 4.5%	38	26	2,728	2,720	2,766	2,746
4.5% < discount rate ≤ 5.0%	6	5	17,774	18,026	17,780	18,031
Discount rate > 5.0%	13	14	102	108	115	122
Total	**71,156**	**70,915**	**27,761**	**26,362**	**98,917**	**97,277**

Besides this, in German health primary insurance, a discount rate of 3.5% (3.5%) is applied for calculating the provision for premium loadings and the provision for future premium reductions totalling €3,783m (3,480m), which are part of the provision for premium refunds; in principle, however, this rate can be altered by way of a premium adjustment.

Provisions in reinsurance and primary insurance that are not covered by deposits retained are covered by investments. In the case of a discrepancy between the durations of these investments and the liabilities ("duration mismatch"), the main risk lies in the fact that if interest rates fall markedly over the remaining settlement period of the liabilities, the return on the reinvested assets may be lower than the discount rates and thus necessitate further expenses. But a complete duration matching of liabilities with fixed-interest investments of identical maturities would not be expedient, because if interest rates rise significantly, policyholders might make increasing use of their surrender rights, resulting in a liquidity requirement for premature payouts.

We measure sensitivity to this interest-rate risk using an embedded value analysis; cf. page 257 f.

Other market risks and embedded derivatives In reinsurance, other market risks are generally ruled out through suitable treaty design. Some reinsurance contracts contain derivative components of variable annuities. These are measured separately and their changes in value are recognised in the investment result. The valuation of these embedded derivatives is sensitive to share prices, exchange rates and interest rates, but these sensitivities are nearly fully compensated for by the fact that such derivatives are for the most part directly matched by financial derivatives for hedging purposes.

In primary insurance, the risks to be considered – besides the interest-rate guarantee, which we analyse in the modelling of the interest-rate risk – are particularly risks from unit-linked life insurance and the lump-sum option in the case of deferred annuity policies. Other embedded derivatives are financially insignificant.

For the unit-linked insurance contracts in our portfolios, the investments are held for the benefit of life insurance policyholders who bear the investment risk, meaning that there is no direct market risk. Appropriate product design ensures that the necessary premium portions for payment of a guaranteed minimum benefit on occurrence of death are based on the current fund assets.

The lump-sum option in the case of deferred annuity policies gives policyholders the option of having their annuity paid out in a single payment at a fixed date. As a result, there is a potential risk if an unexpectedly large number of policyholders exercise their option at an interest-rate level markedly higher than the discount rate used for the annuity calculation. But there is no direct interest-rate sensitivity or market sensitivity, since the exercise of the option by the policyholder is determined to a crucial extent by individual factors and relates to the insurance components. This option is specifically taken into account when applying the liability adequacy test prescribed by IFRS 4 to technical provisions.

Lapse risks In reinsurance, a lapse risk derives primarily from the indirect transfer of lapse risks from cedants. As a rule, both this risk and the financial risk from extraordinary termination of reinsurance contracts are largely ruled out through appropriate contract design.

In life primary insurance, the reported technical provision in the case of contracts with a surrender option is generally at least as high as the relevant surrender value. As with the lump-sum option in the case of deferred annuity policies, a potential lapse risk may result from a higher interest-rate level than that on which the calculation was based. This is allowed for by means of appropriate liquidity planning and adequate calculation of the surrender value. Expected surrenders are taken into account in the amortisation of deferred acquisition costs in life primary insurance and reinsurance. The policyholder's right in some contracts to maintain the contract with a waiver of premium and an adjustment of the guaranteed benefits constitutes a partial lapse and is taken into account in the calculations analogously. Based on the relevant legal parameters, reserves for primary health insurance business are calculated considering amounts payable due to cancellation of policies. The underlying assumptions are regularly checked.

We measure sensitivity to changes in the lapse rate in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. page 257 f.

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

At the balance sheet date, this results in the future expected technical payment balances (including variable annuities) shown in the table according to duration bands. As only the technical payment flows are considered, inflows from investment income and investments that become free are not included in the quantifications. Taking into account the inflows from investments, whose cash flows are largely aligned with those of the liabilities through our asset-liability management, items in the future expectations are positive throughout, so that the liquidity risk of these insurance contracts is minimised accordingly.

Expected future technical cash flow (gross)[1]

€m	31.12.2012	Prev. year
Up to one year	–2,088	–1,485
Over one year and up to five years	–11,264	–10,336
Over five years and up to ten years	–18,094	–17,828
Over ten years and up to 20 years	–41,988	–39,712
Over 20 years[2]	–96,065	–120,086

1 Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).
2 The reduction in this estimate between 2011 and 2012 is due to an adjustment in the underlying assumptions.

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

Further information on the liquidity risk is provided in the risk report on page 123.

Risk minimisation measures In reinsurance, we control the assumption of biometric risks by means of a risk-adequate underwriting policy. Risks are restricted through appropriate treaty design, specifically by limiting the coverage in the case of non-proportional business. In particular, the underwriting of longevity risks from reinsured portfolios is strictly limited. Interest-rate and other market risks are frequently ruled out by depositing the provisions with the cedant, with a guaranteed rate of interest from the deposit. In individual cases, these risks are also hedged by means of suitable capital market instruments.

In primary insurance, there is substantial risk minimisation through product design. For the most part, prudent actuarial assumptions are used in fixing the guaranteed benefits, in addition to which policyholders are granted a performance-related participation in surplus. More than 97% (98%) of the amounts shown under (21) Provision for future policy benefits is apportionable to such contracts. Given the relevant margins in the actuarial assumptions, it is also possible to fulfil the future guaranteed obligations without adjusting the provisions in the case of moderate changes in assumptions. Of great significance for risk-balancing in the case of adverse developments are parts of the provision for premium refunds based on national regulations, parts of the provision for deferred premium refunds resulting from other revaluations, and unrealised gains and losses on investments taken as a basis for posting the provision for deferred premium refunds. Reference is made to (23) Other technical provisions.

In health primary insurance, there is the additional possibility of adjusting premiums for most long-term contracts. If it is foreseeable that the assumptions behind the calculation are permanently inadequate to cover expenses for claims or the actual mortalities deviate significantly from the calculated ones, premiums can be raised accordingly, thus closely limiting the financial and balance sheet effects of cost increases in healthcare and permanent changes in morbidity.

For information on our risk management processes, reference is made to the risk report, pages 115–121.

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

If an adjustment is required, we recognise any deficit as an expense in the consolidated income statement.

Quantitative impacts of changes in assumptions on long-term insurance business
Munich Re measures the sensitivity of its long-term insurance business in life and health using an economic valuation on the basis of the CFO Forum's Market Consistent Embedded Value Principles and Guidance; cf. page 40. This covers 100% (100%) of the long-term business in reinsurance and more than 97% (94%) of the long-term business in primary insurance.

The sensitivities given below measure the impact of changes in the calculation bases and capital market parameters on the calculated economic value of our business. They take account of our risk minimisation measures and tax effects.

Munich Re continues to adhere to the strict rules of market-consistent evaluation as at the end of the year. The low interest-rate level and high volatility at the reporting date of 31 December 2012 result in distortions in life primary insurance in particular, owing to the long-term interest-rate guarantees. Further details are provided in the management report, pages 40 and 81 f.

Embedded value sensitivities

	Reinsurance		Primary insurance	
€m	2012	Prev. year	2012	Prev. year
Embedded value at the balance sheet date	**10,616**	**9,992**	**2,728**	**875**
Change in the event of a sustained increase in interest rates of 100 BP	–503	–337	2,298	2,369
Change in the event of a sustained decrease in interest rates of 100 BP	388	230	–3,769	–4,009
Change in the event of a 10% decrease in the value of equities and real estate	–9	–17	–176	–210
Change in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk	–1,515	–1,647	–42	–48
Change in the event of a decrease in mortality by 5% in the case of contracts mainly covering the longevity risk	–70	–53	–180	–186
Change in the event of an increase in morbidity by 5%	–292	–272	–73	–85
Change in the event of an increase in the lapse rate by 10%	–319	–570	140	112

38 Risks from property-casualty insurance business

The risks presented in this section concern business from the primary insurance and reinsurance property-casualty segments.

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

The basis for measuring the risk assumed is an estimate of the claims frequency to be expected for a contract or a portfolio of contracts. In addition, an estimation of the claims amount is necessary, from which a mathematical distribution of the expected losses is derived. The result of these two steps is an estimation of the expected overall claims in a portfolio. A third element comprises the expected cash flows to settle claims incurred, a process which frequently extends over several years.

As the proportion of business ceded is small, the following analysis of underwriting risks largely adopts a gross approach.

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

Premiums, loss ratios and combined ratios by class of business[1, 2]

	2012	2011	2010	2009	2008
Gross premiums written in €m					
Reinsurance					
Liability	2,326	2,061	2,112	2,162	2,118
Accident	246	226	278	353	503
Motor	3,190	3,544	2,793	2,218	2,441
Marine, aviation, space	1,915	1,787	1,838	1,900	1,836
Fire	4,816	4,501	4,350	4,339	3,998
Engineering	1,573	1,536	1,658	1,536	1,457
Credit and bonding	705	696	744	632	825
Other classes of business	2,281	2,206	1,928	1,847	1,561
Primary insurance	5,554	5,595	5,498	5,131	5,105
Loss ratio in %					
Reinsurance					
Liability	85.8	84.3	101.1	108.7	80.0
Accident	37.6	159.4	114.4	102.7	108.6
Motor	70.2	70.2	74.6	66.7	86.6
Marine, aviation, space	47.1	52.5	65.2	64.6	69.9
Fire[3]	49.6	132.2	62.8	35.4	57.1
Engineering	52.0	53.6	63.2	46.6	58.5
Credit and bonding	56.4	–0.7	48.1	131.1	59.4
Other classes of business	67.8	63.6	50.7	70.3	63.3
Primary insurance	64.7	65.0	63.1	60.3	58.4
Combined ratio in %					
Reinsurance					
Liability	115.6	113.9	133.1	139.3	114.2
Accident	74.8	197.5	144.3	144.7	148.8
Motor	101.7	100.1	102.0	92.2	111.6
Marine, aviation, space	75.7	82.4	94.1	90.8	96.1
Fire[3]	73.7	157.3	89.8	61.0	84.6
Engineering	93.2	93.9	104.0	83.2	89.7
Credit and bonding	94.9	41.4	82.4	173.4	98.3
Other classes of business	98.0	95.1	89.8	102.3	94.3
Primary insurance	98.7	99.1	96.8	93.2	90.9

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years up to and including 2010 is thus limited.
2 Previous year's figures adjusted pursuant to IAS 8; see "Changes in accounting policies and other adjustments".
3 The figure for 2011 is not adjusted for relief of 4.9 percentage points from economic risk transfer to the capital markets.

The estimation of technological, social and demographic parameters plays an important part in assessing and pricing risks assumed in all classes of business. Beyond this, in liability insurance, workers' compensation insurance, credit insurance and sections of motor insurance, the development of economic and legal parameters can be significant, whereas especially in the lines of business accident, fire and marine, and also in sections of engineering business and primary insurance, there is a high degree of sensitivity regarding the underlying assumptions about natural catastrophes. In the latter area, we include expected trends in our considerations when assessing the risks, with special importance given to a precise analysis of climate-related changes in the risk profile. The following table shows Munich Re's combined ratios for the reinsurance property-casualty segment including and excluding natural catastrophes:

Combined ratio for the last ten years[1]

%	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Including natural catastrophes[2]	91.0	113.8	100.5	95.3	99.4	96.4	92.6	111.7	98.9	96.5
Excluding natural catastrophes	83.3	84.4	89.5	93.9	93.2	91.7	91.6	92.5	93.9	94.8

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years up to and including 2010 is thus limited.
2 The figure for 2011 is not adjusted for relief of 1.4 percentage points from economic risk transfer to the capital markets.

Large losses, by which we mean individual losses exceeding €10m, are of particular relevance for property-casualty business in reinsurance. The analysis below shows that the volatility of the individual years in this loss category is mainly attributable to the respective intensity of natural catastrophe losses, whilst the other accumulation risks exhibit a distinctly less volatile pattern.

Large losses in reinsurance according to individual calendar years (net)[1]

€m	2012	2011	2010	2009	2008
Large losses	1,799	5,048	2,228	1,158	1,509
Thereof losses from natural catastrophes	1,284	4,538	1,564	196	832
Thereof other accumulation losses[2]	515	510	664	962	677

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with the years up to and including 2010 is thus limited.
2 Special impact for 2009: In credit and surety business, defaults triggered by the financial crisis led to a claims burden of €510m.

Further information on risks from large and accumulation losses can be found in the risk report on page 126–128.

Reserve risks The provision for outstanding claims is subject to the risk that actual claims settlement may be less than or exceed the amount reserved (reserve risk). Particular attention is given to those situations where the funds dedicated to future 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. We use a range of well-established actuarial methods for this purpose, which embed various pricing, coverage and benefit/inflation levels. In so doing, we draw on the specialist knowledge present in our claims and underwriting departments and take all foreseeable future trends into account. As part of our regular results monitoring process, we keep a close eye on trends to ensure that the assumptions underlying the measurement of the provisions always reflect the latest developments. Consequently, in the course of reserve run-off, it may be necessary to revise the original estimates of the claims expenditure required and to adjust the provisions accordingly.

The development of our claims reserves and the corresponding run-off results are shown under (22) Provision for outstanding claims.

A particular sensitivity exists in the case of contracts with long run-off periods. This characteristic applies especially to casualty insurance, where liabilities may manifest themselves with a considerable time lag. In addition, changes in court verdicts, class actions, inflation in medical care costs and modifications in general life expectancy can influence the valuation of reserves. The following section discusses the areas in the current reserve portfolio where, within the framework of an appropriate reserve estimate, the uncertainty is the greatest.

Asbestos insurance liabilities currently emanating predominantly from the US and some European countries are an area of concern for the entire insurance and reinsurance industry. Since the mid-1980s industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. This also applies to Munich Re. In our case, the policies mainly cover claims which manifest themselves after a latency period of as long as 30 to 50 years. In response, we have posted provisions for claims under long-cancelled general liability policies which provided coverage according to the then-applicable legal environment.

Time lags in claims settlement may assume significant dimensions, especially in reinsurance. Loss notification often involves a long "chain": exposure to the loss, manifestation of an injury, possible filing of a lawsuit against a defendant and adjudication of the suit, reporting and payment of an insurance recovery and then, finally, notification to the reinsurer. Therefore, besides monitoring these developments on a claim-by-claim level, we also monitor the development from an industry perspective, as this may be considered an important early indicator.

Provisions for asbestos and environmental claims

	31.12.2012		Prev. year	
€m[1]	Gross	Net	Gross	Net
Asbestos	1,896	1,543	1,800	1,467
Environmental	406	308	426	328

1 The previous year's figures have been adjusted to eliminate currency translation effects.

In addition, there are loss scenarios which are highly influenced by the continuously evolving practice of jurisprudence under tort law, but also by a growing number of class actions. The main lines of business affected are product liability and professional liability in the USA. Besides this, we see increased uncertainties in the assessment of the liability scenarios for pure financial losses as a result of the massive change in economic parameters. We continue to carefully monitor trends and respond to the emergence of new information as appropriate.

In the area of bodily injury losses, Munich Re carries a significant amount of reserves for individual claims where the claimant is severely injured and is in need of a high degree of individual, specialised medical treatment and care. US workers' compensation business and motor liability business in some European countries are particularly affected by such claims. In both instances, coverage is provided for permanent disability cases where the claimant is expected to live for a considerable length of time and requires significant medical attention. Accordingly, the loss provisions are highly sensitive especially to inflation of medical care costs and to the trend with regard to general life expectancy. Owing to unexpectedly high price inflation, we have repeatedly had to increase these provisions in the past. Actual claims reported are compared with projected amounts to check whether the loss development patterns used are still appropriate for projecting future claims payments.

