Group Annual Report 2013
Munich Re

2013

WE CREATE BENEFITS AS ONE

Key figures (IFRS)[1, 2]

Munich Re at a glance

» Key figures (IFRS) – Munich Re (XLS, 38 KB)

		2013	2012	2011	2010	2009
Gross premiums written	€bn	51.1	52.0	49.5	45.5	41.4
Net earned premiums	€bn	49.2	50.5	47.3	43.1	39.5
Net expenses for claims and benefits	€bn	39.9	41.0	40.9	36.6	32.4
Net operating expenses	€bn	12.4	12.6	12.0	11.1	10.2
Operating result	€m	4,409	5,349	1,180	3,978	4,721
Taxes on income	€m	108	878	–552	692	1,264
Consolidated result	€m	3,342	3,204	712	2,430	2,564
Attributable to non-controlling interests	€m	29	16	10	8	43
Earnings per share	€	18.50	17.94	3.94	13.06	12.95
Dividend per share	€	7.25	7.00	6.25	6.25	5.75
Dividend payout	€m	1,266	1,255	1,110	1,110	1,072
Share price at 31 December	€	160.15	136.00	94.78	113.45	108.67
Munich Re's market capitalisation at 31 December[3]	€bn	28.7	24.4	17.0	21.4	21.5
Book value per share	€	146.45	152.34	129.99	126.31	114.89
Investments	€bn	209.5	213.8	201.7	193.1	182.2
Equity	€bn	26.2	27.4	23.3	23.0	22.3
Return on equity	%	12.5	12.5	3.3	10.4	11.8
Off-balance-sheet unrealised gains and losses[4]	€bn	8.7	11.0	5.7	3.6	3.2
Net technical provisions	€bn	187.7	186.1	181.2	171.1	163.9
Balance sheet total	€bn	254.3	258.4	247.6	236.4	223.4
Staff at 31 December		44,665	45,437	47,206	46,915	47,249

Reinsurance

» Key figures (IFRS) – Reinsurance (XLS, 39 KB)

		2013	2012	2011	2010	2009
Gross premiums written	€bn	27.8	28.2	26.0	23.6	21.8
Investments	€bn	78.5	83.8	79.5	83.7	76.8
Net technical provisions	€bn	60.5	61.1	62.7	56.6	53.4
Major losses (net)	€m	1,689	1,799	5,048	2,228	1,157
Natural catastrophe losses	€m	764	1,284	4,538	1,564	196
Combined ratio property-casualty[5]	%	92.1	91.0	113.8	100.5	95.3

Primary insurance

» Key figures (IFRS) – Primary insurance (XLS, 41 KB)

		2013	2012	2011	2010	2009
Gross premiums written	€bn	16.7	17.1	17.4	17.5	16.6
Investments	€bn	126.1	124.9	117.0	121.8	118.4
Net technical provisions	€bn	125.1	122.8	116.1	111.2	107.7
Combined ratio property-casualty	%	97.2	98.7	99.1	96.8	93.2

Munich Health

		2013	2012	2011	2010	2009
Gross premiums written	€bn	6.6	6.7	6.0	5.1	4.0
Investments	€bn	3.6	4.2	4.6	4.1	3.1
Net technical provisions	€bn	2.2	2.2	2.4	3.3	2.9
Combined ratio[6]	%	98.3	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 2011 have been adjusted accordingly. Comparability with the years 2009 and 2010 is thus limited.
3 Up to and including 2010 and for 2013, 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.