Risk minimisation measures With our underwriting policy geared to systematic diversification, i.e. the greatest possible mix and spread of individual risks, we substantially reduce the volatility for our insurance portfolio as a whole.

Another important measure for controlling underwriting risks is the cession of a portion of our risks to other carriers via external reinsurance or retrocession; cf. (12) Ceded share of technical provisions and (29) Premiums. All our companies have intra-Group and/or external reinsurance and retrocession cover. Particularly important in this context is an accumulation excess-of-loss cover, which provides protection against property damage losses from natural catastrophes. The dimensions of this cover are based on analyses of our accumulation budgets in those parts of the world exposed to natural catastrophes. The protection afforded by retrocession comes into play if we are hit by an extremely large loss.

We further diversify our risk management instruments by issuing catastrophe bonds.

For information on our risk management processes, reference is made to the risk report, pages 115–120.

Interest-rate risks Economically, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision. In balance sheet terms, the interest-rate risk affects only those parts of the technical provisions that are discounted and for which an inflow of investment income from deposits retained is not secured from cedants in at least the same amount.

Discounted technical provisions according to discount rates (gross)

		Reinsurance		Primary insurance		Total
€m	31.12.2012	Prev. year	31.12.2012	Prev. year	31.12.2012	Prev. year
Discount rate ≤ 2.5%	15	20	244	197	259	217
2.5% < discount rate ≤ 3.5%	172	201	535	554	707	755
3.5% < discount rate ≤ 4.5%	1,418	1,561	58	63	1,476	1,624
Discount rate > 4.5%	–	–	–	–	–	–
Total	**1,605**	**1,782**	**837**	**814**	**2,442**	**2,596**

The major part of the discounted provisions in reinsurance are for US workers' compensation business, for which the discount rates are governed by supervisory law and are determined prospectively per accident year. We currently do not expect any changes in the US regulatory authorities' approval procedure. A sustained reduction in market interest rates is taken into account through conservative discount rate assumptions for future provisions for outstanding claims. If the discount rate were subsequently lowered by 100 BP, this would necessitate additional reserving of €170m (169m), which would have to be recognised as an expense in the income statement.

The discounting of the provisions in primary insurance is also largely governed by supervisory law. An interest-rate risk arises for us here primarily for annuity insurance claims. However, as only around 14.2% (15.0%) of the actuarial and claims reserves to be considered in this connection in our property-casualty primary insurance are discounted, this risk can be assessed as small. If the investment income failed to cover the expenses arising from the discounting, this would result in losses not included in the calculations. In such a case, a reserve adjustment might be necessary. Conversely, if the investment income were higher, this would result in unforeseen gains.

Liquidity risks Such risks could result for Munich Re if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. In property-casualty insurance, a distinction must be made between payments for claims for which reserves were posted in previous years and immediate payments, i.e. payments for claims incurred in the current financial year. If claims reserves are posted, the liquidity risk can be minimised through our asset-liability management, in which investments are geared to the character of the liabilities.

The proportion of immediate claims payments, which is temporally stable according to our experience, constitutes only a fraction of the total payments to be made. Consequently, the liquidity risks in respect of these payments can also be reduced by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation has always been positive. Not explicitly considered in the data below is the fact that owing to our far-reaching asset-liability management for payments of claims incurred in prior years, even extremely large losses (from natural-catastrophe and non-natural-catastrophe scenarios) are covered by our liquidity position. Besides this, we pursue a consistent asset-liability management approach in our investment strategy. The structure and characteristics of the payment obligations from insurance business determine the investments selected. This also applies to our ability to respond to shock scenarios. To this end, we regularly simulate the impact of major shock scenarios on our liquidity situation. The losses simulated in these scenarios exceed the demands of very large claims burdens sustained in the past (e.g. from earthquakes, hurricanes or the attack on the World Trade Center) in terms of both absolute amount and speed of settlement.

Payment flows and liquid funds in the individual calendar years (gross)

€m	2012	2011	2010	2009	2008
Premiums received	22,606	22,152	20,834	19,759	19,491
Claims payments for financial year	5,968	5,930	5,213	4,378	4,393
Claims payments for previous years	8,898	8,096	8,613	7,589	7,675
Costs	6,839	6,808	6,517	5,956	5,728
Liquid funds	901	1,318	491	1,836	1,695

Further information on the liquidity risk is provided in the risk report on page 123.

Impact of changes in underwriting assumptions on equity and the consolidated income statement As part of the monitoring of our portfolio, we check whether original assumptions need to be adjusted. By means of the IFRS 4 liability adequacy test, we review expected claims expenditure in the light of updated assumptions, taking into account our risk minimisation measures. If this test shows that an adjustment to technical provisions is required, the amount is recognised in the consolidated income statement.

39 Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is also of relevance. For our reinsurance and retrocessions to be placed externally, we choose only business partners that meet the requirements of our Retro Security Guideline and analogous regulations.

The credit ratings of our retrocessionaires and reinsurers for the externally ceded share of our provisions are given on page 129 of the risk report, which also includes further information on credit risks on page 122.

51% (48%) of the ceded share of provisions is directly collateralised through deposits, so the credit risk can be ignored for this portion.

Apart from this, there are credit risks from the underwriting of credit reinsurance contracts. Information on these can be found under (38) Risks from property-casualty insurance business. We do not conduct any active credit insurance business in our primary insurance.

40 Market risks from financing instruments – Sensitivity analysis

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

The analysis of equities and equity derivatives is based on a change in market value of ±10%, ±30% of the delta-weighted exposure. For interest-rate-sensitive instruments, on the other hand, the change in market value resulting from a global change in interest rates of +100 BP, ±50 and –25 BP is determined using duration and convexity. Owing to the low market interest-rate level, an assumed reduction in interest rates by 100 BP would lead to interest rates becoming partially negative. By contrast, an interest-rate increase of 100 BP is not unrealistic, which results in an asymmetrical presentation of the market interest-rate risk of investments sensitive to interest rates. The reaction of interest-rate derivatives to the change in market value of the underlying investment is taken into account using the delta of the derivative. Alternative investments (private equity, hedge funds and commodities) are analysed together with the equities.

The effects of the capital market events listed in the following table do not take account of tax or the provision for premium refunds (gross disclosure), i.e. the analysis does not take into account the effects resulting from policyholders' participation in surplus in insurances of the person. The impact on the results and equity shown below would be substantially reduced if these effects were considered. It is also assumed that changes in the capital markets occur instantaneously, preventing our limit systems and active counter-measures from taking effect. The analysis considers around 99% of Munich Re's investments.

Market risk – Share prices The impact of a change on the stock markets in terms of absolute amounts increased in the year under review. This is due to a rise in investments sensitive to share prices and the reduction of derivative hedging measures. A change in the stock market by 10% has an impact of 10.8% (8.2%) on the market value of the equity portfolio.

The non-linear effects of equity options or other asymmetrical strategies are not taken into account in this presentation owing to the delta-weighted approach selected.

Change in market value of investments sensitive to share prices

Change in share prices	31.12.2012			Prev. year		
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 30%	0.284	2.128	3.002	–0.325	1.774	1.905
Increase of 10%	0.084	0.709	0.990	–0.123	0.591	0.620
Decrease of 10%	–0.381	–0.410	–0.988	–0.334	–0.134	–0.620
Decrease of 30%	–1.543	–0.827	–2.960	–1.063	–0.341	–1.859
Market values			9.159			7.541

1 Gross before tax and policyholder participation in surplus.

Market risk – Interest rates The change in the market price of investments sensitive to interest rates is calculated using a parallel shift of the interest-rate curve and a revaluation of the fixed-interest securities and interest-rate derivatives on the basis of their duration and convexity. Cash positions and other derivatives are not included in the calculation.

The impact on the consolidated income statement is small compared with the impact on equity, as most of the changes in the value of fixed-interest investments are accounted for in equity, with no effect on profit or loss. Also, around a third of the investments considered in this analysis are measured at amortised cost, so that changes in market value have no effect on the financial statements.

Economically speaking, the impact of the fixed-interest investments on equity is paralleled by a change in the economic value of the liabilities. Therefore our asset-liability management steers the investments in such a way that the effects of interest-rate changes on the value of the investments and on the economic value of the liabilities largely cancel each other out. This offsetting does not have an impact on the balance sheet, however, since significant portions of the liabilities are not valued on the basis of the current interest-rate curves.

Change in market value of investments sensitive to interest rates

Change in interest rates	31.12.2012			Prev. year		
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 100 BP	–0.578	–7.285	–13.539	–0.539	–6.454	–11.521
Increase of 50 BP	–0.317	–3.772	–7.056	–0.277	–3.362	–5.997
Decrease of 25 BP	0.179	1.983	3.743	0.159	1.766	3.176
Decrease of 50 BP	0.373	4.032	7.629	0.364	3.558	6.471
Market values			190.024			171.288

1 Gross before tax and policyholder participation in surplus.

Other information

41 Parent

The Group parent is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich), Königinstrasse 107, 80802 München.

Its registered seat is Munich, Germany.

In addition to its function as a reinsurer, the parent also fulfils the function of holding company for the Group.

42 Related parties

Information on the remuneration of Board members and transactions with these persons can be found in the remuneration report, starting on page 46 and under (46) Remuneration report. Transactions between Munich Reinsurance Company and subsidiaries that are to be deemed related parties have been eliminated in consolidation and are not disclosed in the notes. Business relations with unconsolidated subsidiaries are of subordinate importance as a whole; this also applies to business relations with associates.

Munich Reinsurance Company has established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. The Munich Re pension scheme is considered a related party in accordance with IAS 24. Contributions to the pension scheme are recognised as expenses for defined contribution plans; cf. (25) Other accrued liabilities.

For transactions of related parties with Munich Reinsurance Company shares, please refer to (18) Equity.

43 Personnel expenses

The following personnel expenses are included in the operating expenses, in the expenses for claims and benefits (for claims adjustment) and in the investment result:

Breakdown of personnel expenses

€m	2012	Prev. year
Wages and salaries	2,727	2,532
Social security contributions and employee assistance	490	457
Expenses for employees' pensions	217	214
Total	**3,434**	**3,203**

44 Long-Term Incentive Plan

Every year from 1999 to 2010, Munich Reinsurance Company set up long-term incentive plans, each with a term of seven years. From 1999 to 2009, the members of the Board of Management and senior management in Munich, and the top executives in Munich Re's international organisation were participants in the scheme. In 2010, this share-price-related remuneration plan was only provided for senior management members and selected top executives in the international organisation.

Under each long-term incentive plan, participants received a certain number of stock appreciation rights.

The relevant initial share price for the stock appreciation rights was calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to the respective plan commencement. The obligations arising from the long-term incentive plans are partly covered by Munich Reinsurance Company shares.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in the fair value of the underlying options. The fair value recognises not only the intrinsic value (difference between current share price and initial share price of the stock appreciation rights) but also the possibility of growth in value up to the date of forfeiture or expiry of the rights and is determined on the basis of recognised valuation models, taking into account the exercise conditions. At each balance sheet date, the fair value is calculated and reserved; this amount is recognised in full. In the year under review, provisions of €20.7m (12.0m) had to be posted for Munich Reinsurance Company. The personnel expense/income recognised in the income statement corresponds to the change in the provision in the year under review, taking into consideration any rights exercised. In 2012, this resulted in expenses of €35.0m (–18.3m). The weighted average share price for the stock appreciation rights exercised in 2012 was €109.45 for plan year 2005, €131.38 for plan year 2006, €120.60 for plan year 2009, and €131.59 for plan year 2010. The intrinsic value of the exercisable stock appreciation rights amounted to €18.3m at the balance sheet date.

Munich Reinsurance Company's Long-Term Incentive Plans 2005–2010

	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	€88.10	€108.87	€134.07	€121.84	€97.57	€109.11
Intrinsic value 2012 for one right	€46.30	€25.53	€0.33	€12.56	€36.83	€25.29
Fair value 2012 for one right	–	€25.53	€7.06	€12.99	€36.83	€25.29
Number of rights on 31 Dec. 2005	485,527	–	–	–	–	–
Additions	–	443,609	–	–	–	–
Forfeited	–	1,019	–	–	–	–
Number of rights on 31 Dec. 2006	485,527	442,590	–	–	–	–
Additions	–	6,123	341,737	–	–	–
Exercised	84,329	–	–	–	–	–
Forfeited	3,892	8,514	503	–	–	–
Number of rights on 31 Dec. 2007	397,306	440,199	341,234	–	–	–
Additions	–	–	4,013	444,104	–	–
Exercised	31,716	–	–	–	–	–
Forfeited	–	5,388	5,848	3,063	–	–
Number of rights on 31 Dec. 2008	365,590	434,811	339,399	441,041	–	–
Additions	–	–	–	463	459,271	–
Exercised	19,213	–	–	–	–	–
Forfeited	715	2,904	2,804	4,194	–	–
Number of rights on 31 Dec. 2009	345,662	431,907	336,595	437,310	459,271	–
Additions	–	–	–	–	–	675,029
Exercised	72,662	–	–	–	–	–
Forfeited	1,936	1,653	1,379	1,462	1,287	–
Number of rights on 31 Dec. 2010	271,064	430,254	335,216	435,848	457,984	675,029
Additions	–	–	–	–	–	6,546
Exercised	122,681	–	–	–	–	–
Forfeited	957	4,631	5,333	7,623	7,338	16,266
Number of rights on 31 Dec. 2011	147,426	425,623	329,883	428,225	450,646	665,309
Exercised	147,426	403,618	–	–	320,709	365,529
Forfeited	–	–	783	1,422	1,253	3,655
Number of rights on 31 Dec. 2012	**–**	**22,005**	**329,100**	**426,803**	**128,684**	**296,125**
Exercisable at year-end	**–**	**22,005**	**329,100**	**426,803**	**128,684**	**296,125**

From 2002 to 2009, ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as the MEAG companies, also set up long-term incentive plans at yearly intervals and with terms of seven years each. The persons eligible for participation – Board of Management members, managing directors and, in individual cases, also top executives – were granted a defined number of stock appreciation rights in respect of Munich Re shares. In 2010, these share-price-related remuneration plans were only provided for senior management at the MEAG companies and for the managing directors of MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH. The design of the plans is identical to that of Munich Re's long-term incentive plans and they are accounted for in the same way. The obligations arising from the long-term incentive plans are covered by Munich Re shares or options on Munich Re shares. In the year under review, provisions of €4.3m (2.8m) had to be posted for the ERGO and MEAG companies. The personnel expense/income recognised in the income statement corresponds to the change in the provision in the year under review, taking into consideration any rights exercised. In 2012, this resulted in expenses of €2.5m (–3.2m). The weighted average share price for the stock appreciation rights exercised in 2012 was €107.72 for plan year 2005, €131.54 for plan year 2006, €118.39 for plan year 2009, and €131.20 for plan year 2010. The intrinsic value of the exercisable stock appreciation rights amounted to €3.5m at the balance sheet date.

Long-Term Incentive Plans 2005–2010 of ERGO and MEAG

	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	€88.10	€108.87	€134.07	€121.84	€97.57	€109.11
Intrinsic value 2012 for one right	€46.30	€25.53	€0.33	€12.56	€36.83	€25.29
Fair value 2012 for one right	–	€25.53	€7.06	€12.99	€36.83	€25.29
Number of rights on 31 Dec. 2005	187,530	–	–	–	–	–
Additions	–	173,682	–	–	–	–
Forfeited	3,072	–	–	–	–	–
Number of rights on 31 Dec. 2006	184,458	173,682	–	–	–	–
Additions	–	–	121,821	–	–	–
Exercised	34,879	–	–	–	–	–
Forfeited	–	7,483	10,422	–	–	–
Number of rights on 31 Dec. 2007	149,579	166,199	111,399	–	–	–
Additions	–	–	–	173,153	–	–
Exercised	24,219	–	–	–	–	–
Forfeited	–	3,966	1,597	601	–	–
Number of rights on 31 Dec. 2008	125,360	162,233	109,802	172,552	–	–
Additions	–	–	–	–	148,834	–
Exercised	14,851	–	–	–	–	–
Forfeited	–	2,046	1,578	1,803	–	–
Number of rights on 31 Dec. 2009	110,509	160,187	108,224	170,749	148,834	–
Additions	–	–	–	–	–	39,046
Exercised	45,130	–	–	–	–	–
Forfeited	–	241	1,856	2,506	–	–
Number of rights on 31 Dec. 2010	65,379	159,946	106,368	168,243	148,834	39,046
Additions	–	–	–	–	–	–
Exercised	37,021	–	–	–	–	–
Forfeited	–	281	176	275	255	–
Number of rights on 31 Dec. 2011	28,358	159,665	106,192	167,968	148,579	39,046
Exercised	28,358	152,672	–	–	127,974	19,266
Forfeited	–	322	4,985	1,798	306	668
Number of rights on 31 Dec. 2012	**–**	**6,671**	**101,207**	**166,170**	**20,299**	**19,112**
Exercisable at year-end	**–**	**6,671**	**101,207**	**166,170**	**20,299**	**19,112**

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

When the stock appreciation rights are exercised, the cash payment is made (in the respective national currency) by the company that granted the rights. Stock appreciation rights not exercised on the last trading day of the plan term are exercised on the participant's behalf insofar as the prerequisites for this are met. If the prerequisites are not met, the stock appreciation rights are forfeited. If another company acquires control of Munich Reinsurance Company or if the latter's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants from Munich Re may exercise their stock appreciation rights within 60 days after the change of control becomes effective, even if the prerequisites for exercising the rights are not yet met at that juncture.

45 Mid-Term Incentive Plan

Since 1 January 2009, Munich Reinsurance Company has set up mid-term incentive plans, each with a term of three years. Eligible for participation in these cash-settled share-based remuneration plans are senior management in Munich, and – for 2009 only – the members of the Board of Management. ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as MEAG MUNICH ERGO AssetManagement GmbH, established a similar plan for their Board members and company management for 2009 only. The participants receive performance share units (PSUs). In the fourth year after plan commencement, participants are entitled to a bonus payment dependent on the achievement of value-based performance targets and the increase in the total shareholder return (TSR).

The value-based performance targets are set in the form of an average target to be achieved over the following three years of the plan and are allocated according to responsibilities.

The share-based factor TSR represents the total return on Munich Re shares and comprises share price increases plus dividends paid over a certain observation period. The initial TSR value and the final TSR value are determined from the average of the last 60 calendar days prior to plan commencement and plan termination respectively.

At plan commencement, the PSUs are granted on the basis of the set target amount for 100% achievement of objectives and the initial TSR value. The total return index of the Xetra listing of Munich Re shares, starting on 22 January 1996, is used for the TSR. The basis for the full and partial allocation of the PSUs is the first plan year.

The final number of PSUs is calculated by multiplying the number of PSUs at plan commencement by the percentage achievement of the performance target at plan termination. The number of PSUs may fluctuate between 0 and 1.5 times the initially allocated number. Payment is capped if the TSR doubles. The maximum amount payable is limited to 150% of the target amount for members of the Board of Management and company management, and to 300% of the target amount for senior management.

The Mid-Term Incentive Plan at the reporting date is valued indirectly at the fair value of the liabilities. The fair value takes account of the value-based performance target and the total shareholder return (TSR) during the performance period. To this end, the TSR index value observable in the market is updated with the current dividend yield of Munich Re shares at the termination date and discounted with appropriate market interest rates.

Munich Re's Mid-Term Incentive Plans 2009–2012

	Incentive Plan 2009	Incentive Plan 2010	Incentive Plan 2011	Incentive Plan 2012
Plan commencement	1.1.2009	1.1.2010	1.1.2011	1.1.2012
Plan end	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Fair value 2012 for one right	–	€262.45	€274.89	€287.88
Number of rights (for 100% achievement of objectives) on 1 January 2009	87,347	–	–	–
Additions	89	–	–	–
Forfeited	–	–	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2009	87,436	–	–	–
Number of rights (for 100% achievement of objectives) on 1 January 2010	87,436	38,284	–	–
Additions	–	–	–	–
Forfeited	245	–	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2010	87,191	38,284	–	–
Number of rights (for 100% achievement of objectives) on 1 January 2011	87,191	38,284	63,769	–
Additions	–	–	–	–
Forfeited	842	843	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2011	86,349	37,441	63,769	–
Number of rights (for 100% achievement of objectives) on 1 January 2012	86,349	37,441	63,769	78,568
Additions	–	–	185	–
Exercised	86,349	–	–	–
Forfeited	–	184	424	–
Number of rights (for 100% achievement of objectives) on 31 December 2012	–	37,257	63,530	78,568

In the financial year 2012, expenses of €43.8m (8.5m) were recognised for the Mid-Term Incentive Plan. The provision at the reporting date amounted to €65.9m (35.1m).

46 Remuneration report

The members of Munich Reinsurance Company's Board of Management received remuneration totalling €13.3m (9.8m). The total remuneration of Munich Reinsurance Company's Supervisory Board amounted to €2.2m (1.5m); not included in this figure is €0.2m (0.2m) for membership of supervisory boards at other Group companies, so that the overall amount came to €2.4m (1.7m).

Payments to retired members of the Board of Management or their surviving dependants totalled €5.8m (5.8m).

Personnel expenses were not incurred for retired members of the Board of Management. After deduction of plan assets held by a separate entity (under a contractual trust agreement), there were no pension provisions or provisions for comparable benefits for retired members of the Board of Management or their surviving dependants.

There are no pension commitments for former members of the Supervisory Board or their surviving dependants.

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. Neither were there any significant notifiable transactions between Board members and Munich Re. Nor, apart from the above-mentioned remuneration for membership of supervisory boards at other Group companies, were any payments made or advantages extended to members of the Supervisory Board for services provided internally within the meaning of item 5.4.6 para. 3 of the German Corporate Governance Code.

All other disclosures on the remuneration of Board members, on share trading and shares held by the members of the Board of Management and the Supervisory Board, and on the structure of the Board of Management's remuneration system can be found in the remuneration report on page 46 f.

47 Number of staff

The number of staff employed by the Group at year-end totalled 23,700 (24,299) in Germany and 21,737 (22,097) in other countries.

Breakdown of number of staff

	31.12.2012	Prev. year
Reinsurance	11,094	11,163
Primary insurance	29,768	31,311
Munich Health	3,766	3,927
Asset management	809	805
Total	**45,437**	**47,206**

The reduction is mainly due to the sale of ERGO Daum Direct General Insurance.

48 Auditor's fees

For services rendered to the parent and consolidated subsidiaries by the Group auditor (KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, and its affiliated companies within the meaning of Section 271 para. 2 of the German Commercial Code), the following fees have been recognised as an expense in the financial year:

Breakdown of auditor's fees

€k	2012	Prev. year
Audits of financial statements[1]	8,343	7,374
Other assurance and appraisal services[1]	2,477	2,767
Tax consultancy services	1,324	1,368
Other services	1,599	918
Total	**13,743**	**12,427**

1 Thereof fees totalling €7,549k (7,227k) for KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft.

The affiliated companies of KPMG Bayerische Treuhandgesellschaft AG comprise the following entities: KPMG Germany, KPMG Spain, KPMG Switzerland, KPMG LLP (UK), KPMG Belgium, KPMG Netherlands, KPMG Luxembourg, KPMG Turkey, KPMG Russia, KPMG Georgia, KPMG Ukraine, KPMG Armenia, KPMG Kazakhstan, KPMG Kyrgyzstan, KPMG Norway, KPMG Kuwait, KPMG Jordan, and KPMG Saudi Arabia.

49 Contingent liabilities, other financial commitments

Munich Re enters into contingent liabilities in connection with its normal business operations. In this context, the obligations from guarantees total €68m (68m), those from legal disputes €1m (30m) and those from letters of support €4m (4m). Additionally, Munich Re has entered into a payment commitment of €25m towards an associated company, the amount being payable in the event of over-indebtedness. All information on risks arising from legal disputes can be found on pages 133–136 in the risk report.

The application of fiscal regulations may yet be unresolved at the time of calculation of tax refund claims and tax liabilities. The calculation of tax items is based on the regulations most likely to be applied in each case. Regardless of this, the fiscal authorities may be of a deviating opinion in this area, which may give rise to additional tax liabilities.

In accordance with the German Insurance Control Act (VAG), all German life and health insurers of our Group are obliged to be members of a protection fund. For life insurers, the protection fund can levy special contributions of up to one per mille of total net technical provisions, in addition to a regular contribution of 0.2 per mille of total net technical provisions. For the health insurers, there is no pre-financing, but the fund may levy special contributions of up to two per mille of net technical provisions to fulfil its functions. This could give rise to a potential payment obligation of €114m (111m) at Group level. The functions and powers of the statutory protection fund for life insurance rest with Protektor Lebensversicherungs-AG, and those of the statutory protection fund for health insurance with Medicator AG.

Besides this, Munich Re has entered into various other financial obligations amounting to €220m (205m) for work and service contracts and €1,082m (1,037m) for investment obligations. At the reporting date, there were loan commitments amounting to €47m (507m). These figures represent undiscounted nominal amounts. There are other financial commitments amounting to €5m (4m).

There are no other financial commitments of significance for the assessment of the Group's financial position. No contingent liabilities have been entered into for the benefit of Board members.

50 Restrictions regarding transfer of capital

Our subsidiary Munich American Reassurance Company shows a negative earned surplus in its local financial statements as at 31 December 2012 (Statutory Accounting Principles). For this reason, the company can only pay dividends or transfer capital to the parent company with the approval of the competent US regulatory authority.

51 Leasing

Munich Re as lessee At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €414m (406m).

Due dates

€m	31.12.2012	Prev. year
Not later than one year	92	106
Later than one year and not later than five years	204	214
Later than five years	118	86
Total	**414**	**406**

The contracts concern in particular offices and business premises of the Group, as well as land that we use in connection with our RENT programme. They include extension options as well as restrictions regarding the agreement of subleases. In the period under review, minimum lease payments of €86m (82m) and contingent lease payments of €6m (7m) were recognised as an expense. The total of future minimum sublease payments expected to be received under non-cancellable subleases was €22m (22m) at the reporting date.

The finance leases concern in particular rents for offices and business premises of the Group. They include extension options as well as restrictions regarding the agreement of subleases. The following table shows the future minimum lease payments and their present value for finance leases at 31 December 2012.

Due dates

	31.12.2012			Prev. year		
€m	Minimum lease payments	Interest element	Present value of minimum lease payments	Minimum lease payments	Interest element	Present value of minimum lease payments
Not later than one year	7	–	7	7	–	7
Later than one year and not later than five years	26	2	24	27	3	24
Later than five years	1	–1	2	8	–	8
Total	**34**	**1**	**33**	**42**	**3**	**39**

The total of future minimum sublease payments expected to be received under non-cancellable subleases was €1m (1m) at the reporting date.

Munich Re as lessor Operating leases mainly involve leased property. The total of future minimum lease payments under non-cancellable leases at the balance sheet date was €957m (974m).

Due dates

€m	31.12.2012	Prev. year
Not later than one year	177	175
Later than one year and not later than five years	501	474
Later than five years	279	325
Total	**957**	**974**

There were several finance leases for property at the balance sheet date:

Due dates

	31.12.2012			Prev. year		
€m	Gross investment	Interest element	Net investment	Gross investment	Interest element	Net investment
Minimum lease payments not later than one year	–	–	–	1	1	–
Minimum lease payments later than one year and not later than five years	2	–	2	2	–	2
Minimum lease payments later than five years	74	57	17	74	57	17
Total minimum lease payments	**76**	**57**	**19**	**77**	**58**	**19**
Unguaranteed residual values	41	37	4	41	37	4
Total	**117**	**94**	**23**	**118**	**95**	**23**

Net investments in leases correspond to the carrying amounts of the lease payments receivable at the balance sheet date.

52 Events after the balance sheet date

No events of material significance have occurred since the balance sheet date.

53 Earnings per share

Diluting effects to be disclosed for the calculation of earnings per share were not present either in the financial year or in the previous year. Earnings per share can be potentially diluted in future through the issue of shares or subscription rights from amounts authorised for increasing the share capital and from contingent capital.

Earnings per share

		2012	Prev. year
Consolidated result attributable to Munich Reinsurance Company equity holders	€m	3,195	702
Weighted average number of outstanding shares		177,709,667	177,982,144
Earnings per share	€	17.98	3.94

Whereas in the previous year the number of outstanding shares had decreased owing to the repurchase of 2,789,833 shares, the number of outstanding shares rose by 938,520 in the financial year 2012. The increase resulted from sales of own shares in connection with the Long-Term Incentive Plan. These sales outweighed the relevant buy-backs.

54 Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2012 according to its financial statements prepared on the basis of the German Commercial Code amount to €1,255,388,484.00. The Board of Management will propose to shareholders at the Annual General Meeting that these net retained profits be used for payment of a dividend of €7.00 per dividend-bearing share, with the remaining amount apportionable being carried forward to new account.

List of shareholdings as at 31 December 2012 in accordance with Section 313 para. 2 of the German Commercial Code

The following disclosures relate to companies in which our directly and indirectly held shareholdings (as defined in Section 16 paras. 2 and 4 of the German Stock Companies Act) add up to 20% or more of the share capital, and large companies (as defined in Section 267 para. 3 of the German Commercial Code) in which our directly and indirectly held shareholdings add up to more than 5% of the voting rights.