Munich Re's global presence[1]

Countries in which Munich Re (Group) is represented by a subsidiary or branch:

- Reinsurance
- Primary insurance
- Reinsurance and primary insurance

North America
Canada
USA
Bermuda

Latin America
Argentina
Brazil
Chile
Colombia
Mexico
Venezuela

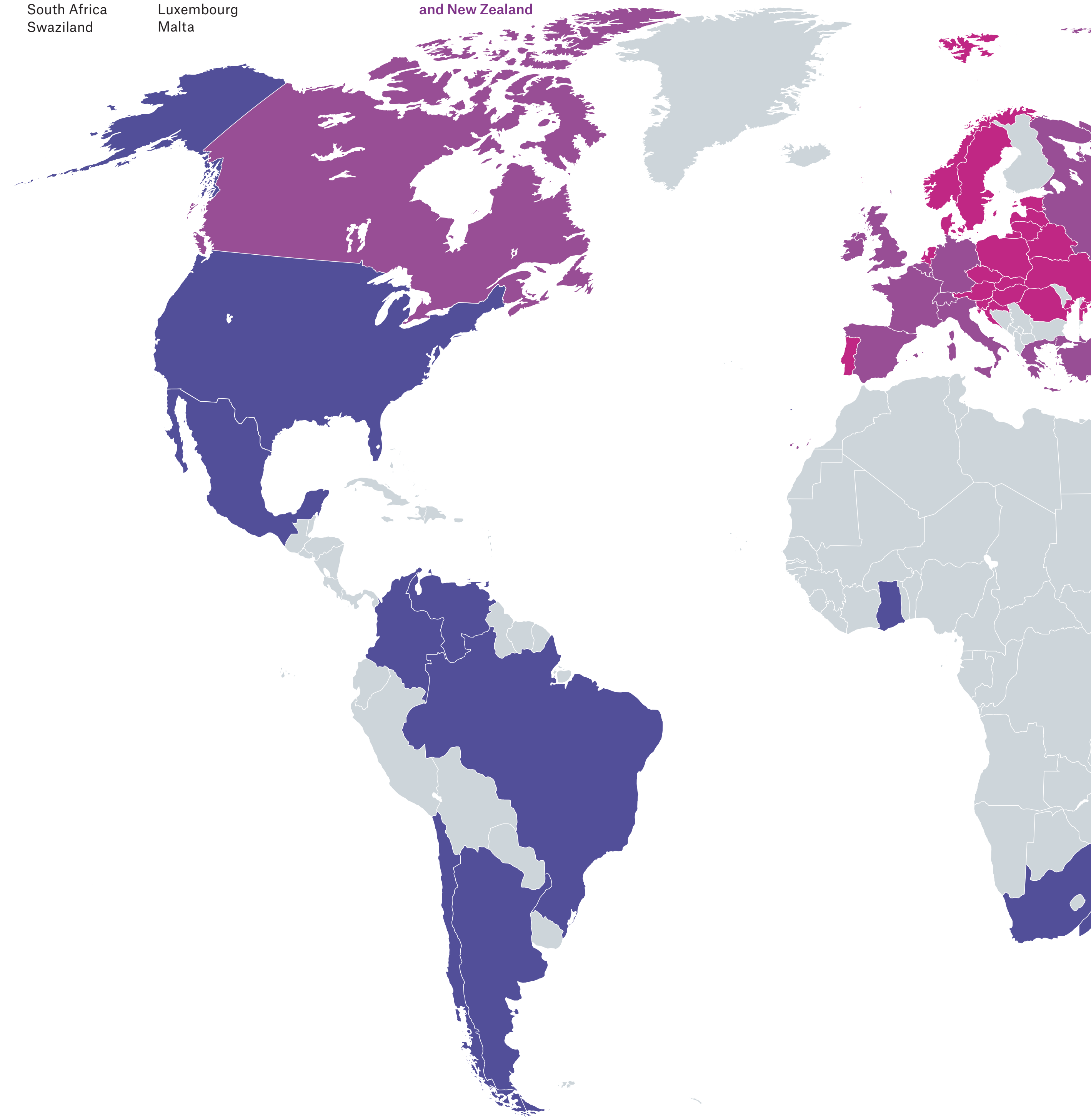
Africa
Ghana
Kenya
Mauritius
South Africa
Swaziland