Company and registered seat	% share of capital
Consolidated subsidiaries	
40, Rue Courcelles SAS, Paris	100.0000
ADB ERGO Lietuva, Vilnius	100.0000
Adelfa Servicios a Instalaciones Fotovoltaicas, S.L., Santa Cruz de Tenerife	100.0000
AEVG 2004 GmbH, Frankfurt/Main[4]	0.0000
aktiva Vermittlung von Versicherungen und Finanz-Dienstleistungen GmbH, Cologne	100.0000
ALICE GmbH, Düsseldorf	100.0000
almeda GmbH, Munich	100.0000
almeda Versicherungs-Aktiengesellschaft, Munich	100.0000
American Alternative Insurance Corporation, Wilmington, Delaware	100.0000
American Family Home Insurance Company, Jacksonville, Florida	100.0000
American Modern Home Insurance Company, Amelia, Ohio	100.0000
American Modern Home Service Company, Amelia, Ohio	100.0000
American Modern Insurance Company of Florida, Inc., Jacksonville, Florida	100.0000
American Modern Insurance Group, Inc., Amelia, Ohio	100.0000
American Modern Lloyds Insurance Company, Dallas, Texas	100.0000
American Modern Select Insurance Company, Amelia, Ohio	100.0000
American Modern Surplus Lines Insurance Company, Amelia, Ohio	100.0000
American Southern Home Insurance Company, Jacksonville, Florida	100.0000
American Western Home Insurance Company, Oklahoma City, Oklahoma	100.0000
Amicus Legal Ltd., Bristol	100.0000
Arkansas Life Insurance Company, Phoenix, Arizona	100.0000
avanturo GmbH, Düsseldorf	100.0000
B&C International Insurance, Hamilton, Bermuda	100.0000
Bagmoor Holdings Limited, London	100.0000
Bagmoor Wind Limited, Bristol	100.0000
Bank Austria Creditanstalt Versicherung AG, Vienna	90.0000
Beaufort Dedicated No. 1 Ltd, London	100.0000
Beaufort Dedicated No. 2 Ltd, London	100.0000
Beaufort Dedicated No. 5 Ltd, London	100.0000
Beaufort Underwriting Agency Limited, London	100.0000
Bell & Clements (Bermuda) Ltd., Hamilton, Bermuda	100.0000
Bell & Clements (London) Ltd, London	100.0000
Bell & Clements (USA) Inc, Reston, Virginia	100.0000
Bell & Clements Inc, Reston, Virginia	100.0000
Bell & Clements Ltd, London	100.0000

Company and registered seat	% share of capital
Bos Incasso B.V., Groningen	89.7640
CAPITAL PLAZA Holding GmbH & Co. Singapur KG, Düsseldorf	100.0000
Capitol Life & Accident Insurance Company, Jonesboro, Arkansas	100.0000
CJSIC "European Travel Insurance", Moscow	100.0000
Compagnie Européenne d'Assurances, Nanterre	100.0000
Compañía Europea de Seguros S.A., Madrid	99.9985
D.A.S. Defensa del Automovilista y de Siniestros – Internacional, S.A. de Seguros y Reaseguros, Barcelona	100.0000
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	100.0000
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens	99.9983
D.A.S. Jogvédelmi Biztosíto Részvénytársaság, Budapest	100.0000
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen	99.9500
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn	100.0000
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	99.9800
D.A.S. poisťovna právnej ochrany, a.s., Bratislava	100.0000
D.A.S. pojišťovna právní ochrany, a.s., Prague	100.0000
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	99.9800
D.A.S. Towarzystwo Ubezpieczen Ochrony Prawnej S.A., Warsaw	99.9524
Daman Health Insurance – Qatar LLC, Doha, Qatar	100.0000
DAS Assistance Limited, Bristol	100.0000
DAS Holding N.V., Amsterdam	51.0000
DAS Legal Expenses Insurance Co., Ltd., Seoul	100.0000
DAS Legal Expenses Insurance Company Limited, Bristol	100.0000
DAS Legal Finance B.V., Amsterdam	100.0000
DAS Legal Protection Insurance Company Ltd., Toronto	100.0000
DAS LEGAL SERVICES LIMITED, Bristol	100.0000
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	100.0000
DAS Rechtsschutz-Versicherungs-AG, Lucerne	100.0000
DAS Services Limited, Bristol	100.0000
DAS Support B.V., Amsterdam	100.0000
DAS UK Holdings Limited, Bristol	100.0000
DB Platinum IV SICAV (Subfonds Institutional Fixed Income, Inhaber-Anteile I2D), Luxembourg[4]	100.0000
DKV BELGIUM S.A., Brussels	100.0000
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne	100.0000
DKV Luxembourg S.A., Luxembourg	75.0000
DKV Pflegedienste & Residenzen GmbH, Cologne	100.0000

Company and registered seat	% share of capital
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	100.0000
EIG, Co., Wilmington, Delaware	100.0000
Einzelanlage Hohenseefeld GmbH & Co KG, Bremen	100.0000
ERGO ASIGURARI DE VIATA SA, Bucharest	100.0000
ERGO Assicurazioni S.p.A., Milan	100.0000
ERGO Austria International AG, Vienna	100.0000
ERGO DIREKT Krankenversicherung AG, Fürth	100.0000
ERGO DIREKT Lebensversicherung AG, Fürth	100.0000
ERGO Direkt Lebensversicherung AG, Schwechat	100.0000
ERGO DIREKT Versicherung AG, Fürth	100.0000
ERGO Életbiztosító Zrt., Budapest	100.0000
ERGO Elfte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO Emeklilik ve Hayat A.S., Istanbul	100.0000
ERGO Eurosolar GmbH & Co. KG, Nuremberg	100.0000
ERGO Eurosolar S.a.s. di welivit Solar Italia S.r.l., Bolzano	100.0000
ERGO Funds AS, Tallinn	100.0000
ERGO General Insurance Company S.A., Athens	99.9999
ERGO Generales Seguros y Reaseguros, S.A., Madrid	100.0000
ERGO Grubu Holding A.S., Istanbul	100.0000
ERGO Grundstücksverwaltung GbR, Düsseldorf	100.0000
ERGO Immobilien-GmbH 14. Victoria & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 5. Hamburg-Mannheimer & Co.KG, Kreien	100.0000
ERGO Insurance N.V., Brussels	99.9999
ERGO International Aktiengesellschaft, Düsseldorf	100.0000
ERGO International Services GmbH, Düsseldorf	100.0000
ERGO Invest SIA, Riga	95.0000
ERGO Italia Business Solutions S.c.r.l., Milan	100.0000
ERGO Italia Direct Network s.r.l., Milan	100.0000
ERGO Italia S.p.A., Milan	100.0000
ERGO Kindlustuse AS, Tallinn	100.0000
ERGO Latvija Versicherung AG (ERGO Latvija Apdrošināšanas akciju sabiedrība), Riga	100.0000
ERGO Lebensversicherung Aktiengesellschaft, Hamburg	100.0000
ERGO Life Insurance Company S.A., Thessaloniki	100.0000
ERGO Life Insurance SE, Vilnius	100.0000
ERGO Neunte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO osiguranje d.d., Zagreb	100.0000
ERGO Partners N.V., Brussels	100.0000
ERGO Pensionsfonds Aktiengesellschaft, Düsseldorf	100.0000
ERGO Pensionskasse AG, Düsseldorf	100.0000
ERGO pojišťovna, a.s., Prague	100.0000
ERGO Previdenza S.p.A., Milan	100.0000
ERGO Private Capital Gesundheit GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Leben GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Equity Gesundheit GmbH, Düsseldorf	100.0000
ERGO Private Equity Komposit GmbH, Düsseldorf	100.0000
ERGO Private Equity Leben GmbH, Düsseldorf	100.0000
ERGO RUSS Versicherung AG, St. Petersburg	100.0000
ERGO Shisn, Moscow	100.0000
ERGO SIGORTA A.S., Istanbul	100.0000
ERGO Versicherung Aktiengesellschaft, Düsseldorf	100.0000
ERGO Versicherung Aktiengesellschaft, Vienna	100.0000
ERGO Versicherungsgruppe AG, Düsseldorf	100.0000
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	100.0000

Company and registered seat	% share of capital
ERGO Zivljenjska zavarovalnica d.d., Ljubljana	100.0000
ERGO životná poisťovňa, a.s., Bratislava	100.0000
ERGO Zivotno osiguranje d.d., Zagreb	100.0000
ERGO Zweite Beteiligungsgesellschaft mbH, Düsseldorf	99.9999
ERV Försäkringsaktiebolag (publ), Stockholm	100.0000
ERV pojišťovna, a.s., Prague	90.0000
Europæiske Rejseforsikring A/S, Copenhagen	100.0000
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	100.0000
European International Holding A/S, Copenhagen	100.0000
Everything Legal Ltd., Bristol	100.0000
FAIRANCE GmbH, Düsseldorf	100.0000
First Marine Insurance Company, Amelia, Ohio	100.0000
Flexitel Telefonservice GmbH, Berlin	100.0000
FOTOUNO S.r.l., Turin	100.0000
FOTOWATIO ITALIA GALATINA S.r.l., Turin	100.0000
Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev	99.9999
GF 65, Vienna[4]	100.0000
Global Standards LLC, Dover, Delaware	100.0000
Globality S.A., Luxembourg	100.0000
Great Lakes Reinsurance (UK) Plc., London	100.0000
Great Lakes Services Ltd., London	100.0000
Group Risk Services Limited, London	100.0000
Groves, John & Westrup Limited, London	100.0000
Habiriscos-Investimentos Imobiliários e Turísticos, S.A., Lisbon	100.0000
Hamburg-Mannheimer Pensionskasse AG, Hamburg	100.0000
Hartford Steam Boiler (M) Sdn. Bhd., Kuala Lumpur	100.0000
Hartford Steam Boiler (Singapore), PTE Ltd., Singapore	100.0000
Hartford Steam Boiler International India Pyt Ltd., Kolkata	100.0000
Hartford Steam Boiler International-GmbH, Rheine	100.0000
HMV GFKL Beteiligungs GmbH, Düsseldorf	100.0000
HSB Engineering Finance Corporations, Dover, Delaware	100.0000
HSB Engineering Insurance Limited, London	100.0000
HSB Engineering Insurance Services Limited, Oldham	100.0000
HSB Group, Inc., Dover, Delaware	100.0000
HSB Japan KK, Minato-KU, Tokyo	100.0000
HSB Professional Loss Control, Inc., Lenoir City, Tennessee	100.0000
HSB Solomon Associates LLC, Dover, Delaware	100.0000
HSB Specialty Insurance Company, Hartford, Connecticut	100.0000
HSB Technical Consulting & Services (Shanghai) Company, Ltd., Shanghai	100.0000
Hyneman Life Corporation, Jonesboro, Arkansas	100.0000
Ibero Property Portugal – Investimentos Imobiliários S.A., Lisbon	100.0000
Ibero Property Trust S.A., Madrid	100.0000
IDEENKAPITAL Financial Engineering GmbH, Düsseldorf	100.0000
IDEENKAPITAL Financial Service GmbH, Düsseldorf	100.0000
IDEENKAPITAL GmbH, Düsseldorf	100.0000
IDEENKAPITAL Media Finance GmbH, Düsseldorf	50.1000
IDEENKAPITAL Metropolen Europa GmbH & Co. KG, Düsseldorf	72.3477
iii, Munich[4]	100.0000
IK Einkauf Objekt Eins GmbH & Co. KG, Düsseldorf	100.0000
IK Einkauf Objektmanagement GmbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
IK Einkaufsmärkte Deutschland GmbH & Co. KG, Düsseldorf	52.0387
IK Premium Fonds GmbH & Co. KG, Düsseldorf	100.0000
IK Premium Fonds zwei GmbH & Co. KG, Düsseldorf	100.0000
IKFE Properties I AG, Zurich	63.5532
Imofloresmira – Investimentos Imobiliários S.A., Lisbon	100.0000
InsuranceAssistance FLLC, Minsk	50.1000
IRIS Capital Fund II German Investors GmbH & Co. KG, Düsseldorf	85.7143
ITERGO Informationstechnologie GmbH, Düsseldorf	100.0000
Itus Verwaltungs AG, Grünwald	100.0000
Joint Stock Insurance Company ERGO, Minsk	61.5405
Jordan Health Cost Management Services W.L.L., Amman	100.0000
K & P Pflegezentrum IMMAC Uelzen Renditefonds GmbH & Co. KG, Düsseldorf	84.8445
KA Köln Assekuranz.Agentur GmbH, Cologne	100.0000
Kapdom-Invest GmbH, Moscow	100.0000
Landelijke Associatie van Gerechtsdeurwaarders B.V., Groningen[12]	89.7640
LAVG Associatie van Gerechtsdeurwaarders Zuid Holding B.V., Breda[12]	80.0000
LEGIAL AG, Munich	100.0000
LifePlans Inc., Waltham, Massachusetts	100.0000
LifePlans LTC Services, Inc., Toronto, Ontario	100.0000
Lloyds Modern Corporation, Dallas, Texas	100.0000
Longial GmbH, Düsseldorf	100.0000
MAGAZ FOTOVOLTAICA, S.L.U., Alcobendas	100.0000
Marina Salud S.A., Alicante	65.0000
Marina Sp.z.o.o., Sopot	100.0000
MEAG Adam, Munich[4]	100.0000
MEAG ANGLO CELTIC Fund, Munich[4]	100.0000
MEAG Bavaria, Munich[4]	100.0000
MEAG Benedict, Munich[4]	100.0000
MEAG BLN 2, Munich[4]	100.0000
MEAG Cash Management GmbH, Munich	100.0000
MEAG EDL CurryGov, Munich[4]	100.0000
MEAG EDL EuroValue, Munich[4]	100.0000
MEAG EDS AGIL, Munich[4]	100.0000
MEAG EUR Global 1, Munich[4]	100.0000
MEAG Eurak, Munich[4]	100.0000
MEAG Euro 1, Munich[4]	100.0000
MEAG Euro 2, Munich[4]	100.0000
MEAG EURO-FONDS, Munich[4]	100.0000
Meag Eurostar (Spezialfonds), Munich[4]	100.0000
MEAG EURO-Yield, Munich[4]	100.0000
MEAG GBP Equities, Munich[4]	100.0000
MEAG GBP-Global-STAR, Munich[4]	100.0000
MEAG German Prime Opportunities (GPO), Munich[4]	100.0000
MEAG Gilagrent, Munich[4]	100.0000
MEAG Golf 1, Munich[4]	100.0000
MEAG HBG 1, Munich[4]	100.0000
MEAG HM Renten, Munich[4]	100.0000
MEAG HM Sach 1, Munich[4]	100.0000
MEAG HM Sach Rent 1, Munich[4]	100.0000
MEAG HM2000, Munich[4]	100.0000
MEAG HMR1, Munich[4]	100.0000
MEAG HMR2, Munich[4]	100.0000

Company and registered seat	% share of capital
MEAG IREN, Munich[4]	100.0000
MEAG Kapital 2, Munich[4]	100.0000
MEAG Kapital 5, Munich[4]	100.0000
MEAG Lambda EUR 2, Grünwald[4]	100.0000
MEAG Lambda EUR EM Local, Munich[4]	100.0000
MEAG Lambda EUR, Grünwald[4]	100.0000
MEAG Lambda GBP, Grünwald[4]	100.0000
MEAG Lambda USD, Grünwald[4]	100.0000
MEAG Lambda USD-COP, Grünwald[4]	100.0000
MEAG Multi Sach 1, Munich[4]	100.0000
MEAG MUNICH ERGO AssetManagement GmbH, Munich	100.0000
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich	100.0000
MEAG Munich Re Placement, Grünwald[4]	100.0000
MEAG New York Corporation, Wilmington, Delaware	100.0000
MEAG NOK-Fonds, Munich[4]	100.0000
MEAG Olympia, Munich[4]	100.0000
MEAG OptiMAX, Munich[4]	100.0000
MEAG PK-NORD, Munich[4]	100.0000
MEAG PK-WEST, Munich[4]	100.0000
MEAG Premium, Munich[4]	100.0000
MEAG RenditePlus, Munich[4]	100.0000
MEAG REVO, Munich[4]	100.0000
MEAG SAG 1, Munich[4]	100.0000
MEAG Sustainability, Munich[4]	100.0000
Meag Tandem (Spezialfonds), Munich[4]	100.0000
MEAG UK Reserve 1, Munich[4]	100.0000
MEAG US Dollar Bond, Munich[4]	100.0000
MEAG US Real Estate Management Holdings, Inc., Wilmington, Delaware	100.0000
MEAG US Reserve, Munich[4]	100.0000
MEAG USD Equities, Munich[4]	100.0000
MEAG Vidas 4, Munich[4]	100.0000
MEAG Vidas Rent 3, Munich[4]	100.0000
MEAG Vigifonds, Munich[4]	100.0000
MEAG VLA, Munich[4]	100.0000
MedNet Bahrain W.L.L., Bahrain	100.0000
MedNet Greece S.A., Athens	78.1419
MedNet Holding GmbH, Munich	100.0000
MedNet International Ltd., Nicosia	100.0000
MedNet Saudi Arabia LLC, Riyadh	100.0000
MedNet UAE FZ L.L.C., Dubai	100.0000
Merkur Grundstücks- und Beteiligungs-Gesellschaft mit beschränkter Haftung, Düsseldorf	100.0000
Midland-Guardian Co., Amelia, Ohio	100.0000
Midwest Enterprises, Inc., Miami, Florida	100.0000
Modern Life Insurance Company of Arizona, Inc., Phoenix, Arizona	100.0000
MR Beteiligungen 1. GmbH, Munich[3]	100.0000
MR Beteiligungen 18. GmbH & Co. Immobilien KG, Grünwald[2]	100.0000
MR Beteiligungen 19. GmbH, Munich	100.0000
MR Beteiligungen 2. EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen 3. EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen GBP AG & Co. KG, Grünwald[2]	100.0000

Company and registered seat	% share of capital
MR Beteiligungen USD AG & Co. KG, Grünwald[2]	100.0000
MR Infrastructure Investment GmbH, Grünwald	100.0000
MR RENT UK Investment Limited, London	100.0000
MR RENT-Investment GmbH, Munich	100.0000
MR Solar GmbH & Co. KG, Nuremberg	100.0000
MR SOLAR SAS DER WELIVIT SOLAR ITALIA SRL, Bolzano	100.0000
MSP Underwriting Ltd., London	100.0000
MTU Moje Towarzystwo Ubezpieczeniowe S.A., Sopot	100.0000
MU068 MR Placem (FCP), Munich[4]	99.5500
Munich American Holding Corporation, Wilmington, Delaware	100.0000
Munich American Life Reinsurance Company, Atlanta, Georgia	100.0000
Munich American Reassurance Company, Atlanta, Georgia	100.0000
Munich Atlanta Financial Corporation, Atlanta, Georgia	100.0000
Munich Health Alpha GmbH, Munich	100.0000
Munich Health Daman Holding Ltd., Abu Dhabi	51.0000
Munich Health Holding AG, Munich[3]	100.0000
Munich Health North America, Inc., Wilmington, Delaware	100.0000
Munich Holdings Ltd., Toronto, Ontario	100.0000
Munich Holdings of Australasia Pty. Ltd., Sydney	100.0000
Munich Life Management Corporation Ltd., Toronto, Ontario	100.0000
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.0000
Munich Re America Corporation, Wilmington, Delaware	100.0000
Munich Re America Services Inc., Wilmington, Delaware	100.0000
Munich Re Automation Solutions Limited, Dublin	100.0000
Munich Re Capital Limited, London	100.0000
Munich Re Capital Markets New York, Inc., Wilmington, Delaware	100.0000
Munich Re do Brasil Resseguradora S.A., São Paulo	100.0000
Munich Re Holding Company (UK) Ltd., London	100.0000
Munich Re of Malta Holding Limited, Ta' Xbiex	99.9999
Munich Re of Malta p.l.c., Ta' Xbiex	99.9999
Munich Re Stop Loss, Inc., Wilmington, Delaware	100.0000
Munich Re UK Services Limited, London	100.0000
Munich Re Underwriting Limited, London	100.0000
Munich Reinsurance America, Inc., Wilmington, Delaware	100.0000
Munich Reinsurance Company of Africa Ltd, Johannesburg	100.0000
Munich Reinsurance Company of Australasia Ltd, Sydney	100.0000
Munich Reinsurance Company of Canada, Toronto, Ontario	100.0000
Munichre General Services Limited, London	100.0000
Munichre New Zealand Service Ltd., Auckland	100.0000
N.M.U. (Holdings) Limited, Leeds	100.0000
Neckermann Lebensversicherung AG, Fürth	100.0000
Neckermann Versicherung AG, Nuremberg	100.0000
New Reinsurance Company Ltd., Zurich	100.0000
Nightingale Legal Services Ltd., Bristol	100.0000
NMU Group Limited, London	100.0000
Northern Marine Underwriters Limited, Leeds	100.0000

Company and registered seat	% share of capital
OIK Mediclin, Wiesbaden[4]	66.6672
Olympic Health Management Services Inc., Atlanta, Georgia	100.0000
Olympic Health Management Systems, Inc., Atlanta, Georgia	100.0000
P.A.N. GmbH & Co. KG, Grünwald[2]	99.0000
Princeton Eagle Holding (Bermuda) Limited, Hamilton, Bermuda	100.0000
Princeton Eagle Insurance Company Limited, Hamilton, Bermuda	100.0000
Princeton Eagle West (Holding) Inc., Wilmington, Delaware	100.0000
Princeton Eagle West Insurance Company Ltd., Hamilton, Bermuda	100.0000
Queensley Holdings Limited, Singapore[4]	100.0000
Renaissance Hotel Realbesitz GmbH, Vienna	60.0000
Roanoke International Brokers Limited, London	100.0000
Roanoke Real Estate Holdings Inc., Schaumburg, Illinois	100.0000
Roanoke Trade Services Inc., Schaumburg, Illinois	100.0000
Scout Moor Group Limited, Manchester	100.0000
Scout Moor Holdings (No.1) Limited, Manchester	100.0000
Scout Moor Holdings (No.2) Limited, Manchester	100.0000
Scout Moor Wind Farm (No.2) Limited, Manchester	100.0000
Scout Moor Wind Farm Limited, Manchester	100.0000
Seminaris Hotel- und Kongreßstätten-Betriebsgesellschaft mbH, Lüneburg	100.0000
Silvanus Vermögensverwaltungsges.mbH, Munich	100.0000
Solomon Associates Limited, London	100.0000
Sopocki Instytut Ubezpieczeń S.A., Sopot	100.0000
Sopockie Towarzystwo Ubezpieczeń Ergo Hestia Spółka Akcyjna, Sopot	100.0000
Sopockie Towarzystwo Ubezpieczeń na Życie Ergo Hestia Spółka Akcyjna, Sopot	100.0000
Specialty Insurance Services Corp., Amelia, Ohio	100.0000
Sterling Life Insurance Company, Atlanta, Georgia	100.0000
SunEnergy & Partners S.r.l., Brindisi	100.0000
Temple Insurance Company, Toronto, Ontario	100.0000
The Atlas Insurance Agency, Inc., Amelia, Ohio	100.0000
The Boiler Inspection and Insurance Company of Canada, Toronto	100.0000
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut	100.0000
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut	100.0000
The Midland Company, Cincinnati, Ohio	100.0000
The Polytechnic Club, Inc., Hartford, Connecticut	100.0000
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware	100.0000
The Roanoke Companies Inc., Schaumburg, Illinois	100.0000
Tir Mostyn and Foel Goch Limited, London	100.0000
UK Wind Holdings Ltd, London	100.0000
Union Beteiligungsholding GmbH, Vienna	100.0000
Union Life Insurance Company, Jonesboro, Arkansas	100.0000
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa	100.0000
Van Arkel Gerechtsdeurwaarders B.V., Leiden[12]	79.0000
Venus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
VHDK Beteiligungsgesellschaft mbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
VICTORIA Asien Immobilienbeteiligungs GmbH & Co. KG, Munich	100.0000
VICTORIA Investment Properties Two L.P., Atlanta, Georgia	100.0000
VICTORIA Italy Property GmbH, Düsseldorf	100.0000
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf	100.0000
Victoria US Holdings, Inc., Wilmington, Delaware	100.0000
VICTORIA US Property Investment GmbH, Düsseldorf	100.0000
VICTORIA US Property Zwei GmbH, Düsseldorf	100.0000
VICTORIA Vierte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
Victoria Vierter Bauabschnitt GmbH & Co. KG, Düsseldorf	100.0000
VICTORIA-VOLKSBANKEN Eletbiztosító Zrt., Budapest	100.0000
VICTORIA-VOLKSBANKEN Poisťovňa, a.s., Bratislava	100.0000
VICTORIA-VOLKSBANKEN Biztosító Zrt., Budapest	100.0000
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	100.0000
Vorsorge Luxemburg Lebensversicherung S.A., Munsbach	100.0000
Watkins Syndicate Hong Kong Limited, Hong Kong	67.0000
Watkins Syndicate Labuan Limited (WSLAB), Labuan	100.0000
Watkins Syndicate Middle East Limited, Dubai	100.0000
Watkins Syndicate Singapore Pte. Limited, Singapore	100.0000
welivit AG, Nuremberg	100.0000
WFB Stockholm Management AB, Stockholm[4]	50.0000
Windpark Borghorst-Laer GmbH & Co.KG, Bremen	100.0000
Windpark Dargelütz GmbH & Co. KG, Bremen	100.0000
Windpark Frauenmark GmbH & Co., Bremen	100.0000
Windpark Geisleiden GmbH & Co KG, Bremen	100.0000
Windpark Großberendten 2 GmbH & Co KG, Bremen	100.0000
Windpark Hilmersdorf GmbH & Co KG, Bremen	100.0000
Windpark Kladrum-Zölkow GmbH & Co.KG, Bremen	100.0000
Windpark Klein Bünzow GmbH & Co KG, Bremen	100.0000
Windpark Kruge GmbH & Co KG, Bremen	100.0000
Windpark Langengrassau GmbH & Co KG, Bremen	100.0000
Windpark Markee 6 GmbH & Co. KG, Bremen	100.0000
Windpark Marwitz GmbH & Co KG, Bremen	100.0000
Windpark Mittelhausen GmbH & Co KG, Bremen	100.0000
Windpark Sassenberg GmbH & Co KG, Bremen	100.0000
Windpark Westeregeln GmbH & Co. KG, Bremen	100.0000
Windsor Health Group, Inc., Atlanta, Georgia	100.0000
Windsor Health Plan of Georgia, Inc., Atlanta, Georgia	100.0000
Windsor Health Plan of Louisiana, Inc., Lafayette, Louisiana	100.0000
Windsor Health Plan, Inc., Atlanta, Georgia	100.0000
Windsor HomeCare Network, LLC, Atlanta, Georgia	100.0000
Windsor Management Services, Inc., Atlanta, Georgia	100.0000
wpd Windpark Wergzahna GmbH & Co KG, Bremen	100.0000
wse Solarpark Spanien 1 GmbH & Co. KG, Fürth	75.1243
Non-consolidated subsidiaries	
50 Plus Strategies, Inc., Atlanta, Georgia	100.0000
80e LIMITED, Bristol	100.0000
Acalater 140014 S.L., Playa del Inglés	100.0000

Company and registered seat	% share of capital
Aitesacho 5005 S.L., Playa del Inglés	100.0000
Albulzaga 8008 S.L., Playa del Inglés	100.0000
Aleama 150015 S.L., Madrid	100.0000
Amicus Ltd., Bristol	100.0000
Amladeza 7007 S.L., Playa del Inglés	100.0000
Arridabra 130013 S.L., Madrid	100.0000
ARTES Assekuranzservice GmbH, Düsseldorf	100.0000
ArztPartner almeda AG, Munich	100.0000
Associated Asset Management Corporation B.V., 's-Hertogenbosch	51.0000
B&D Acquisition B.V., Amsterdam	80.0000
B&D Business Solutions B.V., Utrecht	100.0000
Badozoc 1001 S.L., Madrid	100.0000
Bank Austria Creditanstalt Versicherungsdienst GmbH, Vienna	100.0000
Baqueda 7007 S.L., Madrid	100.0000
Beaufort Dedicated No. 3 Ltd, London	100.0000
Beaufort Dedicated No. 4 Ltd, London	100.0000
Beaufort Dedicated No. 6 Ltd, London	100.0000
Beaufort Underwriting Services Limited, London	100.0000
Bell & Clements Underwriting Managers Ltd, London	100.0000
BioEnergie Elbe-Elster GmbH & Co. KG, Elsterwerda	100.0000
BioEnergie Verwaltungs-GmbH, Elsterwerda	100.0000
Blitz 01-807 GmbH, Munich	100.0000
Bobasbe 6006 S.L., Madrid	100.0000
Botedazo 8008 S.L., Madrid	100.0000
Bureau voor kredietinformaties Janssen B.V., The Hague	100.0000
Bureau voor kredietinformaties Janssen Holding B.V., The Hague	100.0000
Callopio 5005 S.L., Madrid	100.0000
Camcichu 9009 S.L., Madrid	100.0000
CAPITAL PLAZA Holding GmbH, Düsseldorf	100.0000
Caracuel Solar Catorce S.L., Madrid	100.0000
Caracuel Solar Cinco S.L., Madrid	100.0000
Caracuel Solar Cuatro S.L., Madrid	100.0000
Caracuel Solar Dieciocho S.L., Madrid	100.0000
Caracuel Solar Dieciseis S.L., Madrid	100.0000
Caracuel Solar Diecisiete S.L., Madrid	100.0000
Caracuel Solar Diez S.L., Madrid	100.0000
Caracuel Solar Doce S.L., Madrid	100.0000
Caracuel Solar Dos S.L., Madrid	100.0000
Caracuel Solar Nueve S.L., Madrid	100.0000
Caracuel Solar Ocho S.L., Madrid	100.0000
Caracuel Solar Once S.L., Madrid	100.0000
Caracuel Solar Quince S.L., Madrid	100.0000
Caracuel Solar Seis S.L., Madrid	100.0000
Caracuel Solar Siete S.L., Madrid	100.0000
Caracuel Solar Trece S.L., Madrid	100.0000
Caracuel Solar Tres S.L., Madrid	100.0000
Caracuel Solar Uno S.L., Madrid	100.0000
CarePlus Gesellschaft für Versorgungsmanagement mbH, Cologne	100.0000
Chobocuga 150015 S.L., Playa del Inglés	100.0000
Ciborum GmbH, Munich	100.0000
Comino Beteiligungen GmbH, Grünwald	100.0000
Copper Leaf Research, Bingham Farms, Michigan	100.0000

Company and registered seat	% share of capital
Corion Pty Limited, Sydney	100.0000
Cotatrillo 100010 S.L., Madrid	100.0000
DAS Consultancy & Detachering Rotterdam B.V., Rotterdam	75.0200
DAS Financial Services B.V., Amsterdam	51.0000
DAS Incasso Arnhem B.V., Arnhem	100.0000
DAS Incasso Eindhoven B.V., 's-Hertogenbosch	80.0000
DAS Incasso Rotterdam B.V., Rotterdam	80.0000
DAS Law Limited, Bristol	100.0000
DAS Legal Protection Ireland Limited, Dublin	100.0000
DAS Legal Protection Limited, Christchurch	100.0000
DAS Legal Protection Limited, Vancouver, British Columbia	100.0000
DAS Legal Protection Pty. Ltd., Sydney	100.0000
DAS Lex Assistance, S.L., L'Hospitalet de Llobregat	100.0000
De Wit Vissers Incasso Holding B.V., Breda	95.0000
Diana Vermögensverwaltungs AG, Munich	100.0000
DKV – Beta Vermögensverwaltungs GmbH, Cologne	100.0000
DKV Gesundheits Service GmbH, Cologne	100.0000
DKV Immobilienverwaltungs GmbH, Cologne	100.0000
DKV Residenz am Tibusplatz gGmbH, Münster	100.0000
DKV Servicios, S.A., Saragossa	100.0000
DKV-Residenz in der Contrescarpe GmbH, Bremen	100.0000
DRA Debt Recovery Agency B.V., The Hague	100.0000
E&S Claims Management Inc., Reston, Virginia[4]	0.0000
Economic Data Research B.V., Leidschendam	100.0000
Economic Data Resources B.V., Leidschendam	100.0000
EDR Acquisition B.V., Amsterdam	100.0000
EDR Credit Services B.V., The Hague	100.0000
ERGO Alpha GmbH, Düsseldorf	100.0000
ERGO Asia Management Pte. Ltd., Singapore	100.0000
ERGO GmbH, Herisau	100.0000
ERGO Gourmet GmbH, Düsseldorf	100.0000
ERGO Immobilien-GmbH 1. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 15. Victoria & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 4. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 6. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 7. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
ERGO Immobilien-Verwaltungs-GmbH, Kreien	100.0000
ERGO Insurance Service GmbH, Vienna	99.6000
ERGO Leben Asien Verwaltungs GmbH, Munich	100.0000
ERGO PORTFÖY YÖNETIMI A.S., Istanbul	100.0000
ERGO Private Capital GmbH, Düsseldorf	100.0000
ERGO Private Capital Zweite GmbH & Co. KG, Düsseldorf	100.0000
ERGO Pro Sp. z o.o., Warsaw	100.0000
ERGO Pro, spol. s r.o., Prague	100.0000
ERGO Specialty GmbH, Hamburg	100.0000
ERGO Versicherungs- und Finanzierungs-Vermittlung GmbH, Hamburg	100.0000
ERGO Zehnte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERIN Sigorta Aracilik Hizmetleri Limited Sirketi, Istanbul	99.9950
ERV (China) Travel Service and Consulting Ltd., Beijing	100.0000
ERV (India) Travel Service and Consulting Private Limited, Mumbai	99.9999