Europe
Austria
Belgium
Belarus
Croatia
Cyprus
Czech Republic
Denmark
Estonia
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Sweden
Switzerland
Slovakia
Slovenia
Spain
Turkey
United Kingdom
Ukraine

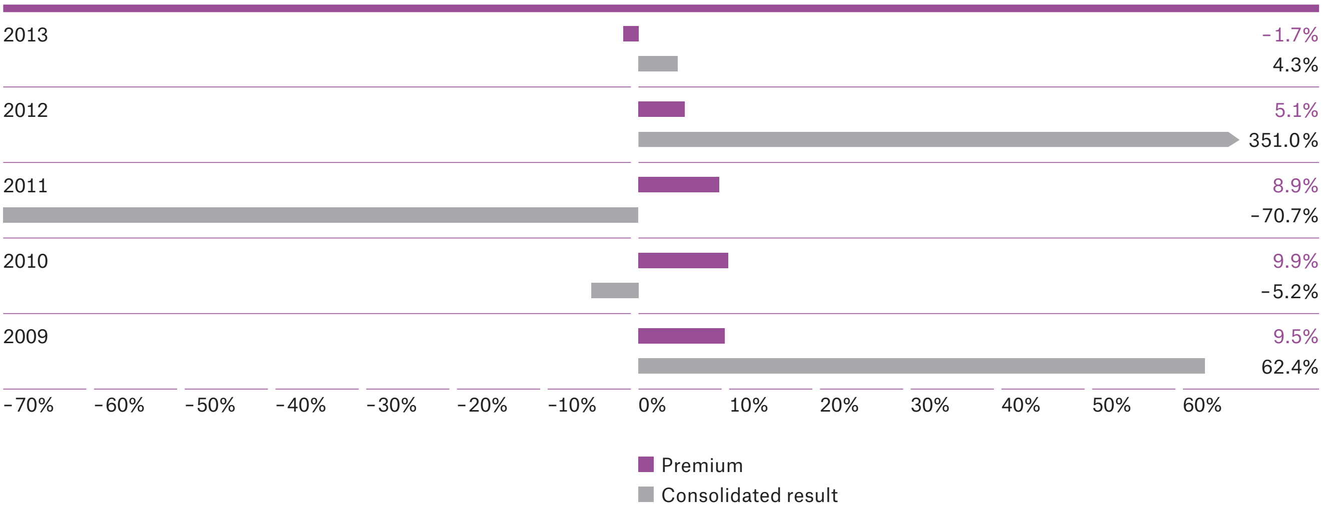
Asia
Bahrain
China
Hong Kong
India
Japan
Jordan
Malaysia
Qatar
Saudi Arabia
Singapore
South Korea
United Arab Emirates
Vietnam