Company and registered seat	% share of capital
ERV Seyahat Sigorta Aracilik Hizmetleri ve Danismanlik Ltd.Sti., Istanbul	99.0000
Esoleme 120012 S.L., Playa del Inglés	100.0000
Etics, s.r.o., Prague	100.0000
Etoblete 160016 S.L., Madrid	100.0000
Etogibon 100010 S.L., Playa del Inglés	100.0000
Etolede 6006 S.L., Playa del Inglés	100.0000
EUREKA GmbH, Düsseldorf	99.9999
Euro Alarm Assistance Prague, Prague	100.0000
Euro-Center (Cyprus) Ltd., Larnaca	100.0000
Euro-Center (Thailand) Co. Ltd., Bangkok	100.0000
Euro-Center Cape Town (Pty.) Ltd., Cape Town	100.0000
Euro-Center China (HK) Co., Ltd., Peking	100.0000
Euro-Center Holding A/S, Copenhagen	83.3330
Euro-Center Holding North Asia (HK) Pte. Ltd., Hong Kong	100.0000
Euro-Center Ltda., Rio de Janeiro	100.0000
Euro-Center USA, Inc., New York, New York	100.0000
Euro-Center Yerel Yardim, Istanbul	100.0000
Euro-Center, S.A. (Spain), Palma de Mallorca	100.0000
Europäische (UK) Ltd., London	100.0000
European Assistance Holding GmbH, Munich	100.0000
Evaluación Médica TUW, S.L., Barcelona	100.0000
EVV Logistik Management GmbH, Düsseldorf	100.0000
Exolvo GmbH, Hamburg	100.0000
First Legal Protection Limited, Bristol	100.0000
First Marine Financial Services, Amelia, Ohio	100.0000
Forst Ebnath AG, Ebnath	96.7315
Gamaponti 140014 S.L., Madrid	100.0000
GBG Vogelsanger Straße GmbH, Cologne	94.0000
Gebäude Service Gesellschaft Überseering 35 mbH, Hamburg	100.0000
GEMEDA Gesellschaft für medizinische Datenerfassung und Auswertung sowie Serviceleistungen für freie Berufe mbH, Cologne	100.0000
goDentis – Gesellschaft für Innovation in der Zahnheilkunde mbH, Cologne	100.0000
goMedus Gesellschaft für Qualität in der Medizin mbH, Cologne	100.0000
goMedus GmbH & Co. KG, Cologne	100.0000
GRANCAN Sun-Line S.L., Madrid	100.0000
Great Lakes Marine Insurance Agency Pty Ltd i.L., Sydney	100.0000
Great Lakes Re Management Company (Belgium) S.A., Brussels	100.0000
Guanzu 2002 S.L., Madrid	100.0000
Hamburger Hof Management GmbH, Hamburg	100.0000
Hamburg-Mannheimer ForsikringService A/S, Copenhagen	100.0000
Hamburg-Mannheimer Rechtsschutz Schaden-Service GmbH, Hamburg	100.0000
Hartford Steam Boiler Colombia Ltda., Bogotá	100.0000
Health OÜ, Tallinn	100.0000
Hestia Advanced Risk Solutions Sp. z o.o., Sopot	100.0000
Hestia Loss Control Sp. z o.o., Sopot	100.0000
HMI S.r.l., Verona	100.0000
Horbach GmbH Versicherungsvermittlung und Finanzdienstleistungen, Düsseldorf	70.1000

Company and registered seat	% share of capital
HSB Associates, Inc, New York, New York	100.0000
HSB Inspection Quality, Limited, Oldham	100.0000
HSB Investment Corporation, Hartford, Connecticut	100.0000
HSB Ventures, Inc., Dover, Delaware	100.0000
Humanity B.V., The Hague	100.0000
Ibero Property Guadalix S.A., Madrid	100.0000
IDEENKAPITAL Anlagebetreuungs GmbH, Düsseldorf	100.0000
Ideenkapital Client Service GmbH, Düsseldorf	100.0000
Ideenkapital erste Investoren Service GmbH, Düsseldorf	100.0000
Ideenkapital Fonds Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Media Treuhand GmbH, Düsseldorf	100.0000
IDEENKAPITAL Metropolen Europa Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IDEENKAPITAL PRORENDITA EINS Treuhandgesellschaft mbH, Düsseldorf	100.0000
IDEENKAPITAL Schiffsfonds Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Treuhand US Real Estate eins GmbH, Düsseldorf	100.0000
IK Einkauf Objektverwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK Einkaufsmärkte Deutschland Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK FE Fonds Management GmbH, Düsseldorf	100.0000
IK FE Management GmbH, Düsseldorf	100.0000
IK Komp GmbH, Düsseldorf	100.0000
IK Objekt Bensheim GmbH, Düsseldorf	100.0000
IK Objekt Frankfurt Theodor-Heuss-Allee GmbH, Düsseldorf	100.0000
IK Pflegezentrum Uelzen Verwaltungs-GmbH, Düsseldorf	100.0000
IK Property Eins Verwaltungsgesellschaft mbH, Hamburg	100.0000
IK Property Treuhand GmbH, Düsseldorf	100.0000
IK US Portfolio Invest DREI Verwaltungs-GmbH, Düsseldorf	100.0000
IK US Portfolio Invest Verwaltungs-GmbH, Düsseldorf	100.0000
IK US Portfolio Invest ZWEI Verwaltungs-GmbH, Düsseldorf	100.0000
InterAssistance Gesellschaft für Dienstleistungen mit beschränkter Haftung, Munich	100.0000
Janus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Jupiter Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Juventus Vermögensverwaltungs AG, Hamburg	100.0000
K & P Objekt Hamburg Hamburger Straße GmbH, Düsseldorf	100.0000
K & P Objekt München Hufelandstraße GmbH, Düsseldorf	100.0000
KQV Solarpark Franken 1 GmbH & Co. KG, Fürth	100.0000
Kuik & Partners Gerechtsdeurwaarders & Incassobureau B.V., Eindhoven	100.0000
Larus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
LAVG Zuid B.V., Breda	100.0000
LawAssist Limited, Bristol	100.0000

Company and registered seat	% share of capital
Legal Net GmbH, Munich	100.0000
m:editerran POWER FRANCE GmbH, Nuremberg	100.0000
m:editerran POWER GmbH & Co. KG, Nuremberg	100.0000
m:editerran Power S.a.s. di welivit Solar Italia S.r.l., Bolzano	100.0000
MAM Munich Asset Management GmbH, Munich	100.0000
Marbury Agency, Inc., Amelia, Ohio	100.0000
MAYFAIR Financing GmbH, Munich	100.0000
MAYFAIR Holding GmbH, Düsseldorf	100.0000
MEAG Hong Kong Limited, Hong Kong	100.0000
MEAG Luxembourg S.à r.l., Luxembourg	100.0000
MEAG Property Management GmbH, Munich	100.0000
MEAG Real Estate Erste Beteiligungsgesellschaft, Munich	100.0000
Mediastream Consulting GmbH, Grünwald	100.0000
Mediastream Dritte Film GmbH, Grünwald	100.0000
Mediastream Film GmbH, Grünwald	100.0000
Mediastream Vierte Medien GmbH, Grünwald	100.0000
Mediastream Zweite Film GmbH, Grünwald	100.0000
MedNet Europa GmbH, Munich	100.0000
MedNet Gulf E.C., Manama	100.0000
MedNet International Offshore SAL, Beirut	99.6700
MedWell Gesundheits-AG, Cologne	100.0000
MESA ASISTENCIA, S.A., Madrid	99.9000
MFI Munich Finance and Investment Holding Ltd., Ta' Xbiex	99.9999
MFI Munich Finance and Investment Ltd., Ta' Xbiex	99.9999
miCura Pflegedienste Berlin GmbH, Berlin	100.0000
miCura Pflegedienste Bremen GmbH, Bremen	100.0000
miCura Pflegedienste Düsseldorf GmbH, Düsseldorf	100.0000
miCura Pflegedienste GmbH, Cologne	100.0000
miCura Pflegedienste Hamburg GmbH, Hamburg	100.0000
miCura Pflegedienste Krefeld GmbH, Krefeld	100.0000
miCura Pflegedienste München / Dachau GmbH, Dachau	51.0000
miCura Pflegedienste München GmbH, Munich	100.0000
miCura Pflegedienste München Ost GmbH, Munich	65.0000
miCura Pflegedienste Münster GmbH, Münster	100.0000
miCura Pflegedienste Nürnberg GmbH, Nuremberg	51.0000
MR Beteiligungen 14. GmbH, Munich	100.0000
MR Beteiligungen 15. GmbH, Munich	100.0000
MR Beteiligungen 16. GmbH, Munich	100.0000
MR Beteiligungen 18. GmbH, Grünwald	100.0000
MR Beteiligungen AG, Grünwald	100.0000
MR ERGO Beteiligungen GmbH, Munich	100.0000
MR Parkview Holding Corporation, Wilmington, Delaware	100.0000
MR RENT-Management GmbH, Munich	100.0000
MR Solar Beneixama GmbH, Nuremberg	100.0000
Münchener Consultora Internacional S.R.L., Santiago de Chile	100.0000
Münchener de Argentina Servicios Técnicos S. R. L., Buenos Aires	100.0000
Münchener de Colombia S.A. Corredores de Reaseguros, Bogotá	100.0000
Münchener de Mexico S. A., Mexico	100.0000
Münchener de Venezuela C.A. Intermediaria de Reaseguros, Caracas	100.0000

Company and registered seat	% share of capital
Münchener Ecoconsult GmbH i.L., Munich	100.0000
Münchener Finanzgruppe AG Beteiligungen, Munich	100.0000
Münchener Vermögensverwaltung GmbH, Munich	100.0000
Munich American Reassurance Company PAC, Inc., Atlanta, Georgia[4]	0.0000
Munich Canada Systems Corporation, Toronto, Ontario	100.0000
Munich Columbia Square Corp., Wilmington, Delaware	100.0000
Munich Management Pte. Ltd., Singapore	100.0000
Munich Re America Brokers, Inc., Wilmington, Delaware	100.0000
Munich Re America Management Ltd., London	100.0000
Munich Re Automation Solutions GmbH, Grünwald	100.0000
Munich Re Automation Solutions Inc., Wilmington, Delaware	100.0000
Munich Re Automation Solutions KK, Tokyo	100.0000
Munich Re Automation Solutions Pty Limited, Sydney	100.0000
Munich Re Capital Markets GmbH, Munich	100.0000
Munich Re General (UK) Limited i.L., London	100.0000
Munich Re India Services Private Limited, Mumbai	100.0000
Munich Re Japan Services K. K., Tokyo	100.0000
Munich Re Life and Health (UK) Plc., London	100.0000
Munich Re Underwriting Agents (DIFC) Limited, Dubai	100.0000
Munich-American Global Services (Munich) GmbH i.L., Munich	100.0000
Munich-American Risk Partners GmbH, Munich	100.0000
Munich-Canada Management Corp. Ltd., Toronto, Ontario	100.0000
MunichFinancialGroup AG Holding, Munich	100.0000
MunichFinancialGroup GmbH, Munich	100.0000
MunichFinancialServices AG Holding, Munich	100.0000
Munichre Service Limited, Hong Kong	100.0000
Naretoblera 170017 S.L., Madrid	100.0000
Nassau Incasso Services Den Haag B.V., The Hague	100.0000
Nerruze 120012 S.L., Madrid	100.0000
Nicamballo 1001 S.L., Playa del Inglés	100.0000
OHM Services of Texas, Inc., Atlanta, Georgia	100.0000
Olbodeca 4004 S.L., Playa del Inglés	100.0000
One State Street Intermediaries, Hartford, Connecticut	100.0000
Oracuet 160016 S.L., Playa del Inglés	100.0000
Oragulno 9009 S.L., Playa del Inglés	100.0000
Oraunte 130013 S.L., Playa del Inglés	100.0000
Orrazipo 110011 S.L., Madrid	100.0000
Otusleme 3003 S.L., Playa del Inglés	100.0000
P.A.N. Verwaltungs GmbH, Grünwald	99.0000
PLATINIA Verwaltungs-GmbH, Munich	100.0000
ProContact Sp. z o.o., Gdansk	100.0000
PRORENDITA DREI Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA EINS Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA Fünf Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA VIER Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA ZWEI Verwaltungsgesellschaft mbH, Hamburg	100.0000
ProVictor Immobilien GmbH, Düsseldorf[7]	50.0000
ProVictor Property Fund IV Management, Inc., Atlanta, Georgia	51.0000

Company and registered seat	% share of capital
ProVictor Property Fund V Management, Inc., Atlanta, Georgia	51.0000
ProVictor Property Fund VI Management, Inc., Atlanta, Georgia	51.0000
ProVictor US Corporation, Atlanta, Georgia	100.0000
Quirinus AG, Düsseldorf	100.0000
Reaseguradora de las Américas S. A., La Habana	100.0000
Roanoke International Insurance Agency Inc., Schaumburg, Illinois	100.0000
Roanoke Trade Insurance Inc., Schaumburg, Illinois	100.0000
Roanoke Trade Services of Texas Inc., Schaumburg, Illinois	100.0000
SAINT LEON ENERGIE S.A.R.L., Strasbourg	100.0000
Schloss Hohenkammer GmbH, Hohenkammer	100.0000
Schrömbgens & Stephan GmbH, Versicherungsmakler, Düsseldorf	100.0000
Seldac 1. Kommunaler-Rendite-Fonds GmbH & Co. KG, Düsseldorf	100.0000
Seldac 1. Verwaltungs-GmbH, Düsseldorf	100.0000
Solarfonds Garmisch-Partenkirchen 2011 GmbH & Co. KG, Nuremberg	99.7500
Sopockie Towarzystwo Doradcze Sp. z o.o., Sopot	100.0000
Stichting Aandelen Beheer D.A.S. Holding, Amsterdam	100.0000
Sydney Euro-Center Pty. Ltd., Sydney	100.0000
Synkronos Italia SRL, Milan	60.1000
TAS Assekuranz Service GmbH, Frankfurt/Main	100.0000
TAS Touristik Assekuranz Service International GmbH, Frankfurt/Main	100.0000
TAS Touristik Assekuranzmakler und Service GmbH, Frankfurt/Main	100.0000
Teginago 2002 S.L., Playa del Inglés	100.0000
Tennessee Utilities Assistance Fund, Inc., Atlanta, Georgia	100.0000
Tenoslema 110011 S.L., Playa del Inglés	100.0000
TGR Biztosítás Többesügynöki Zrt., Budapest	100.0000
The National Senior Membership Group, Atlanta, Georgia	100.0000
Three Lions Underwriting Ltd., London	100.0000
Tillobesta 180018 S.L., Madrid	100.0000
TIS Holdings Inc., Schaumburg, Illinois	100.0000
Titus AG, Düsseldorf	100.0000
Trade Insurance Services Inc, Schaumburg, Illinois	100.0000
Trusted Documents GmbH, Nuremberg	100.0000
US PROPERTIES VA Verwaltungs-GmbH, Düsseldorf	100.0000
VB VICTORIA Zastupanje u Osiguranju d.o.o., Zagreb	74.9000
Verwaltungsgesellschaft "PORT VICTORIA" GmbH, Hamburg	100.0000
VFG Vorsorge-Finanzierungsconsulting GmbH, Vienna	100.0000
VICTORIA Erste Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
VICTORIA Immobilien Management GmbH, Munich	100.0000
VICTORIA Immobilien-Fonds GmbH, Düsseldorf	100.0000
VICTORIA US Beteiligungsgesellschaft mbH, Munich	100.0000
Victoria Vierter Bauabschnitt Management GmbH, Düsseldorf	100.0000
Victoria VIP II, Inc., Wilmington, Delaware	100.0000
Viwis GmbH, Munich	100.0000
Vorsorge Service GmbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
VV-Consulting Gesellschaft für Risikoanalyse, Vorsorgeberatung und Versicherungsvermittlung GmbH, Vienna	100.0000
VV-Consulting Többesügynöki Kft., Budapest	100.0000
welivit New Energy GmbH, Fürth	100.0000
welivit Solar España GmbH, Nuremberg	100.0000
Welivit Solar Italia s.r.l., Bolzano	100.0000
Windpark Langengrassau Infrastruktur GbR, Bremen	83.3300
Windsor DME Operations, Inc., Atlanta, GA	100.0000
Windsor Long Term Care, LLC, Atlanta, GA	100.0000
WNE Solarfonds Süddeutschland 2 GmbH & Co. KG, Nuremberg	100.0000
Wohnungsgesellschaft Brela mbH, Hamburg	100.0000
Zacobu 110011 S.L., Madrid	100.0000
Zacuba 6006 S.L., Madrid	100.0000
Zacubacon 150015 S.L., Madrid	100.0000
Zafacesbe 120012 S.L., Madrid	100.0000
Zagacobi 180018 S.L., Playa del Inglés	100.0000
Zapaceba 170017 S.L., Playa del Inglés	100.0000
Zapacubi 8008 S.L., Madrid	100.0000
Zarzucolumbu 100010 S.L., Madrid	100.0000
Zetaza 4004 S.L., Madrid	100.0000
Zicobucar 140014 S.L., Madrid	100.0000
Zucaelo 130013 S.L., Madrid	100.0000
Zucampobi 3003 S.L., Madrid	100.0000
Zucarrobiso 2002 S.L., Madrid	100.0000
Zucobaco 7007 S.L., Madrid	100.0000
Zulazor 3003 S.L., Madrid	100.0000
Zumbicobi 5005 S.L., Madrid	100.0000
Zumcasba 1001 S.L., Madrid	100.0000
Zuncabu 4004 S.L., Madrid	100.0000
Zuncolubo 9009 S.L., Madrid	100.0000
Associates accounted for using the equity method	
13th & F associates Limited Partnership, Washington D.C.[9]	80.0000
Apollo Munich Health Insurance Co. Ltd., Hyderabad	25.6800
BHS tabletop AG, Selb[1] (MC €38m)	28.9134
Bloemers Beheer B.V., Rotterdam	23.1824
Consorcio Internacional de Aseguradores de Crédito, S.A., Madrid[5]	19.4982
Consortia Versicherungs-Beteiligungsgesellschaft mbH, Nuremberg	33.7027
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	49.9920
DAMAN – National Health Insurance Company, Abu Dhabi	20.0000
Dovull SPV GmbH & Co. KG, Frankfurt/Main	20.0597
ERGO China Life Insurance Co., Ltd., Jinan	50.0000
Európai Utazási Biztosító Rt., Budapest	26.0000
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna	25.0100
Global Aerospace Underwriting Managers Ltd., London	40.0000
Global Insurance Company, Ho Chi Minh City	25.0000
HDFC ERGO General Insurance Company Ltd., Mumbai	26.0000
HighTech Beteiligungen GmbH und Co. KG, Düsseldorf	23.1000
KarstadtQuelle Finanz Service GmbH, Düsseldorf	50.0000
MAYFAIR Holding GmbH & Co. Singapur KG, Düsseldorf	71.4285
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf	50.0000
MDP Ventures I L.L.C., New York, New York	50.0000
MEAG Pacific Star Holdings Ltd., Hong Kong	50.0000
MEDICLIN Aktiengesellschaft, Offenburg[1] (MC €197m)	35.0042
MEGA 4 GbR, Berlin	34.2569
Millennium Entertainment Partners II L.P., New York, New York	42.2992
Millennium Entertainment Partners L.P., New York, New York	27.5400
Millennium Partners LLC, New York, New York	20.3039
PICC Asset Management Company Ltd., Shanghai[5]	19.0000
Property Finance France S.A., Luxembourg	45.4605
Rendite Partner Gesellschaft für Vermögensverwaltung mbH, Frankfurt/Main	33.3333
RP Vilbeler Fondsgesellschaft mbH, Frankfurt/Main	40.0000
Sana Kliniken AG, Munich	21.7025
SAS Le Point du Jour, Paris	50.0000
Saudi National Insurance Company B.S.C.(c), Manama	22.5000
SEBA Beteiligungsgesellschaft mbH, Nuremberg	48.9931
Storebrand Helseforsikring AS, Oslo	50.0000
Suramericana S.A., Medellín[5]	18.8669
TERTIANUM Besitzgesellschaft Berlin Passauer Strasse 5–7 mbH, Munich	25.0000
TERTIANUM Besitzgesellschaft Konstanz Marktstätte 2–6 und Sigismundstrasse 5–9 mbH, Munich	25.0000
TERTIANUM Besitzgesellschaft Munich Jahnstrasse 45 mbH, Munich	33.3333
T-Solar Global Operating Assets S.L.U., Madrid	37.0000
U.S. Property Fund IV GmbH & Co. KG, Munich	21.7286
U.S. Property Management II L.P., Atlanta, Georgia	33.3333
U.S. Property Management III L.P., Atlanta, Georgia	20.0000
Uelzener Lebensversicherungs-AG, Uelzen	23.9750
US PROPERTIES VA GmbH & Co. KG, Düsseldorf	46.0939
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna	47.5028
VICTORIA-VOLKSBANKEN Vorsorgekasse AG, Vienna	50.0000
Vier Gas Investments S.à r.l., Luxembourg	43.7516
VV Immobilien GmbH & Co. United States KG, Munich	28.9514
VV Immobilien GmbH & Co. US City KG, Munich	23.0999
VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, Munich	20.4082
WISMA ATRIA Holding GmbH & Co. Singapur KG, Düsseldorf	65.0000
Associates accounted for at fair value	
"PORT ELISABETH" GmbH & Co. KG, Hamburg	31.9658
"PORT LOUIS" GmbH & Co. KG, Hamburg	25.8178
Agricultural Management Services S.r.l., Verona	33.3333
Assistance Partner GmbH & Co. KG, Munich	21.6600
BF.direkt AG, Stuttgart	27.2000
carexpert Kfz-Sachverständigen GmbH, Walluf	25.0000
Fernkälte Geschäftsstadt Nord Gesellschaft bürgerlichen Rechts, Hamburg	39.3354
Finsure Investments (Private) Limited, Harare	24.5000
Hannover Finanz-Umwelt Beteiligungsgesellschaft mbH, Hillerse	20.0000
Hartford Research LLC, Wilmington, Delaware	41.7500

Company and registered seat	% share of capital
IK Objektgesellschaft Frankfurt Theodor-Heuss-Allee GmbH & Co. KG, Düsseldorf	47.4000
K & P Objekt Hamburg Hamburger Straße Immobilienfonds GmbH & Co.KG, Düsseldorf	36.6889
LCM Logistic Center Management GmbH, Hamburg	50.0000
MCAF Management GmbH, Düsseldorf	50.0000
MSMR Parkview LLC, Dover, Delaware	38.4600
PERILS AG, Zurich[5]	11.1100
POOL Sp. z o.o., Warsaw	33.7500
Reisegarant, Vermittler von Insolvenzversicherungen mbH, Hamburg	24.0000
RM 2264 Vermögensverwaltungs GmbH, Munich	25.0000
Rumba GmbH & Co. KG, Munich	25.0000
Rural Affinity Insurance Agency Pty Limited, Sydney	50.0000
Teko – Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung, Düsseldorf	30.0000
TERTIANUM Seniorenresidenz Betriebsgesellschaft München mbH, Munich	33.3333
TERTIANUM Seniorenresidenzen Betriebsgesellschaft mbH, Constance	25.0000
Trend Capital GmbH & Co. Solarfonds 2 KG, Mainz	34.4234
Triple IP B.V., Amsterdam	50.0000
Verwaltungsgesellschaft "PORT ELISABETH" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Hedland" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT KELANG" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Lincoln" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT LOUIS" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MAUBERT" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MELBOURNE" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MENIER" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MOODY" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MORESBY" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MOUTON" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT NELSON" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT RUSSEL" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT SAID" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT STANLEY" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT STEWART" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT UNION" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Williams" mbH, Hamburg	50.0000
VisEq GmbH, Grünwald	34.0000
Volksbanken-Versicherungsdienst GmbH, Vienna	25.2319
VV Immobilien GmbH & Co. GB KG, Düsseldorf	40.9241
VV Immobilien Verwaltungs GmbH, Munich	30.0000
VV Immobilien Verwaltungs und Beteiligungs GmbH, Munich	30.0000
WISMA ATRIA Holding GmbH, Düsseldorf	50.0000

Company and registered seat	% share of capital
Other shareholdings of 20% or more	
ARIES, Wilmington, Delaware[10] (equity: €1,881k; result for year: –€804k)	21.6000
Capital Dynamics Champion Ventures VI, L.P., Woodside, California[11] (equity: €68,480k; result for year: €7,359k)	27.3400
FIA Timber Partners II L.P., Wilmington, Delaware[6] (equity: €39,582k; result for year: –€233k)	39.0800
HRJ Capital Global Buy-Out III (U.S.), L.P., Woodside, California[11] (equity: €84,306k; result for year: €7,342k)	44.8788
ORM Timber Fund III (Foreign) LLC, Wilmington, Delaware[8] (equity: €1,132k; result for year: –€83k)	39.1000
"RMS Forest Growth International, L.P., Grand Cayman, Cayman Islands[8] (equity: €26,173k; result for year: ---)"	40.3000
Other shareholdings exceeding 5% of the voting rights in large companies as defined in the German Commercial Code	
Admiral Group plc, Cardiff	10.2000
Best Doctors, Health Resources and Technology, Inc., Boston, Massachusetts	5.9400
Credit Guarantee Insurance Corporation, Johannesburg	7.1037
Extremus Versicherungs-Aktiengesellschaft, Cologne	16.0000
Jordan Insurance Co. p.l.c., Amman	10.0000
New National Assurance Company Ltd., Durban	16.0000
Protektor Lebensversicherungs-AG, Berlin	10.7597
Saudi Enaya Cooperative Insurance Company, Jeddah	15.0000
Swaziland Royal Insurance Corporation, Mbabane	16.0000
Wataniya Cooperative Insurance Company, Jeddah	10.0000

1 The market capitalisation (MC) of this company as at 31 December 2012.
2 This fully consolidated German subsidiary with the legal form of a partnership, as defined in Section 264a of the German Commercial Code, intends to fulfil the conditions required in Section 264b of the German Commercial Code and, in the financial year 2012, to avail itself of the relevant provision exempting it from preparing annual financial statements.
3 This fully consolidated German subsidiary intends to fulfil the conditions required in Section 264 para. 3 of the German Commercial Code and, in the financial year 2012, to avail itself of the relevant provision exempting it from preparing annual financial statements.
4 Control owing to the existence of a special purpose entity as per SIC 12 in which the main risks and rewards remain with Munich Re.
5 Significant influence owing to representation of Munich Re on the board of directors or equivalent governing body of the associate.
6 No significant influence, as there are no close links with Munich Re of the kind defined in IAS 28.7.
7 Control owing to majority of voting power.
8 No significant influence, as this is a purely financial investment managed by an external asset manager.
9 Only significant influence owing to reduced voting power.
10 No significant influence owing to reduced voting power.
11 No significant influence because, under the articles of association, statutes or other agreement, all key decisions regarding the company's financial and operating policy are subject to a quorum which cannot be attained by the majority shareholder without the non-controlling shareholders.
12 Control even though the share of voting rights is below 50% because, under the articles of association or other agreement (e.g. domination agreement), there is the possibility of determining the company's financial and operating policy.

Drawn up and released for publication, Munich, 1 March 2013.

The Board of Management

Auditor's report

We have audited the consolidated financial statements prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the consolidated balance sheet, the consolidated income statement, the statement of recognised income and expense, the Group statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 of the German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 4 March 2013

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Klaus Becker
Wirtschaftsprüfer
(Certified public accountant)

Martin Berger
Wirtschaftsprüfer
(Certified public accountant)

Responsibility statement

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

Munich, 11 March 2013

General information

Glossary

Aa

Accumulation The situation where a number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Actuary Qualified expert who analyses problems from the area of insurance, home loans, investments and pensions using methods of probability theory and financial mathematics, and develops solutions with due regard to legal and economic parameters.

Asset-liability management Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, it is the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

Available financial resources IFRS equity adjusted for various economically appropriate factors, plus hybrid capital (subordinated bonds).

Bb

Biometric actuarial assumptions Parameters that describe insured risks such as mortality, morbidity and disability. Presented in tables (e.g. mortality tables), they usually depend on age attained and gender.

Bornhuetter-Ferguson method Standard actuarial method used to estimate the reserves needed for future claims expenditure resulting from losses that have already occurred but are not yet sufficiently specific. With this method, the overall loss expected is determined on the basis of historical data on the run-off of losses in the portfolio and an independent assessment by the insurer. These parameters are given different weightings, depending on the information available on the status of the losses.

Cc

Capital Asset Pricing Model (CAPM) Capital market model used to evaluate securities, based on the portfolio theory. The CAPM expands the portfolio theory to include the question of which part of a security's overall risk cannot be eliminated by means of risk diversification and explains how investment opportunities entailing risk are assessed in the capital markets. Accordingly, in efficient markets where prices already incorporate all the information available, a greater return can only be achieved by assuming more risk.

Catastrophe bond Capital market instrument for transferring (natural) catastrophe risks to the capital markets. The buyers of such bonds profit from a comparatively high coupon rate, but assume the (re)insurer's risk if the (natural) catastrophe occurs. If a predefined parametric trigger is activated by the catastrophe, the buyers' capital is only partially repaid or not repaid at all, and the interest payments to the buyers are reduced or stopped. The capital made available serves to compensate the financial loss incurred by the (re)insurer incurred as a result of the (natural) catastrophe.

Cedant Client of a reinsurance company (primary insurer).

Chain ladder method Standard (multiplicative) actuarial method used to estimate the reserves needed for future claims expenditure. It assumes that the cumulative loss rises by the same factor in all accident years. With this method, the overall loss expected is determined exclusively on the basis of historical data on the run-off of losses in the insurer's portfolio.

Combined ratio Percentage ratio of the sum of net claims expenses plus net operating expenses to net earned premiums. It corresponds to the sum of the loss ratio and the expense ratio.

Composite insurer Insurer that writes both life and non-life business.

Convexity A volatility measure to describe how a bond's price will change as interest rates rise or fall. As with duration, the concept of convexity is based on an estimate of the bond's present value. A customary bond with regular coupon payments and complete repayment of the principal on maturity will rise in price more strongly if interest rates decline than it will fall in price if interest rates rise. This phenomenon of convexity is caused by a change in the bond's duration when interest rates change. Falling interest rates result in an increase in the bond's duration and thus in its interest-rate sensitivity, so that if interest rates continue to fall, the price rise accelerates. In the case of rising interest rates, the converse occurs.

Credit Risk Equivalent Exposure (CEE) A reference figure used to combine and compare the credit exposure from various product types involving credit risk under a common counterparty limit. The CEE is calculated regardless of the likelihood of a counterparty's default and reflects the estimated loss amount in the event of a default.