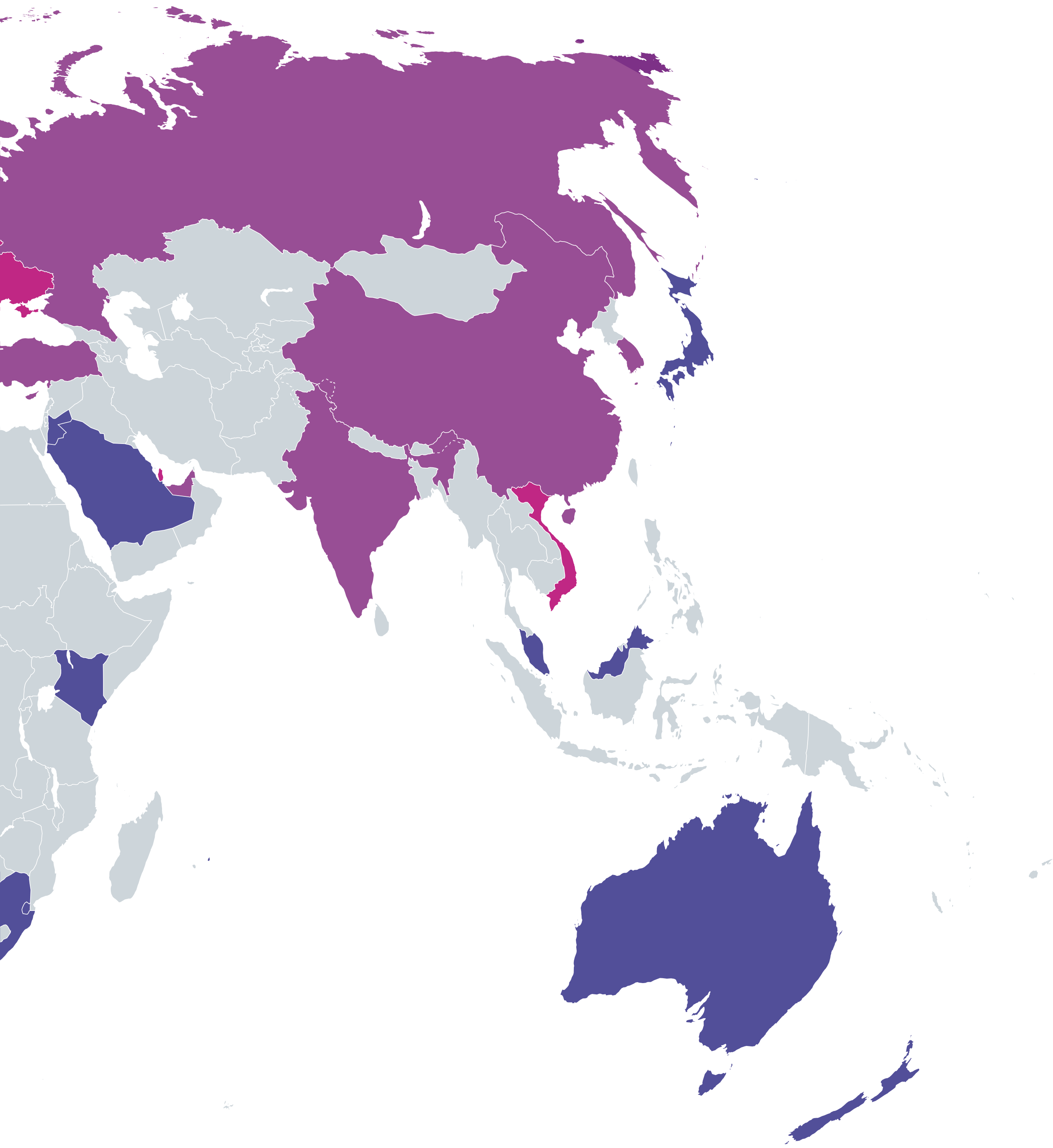
Australia and New Zealand

1 Including Munich Health's primary insurance and reinsurance activities in the health market as at 31 December 2013.



Premium/result development





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This document is a translation of the original German version and is intended to be used for informational purposes only. While every effort has been made to ensure the accuracy and completeness of the translation, please note that the German original is binding.

To our shareholders

1

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

Dear Shareholders,

The world does not stand still, and this certainly continues to be the case in the twenty-first century. If anything, it seems that the tempo of change has increased still further. The main driver of this acceleration in pace is digitalisation. It affects not only the mode of economic activity – and often in a fundamental way – but also customer behaviour. It entails the emergence of entirely new risks, and a complete reappraisal of known and familiar risks as a result of the changed environment. For primary insurers and reinsurers to correctly assess the increasing demand for risk in times of such prevalent uncertainty, they need to recognise and understand the main trends in these transformations. Satisfying the sharply changing demand for risk cover requires a great deal of creativity and innovation capacity. This is the key to future growth in the insurance industry, including for Munich Re.

All Group companies are in constant contact with their clients. This close working relationship means that we are able to identify the need for risk cover at an early stage, and to develop innovative coverage models for those requirements. As a result, we often come up with completely new products and opportunities: from performance guarantee insurance for photovoltaic modules, to coverage for cyber risks, through to a holistic risk assessment of industrial and construction projects (project risk rating), which provides potential investors with a valuable decision-making aid.