Cycle management Continuously analysing and managing the course of a cycle. Insurance, reinsurance and retrocession markets are subject to global and regional cycles that may have external (interest-rate development, economic development, major losses, etc.) and internal causes (price competition, premium calculation methods, etc.). Managing the cycle means – on the basis of an analysis – taking proactive strategic measures and ensuring risk-commensurate terms (prices, scope of cover, and conditions) in every phase.

Dd

Deferred acquisition costs Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised over the term of the contracts.

Delta Measure of the change in the option price relative to a change in the value of an underlying asset by one unit. If, for example, an option has a delta of 2, the option price rises by 2% if the value of the underlying asset increases by 1%.

Deposits retained on assumed reinsurance and ceded business Receivables which reinsurers have vis-à-vis their cedants for collateral (cash deposits) that has been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.

Duration The average term of an interest-sensitive investment (or portfolio) in years. The modified duration (in per cent) indicates how much a bond's overall yield rises or falls when there is a change in interest rate in the market.

Ee

Economic capital buffer The amount by which the available financial resources exceed the economic risk capital.

Economic risk capital (ERC) The amount of economic equity that Munich Re needs, with a given risk appetite, to cover unexpected losses in the following year. In Munich Re's risk model, economic risk capital is calculated as 1.75 times value at risk for a 12-month time horizon with a confidence level of 99.5%.

Economic solvency ratio Ratio calculated by dividing the available financial resources (after dividend and share buy-backs) by the economic risk capital. It is an expression of Munich Re's capital strength.

Expense ratio Percentage ratio of net operating expenses to net earned premiums.

Ff

Facultative reinsurance Reinsurance of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. obligatory reinsurance).

Fair value The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing business partners in an arm's length transaction.

Gg

Gross/net In insurance terminology, designation for before/after deduction of the portion attributable to business ceded in reinsurance.

Guaranteed interest Interest rate to be paid out by the insurer on the savings component of the insurance premium under an endowment insurance policy. This minimum interest rate is contractually guaranteed.

Ii

IBNR reserve Provision for claims that are not yet known to the insurer (IBNYR = incurred but not yet reported) but also for claims whose case reserves are not sufficient (IBNER = incurred but not enough reserved).

Income from technical interest Amount earned by assumed insurance business from the mainly risk-free investment of assets covering the technical provisions. In primary insurance, the deposits retained on ceded business are also taken into account. Thus the portion of investment income that corresponds to the deposit interest expenses is included in the calculation of the technical interest.

Insurance pool Risk community in which legally and economically independent insurers and reinsurers combine (or in some cases are required by the government) to create cover for particularly large or unbalanced risks. The participants undertake to write the risks defined in the pool contract only within the framework of the insurance pool and to transfer such risks to it in return for a commission. Every pool member participates in the pool's profit or loss in accordance with its predefined quota share. To spread the risk further, reinsurance covers are often ceded or taken out. Types of pool include coinsurance pools, where all members act as primary insurers, and reinsurance pools, where primary insurers write the risks and then divide these between the participating insurers via reinsurance.

Interest-rate curve A curve that models the relationship between interest rates and the term of an investment (e.g. fixed-interest securities). As a rule, the interest rate increases the longer the term. This type of interest-rate curve is therefore referred to as rising (or normal). An interest-rate curve is defined as flat if the interest rate is independent of the term. Inverse (or declining) interest-rate curves are rare. They are produced when less interest is paid on long-term securities (bonds) than on short-term securities. The interest-rate curve is plotted on a graph.

Liability adequacy test Regular check of the technical provisions, including the related deferred acquisition costs, on the basis of the current estimates for future cash flows. The test provides an assessment of whether the technical reserves or deferred acquisition costs need to be increased or reduced.

Longevity The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio Percentage ratio of net operating expenses to net earned premiums.

Mm

Major loss Loss which is of particular significance to insurers or reinsurers because its amount or other criteria are exceptional in relation to historical loss experience. A distinction is typically made between man-made major losses and major losses caused by natural catastrophes.

Managing general agency business Insurance business where the insurer transfers the underwriting authority for a specific portfolio to a managing general agent or managing general agency (MGA) that acts on its behalf. Depending on the arrangement involved, the agent/agency may be assigned additional responsibilities such as claims handling or administrative tasks.

Market Consistent Embedded Value (MCEV) A valuation measure for long-term insurance business. Embedded value is the total of a company's equity (at market price) and the value of its in-force covered business. The latter is the present value of net future profits (where profits are post-taxation shareholder cash flows from the in-force covered business, and the assets backing the associated liabilities) calculated using actuarial methods. The value of in-force covered business additionally takes into consideration the time value of the financial options and guarantees, the explicitly determined cost of holding capital for the whole term of the portfolio, and the costs for non-hedgeable risks. Munich Re calculates embedded value in accordance with the MCEV Principles.

Morbidity The probability that an individual in a given group will develop a certain disease or disorder.

Mortality The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

Mortality table Table developed using methods of probability theory for estimating the expected mortality of policyholders in a portfolio of life or health insurance contracts. It shows the probability of future mortality on a differentiated basis according to age and other factors, often taking into account demographic trends. Mortality tables with provision for adverse deviation are generally used for measuring technical provisions.

Nn

Net asset value The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net expenses for claims and benefits Expenses for claims, such as claims payments and the change in the provision for outstanding claims. They also include expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Net operating expenses Commission plus personnel and non-personnel expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission, plus expenses from amortisation of the present value of future profits (PVFP).

Non-proportional reinsurance Form of reinsurance under which the reinsurer assumes payment of the primary insurer's losses above a certain amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Oo

Obligatory reinsurance Type of reinsurance in which the primary insurer is obliged to cede all risks specified in the contract to the reinsurer within a certain scope. The reinsurer accepts these risks without assessing them on a case-by-case basis. Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods (cf. facultative reinsurance).

Pp

Pandemic The spread of a disease or – in the narrower sense – infectious disease across national borders and continents. Unlike an epidemic, which is a disease occurring in a limited area and time, a pandemic is not restricted to a certain geographical area.

Policyholders' bonuses Appropriate share of the surplus earned by insurers in life and health insurance to which policyholders are entitled contractually and by law. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

Premium Amount that has to be paid for insurance cover. It may be paid as a regular or single premium. Premiums written means all premium income that has become payable in the financial year. The portion of this premium income that constitutes payment for insurance cover in the financial year is referred to as earned premiums. In the case of products that are largely of an investment nature (e.g. financing treaties and unit-linked life insurance), it only includes – under IFRSs – the amount serving to cover the risk and costs. However, under statutory accounting rules in the insurance company's home country, premium income may also include the policyholders' savings premiums from unit-linked life insurance and capitalisation products.

Present value of future profits (PVFP) Present value, capitalised in the balance sheet, of the expected earnings from the business acquired when insurance companies or individual insurance portfolios are taken over. This intangible asset arises in particular when life or health insurance companies are acquired.

Proportional reinsurance Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer. The reinsurer is allocated a corresponding share of the premiums and claims.

Provision for future policy benefits Technical provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance. It amounts to the balance of the present value of future obligations less the present value of future premiums.

Provision for outstanding claims Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet fully settled.

Provision for premium refund Provision made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. It also includes the policyholders' share of accumulated valuation differences between IFRSs and the German Commercial Code (provision for deferred premium refunds).

Public-private partnership Long-term arrangement between private companies and public bodies with the aim of providing public services in a more economical manner.

Rr

Reinsurance capacity Amount of cover that a reinsurance company or the market as a whole can make available.

Renewals Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

Retrocessionaire Company that reinsures reinsurance business assumed by other insurance companies. Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Risk exposure The extent of a risk in terms of its potential deviation from the expected value under certain probability assumptions. In connection with accounting, the term is also used to quantify the potential loss resulting for a company from certain assets.

Run-off triangle Also known as "loss triangle". A tabular representation of claims-related parameters (such as payment, claims reserve, ultimate loss) in two, time-related dimensions. One of these is the calendar year, while the other is usually the accident year (year of the loss occurrence). Run-off triangles – as the basis for measuring claims reserves – make clear how the claims reserve changes over the course of time due to payments made and new estimates of the expected ultimate loss at the respective balance sheet date.

Ss

Scenario analysis Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

Solvency II Project of the European Commission to fundamentally reform and harmonise European insurance supervisory regulations. Solvency II follows the three-pillar approach: minimum capital requirements (quantitative), supervisory review processes (qualitative) and market discipline (disclosure).

Stress test A special form of scenario analysis. It allows a quantitative statement to be made on the loss potential of portfolios in the event of extreme market fluctuations.

Tt

Tail dependencies

Technical provisions Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Technical result Balance of income and expenses apportionable to (re)insurance business. The technical result includes an interest component, the income from technical interest, which is reallocated from the non-technical result.

The result of risk drivers interacting in exceptional situations, i.e. different lines of business, geographies and risk types being affected by extreme events at the same time. Compared with a situation where the risks are assumed to be independent, this results in a lesser diversification effect, which is reflected in a higher capital requirement.

Uu

Ultimate loss Estimated aggregate claims expenditure for the accident year of a claim until final settlement, as calculated at the end of the calendar year. It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.

Underwriter Member of an insurance or reinsurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a (re)insurance contract. Underwriters are responsible for ensuring the quality and reliability of risk-transfer solutions offered. Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

Unearned premium The portion of premium income in the financial year that is attributable to periods after the balance sheet date. It is accounted for in the item "unearned premiums" within the technical provisions on the liabilities side of the balance sheet.

Unit-linked life insurance A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

Universal life Contracts in life primary insurance where the amount of the premiums and benefits is flexible, the policyholder being able to vary the premium payments within certain limits.

Vv

Value at risk Method of quantifying risk which measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

Value in use Present value of the future cash flows expected to be derived from a cash-generating unit or group of cash-generating units. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows of other assets or groups of assets.

Variable annuities A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

Index of key terms

Important addresses

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40198 Düsseldorf
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Fax: +49 211 477-1500
info@ergo.de
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Germany

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Tel.: 0800 3746-555
Tel.: +49 89 6275-7101 (from outside Germany)
Fax: +49 89 6275-1650
kundenservice@das.de
www.das.de

DKV Deutsche Krankenversicherung AG
Aachener Strasse 300
50933 Köln
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Tel.:+49 221 578-94005 (from outside Germany)
Fax: 01805/786000
service@dkv.com
www.dkv.com

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Karl-Martell-Strasse 60
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Responsible for content
Group Reporting
Group Communications

Editorial deadline:
26 February 2013
Online publication date:
12 March 2013
Print publication date:
28 March 2013

Picture credits
pp. 3, 8, 9, 21: Andreas Pohlmann
p. 7 left: Plainpicture
p. 7 right: Jens Küsters

Printed by
Eberl Print GmbH
Kirchplatz 6
87509 Immenstadt
Germany

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

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Our brands

Munich Re (Group)

Reinsurance	Munich Health	Primary insurance
Munich RE	MUNICH HEALTH	ERGO
The Hartford Steam Boiler Inspection and Insurance Company	Munich Re	ERGO Lebensversicherung
New Reinsurance Company Ltd.	DKV Seguros	ERGO Versicherung
American Modern Insurance Group, Inc.	DKV Belgium	ERGO Direkt
	DKV Luxembourg	ERGO Austria
	Globality Health	ERGO Hestia
	Daman National Health Insurance	ERGO Türkei
	Windsor Health Group	ERGO Belgien
	Apollo Munich Health Insurance	ERGO Italia
	MedNet	almeda Assistance and Health services
	Storebrand	Deutscher Automobil Schutz
		Deutsche Krankenversicherung
		ERV

Asset management

MEAG MUNICH ERGO AssetManagement

The diagram provides a general overview of our Group and makes no claim to completeness. For further details, please see the list of shareholdings on page 276 ff.

Our operations encompass all aspects of risk assumption in primary insurance and reinsurance.
We are one of the world's largest reinsurers, and one of the largest primary insurers in Germany and Europe.

- Reinsurance: We have been in the business of insuring insurers since 1880.
- Munich Health: We have a strong footing in the international health market.
- Primary insurance: Our primary insurers offer security mainly for private clients and for small and medium-sized businesses.
- Our subsidiary MEAG manages our assets and offers investment products for private clients and institutional investors.

Quarterly figures[1]

		31.12.2012	30.9.2012	30.6.2012	31.3.2012
Balance sheet					
Investments	€m	213,823	213,077	209,179	205,447
Equity	€m	27,423	27,124	25,371	24,426
Net technical provisions	€m	186,117	186,742	185,836	182,795
Balance sheet total	€m	258,360	258,636	256,220	251,925
Shares					
Share price	€	136.00	121.50	111.15	113.05
Munich Reinsurance Company's market capitalisation	€bn	24.4	21.8	19.9	20.3
Other					
Combined ratio					
Reinsurance property-casualty	%	91.0	93.6	95.7	94.6
Primary insurance property-casualty	%	98.7	96.9	95.2	95.3
Munich Health	%	100.2	99.2	100.5	99.5
Number of staff		**45,437**	**46,374**	**46,681**	**46,729**

€m	Total	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Gross premiums written	**51,969**	**12,931**	**13,211**	**12,605**	**13,222**
1. Earned premiums					
Gross	52,189	13,332	13,321	12,805	12,731
Ceded	1,690	383	588	355	364
Net	50,499	12,949	12,733	12,450	12,367
2. Income from technical interest	6,918	1,644	1,866	1,421	1,987
3. Expenses for claims and benefits					
Gross	41,837	10,407	10,528	10,449	10,453
Ceded share	846	199	203	224	220
Net	40,991	10,208	10,325	10,225	10,233
4. Operating expenses					
Gross	12,906	3,311	3,378	3,008	3,209
Ceded share	356	–30	233	93	60
Net	12,550	3,341	3,145	2,915	3,149
5. Technical result (1–4)	**3,876**	**1,044**	**1,129**	**731**	**972**
6. Investment result					
Investment income	14,024	3,040	3,621	3,677	3,686
Investment expenses	5,588	875	1,400	1,871	1,442
Total	8,436	2,165	2,221	1,806	2,244
Thereof:					
Income from associates accounted for using the equity method	82	70	12	2	–2
7. Other operating income	879	315	171	234	159
8. Other operating expenses	923	268	221	248	186
9. Deduction of income from technical interest	–6,918	–1,644	–1,866	–1,421	–1,987
10. Non-technical result (6–9)	**1,474**	**568**	**305**	**371**	**230**
11. Operating result	**5,350**	**1,612**	**1,434**	**1,102**	**1,202**
12. Other non-operating result	–836	–597	–2	–42	–195
13. Impairment losses of goodwill	140	118	17	5	–
14. Net finance costs	–297	–75	–77	–79	–66
15. Taxes on income	866	341	202	164	159
16. Consolidated result	**3,211**	**481**	**1,136**	**812**	**782**
Thereof:					
Attributable to Munich Reinsurance Company equity holders	3,195	477	1,130	808	780
Attributable to non-controlling interests	16	4	6	4	2

€	Total	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Earnings per share	**17.98**	**2.69**	**6.36**	**4.54**	**4.39**

1 Previous year's figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".

Important dates 2013

25 April 2013
Annual General Meeting

26 April 2013
Dividend payment

7 May 2013
Interim report as at 31 March 2013

6 August 2013
Interim report as at 30 June 2013

6 August 2013
Half-year press conference

7 November 2013
Interim report as at 30 September 2013

Important dates 2014

20 March 2014
Balance sheet press conference
for 2013 consolidated financial statements

30 April 2014
Annual General Meeting

8 May 2014
Interim report as at 31 March 2014

7 August 2014
Interim report as at 30 June 2014

7 August 2014
Half-year press conference

6 November 2014
Interim report as at 30 September 2014

Order number 302-07805