Munich Re is increasingly successful in exploiting the potential for innovation across the whole Group. The combination of primary insurance and reinsurance under one roof – working in close cooperation with colleagues responsible for investment – widens the scope for innovative products. With the acceptance of very varied risks, the Group not only leverages diversification benefits but also, through mutual exchange, strengthens its potential for innovation. This, in turn, generates competitive advantage.

The most obvious example of this innovation potential is the totally new ERGO product generation in life insurance. In conjunction with colleagues in reinsurance and at MEAG, ERGO has launched a forward-looking, innovative insurance product on the German market. This new product – among the first of its kind in Germany – was initially introduced last summer for private-client business that is not state-sponsored. About half of ERGO's customers in this segment are now choosing the new-generation product. At the start of 2015, we will extend the product line to company pension schemes and "Rürup" pension plans.

In the USA, we have created a cross-cutting product development platform which draws particularly on the know-how of Hartford Steam Boiler, American Modern and Munich Re America to develop new, innovative products for the North American market. Naturally, we also make use of all the other synergies which can be achieved via our business units in the US market. Here too, it is apparent that we are stronger and more innovative as a group than individual companies could be.

For several years, Munich Re's US business has made an important contribution to our consolidated profit. For example, in 2013, our subsidiaries in the USA posted a result of US$ 1.3bn, and the combined ratio of our US property-casualty business was well below 90%. This renewed good performance also underlines the success of our strategy in the USA, which is based on close relationships with clients and brokers, a strong presence in selected niches of the primary insurance market, and a generally disciplined underwriting policy.

Overall, Munich Re can be very satisfied with the 2013 financial year. The profit of €3.3bn is the third highest in the company's history. In view of the excellent earnings position, we already decided last year to buy back shares worth €1bn. We are proposing to the Annual General Meeting to increase the dividend to €7.25 per share in order to allow you, our shareholders, to participate commensurately in the Group's success. At the same time, our capital base remains strong enough to finance future growth. We thus consider ourselves well prepared for the challenges of the years to come.

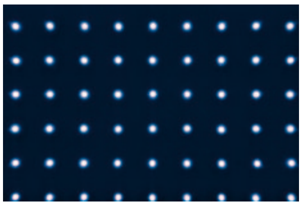
Ladies and gentlemen, on behalf of my colleagues on the Board of Management and all employees in the Group, I thank you for the confidence you have shown in us. We will make every effort to fulfil your expectations again this year.

Yours sincerely,

Nikolaus von Bomhard

Q1/2013

2 January 2013
Together with GE Energy Financial Services and EDF Energies Nouvelles, MEAG purchases 32 wind farms in France with a total installed capacity of 321.4 megawatts per year. The 40% stake acquired by MEAG on behalf of Munich Re is part of the RENT programme (Renewable Energy and New Technologies) with a currently envisaged volume of €2.5bn. Through this programme, Munich Re invests in renewable energy and new technologies in order not only to promote sustainable energy production but also to benefit from it.



11 February 2013
Munich Re introduces groundbreaking insurance coverage in collaboration with a US LED module manufacturer that guarantees the luminous intensity and colour consistency of its LED modules for a period of five years. Under the agreement between the two companies, Munich Re assumes a portion of the financial risk entailed in the guarantee.

Q2/2013

25 April 2013
HSB offers HSB CyberOne™, a new cyber risk insurance coverage for small businesses. Hacker attacks are a serious problem for smaller commercial organisations, which often have limited information security and technical resources. The new policy is designed to protect these organisations from cyber crime.

26 April 2013
Munich Re pays a significantly increased dividend of €7.00 per share for the financial year 2012 (previous year: €6.25). Munich Re's payout to shareholders thus totals almost €1.3bn. With the dividend payout, the amount returned to Munich Re's shareholders since 2006, including the share buy-backs carried out, will total over €14bn.

23 May 2013
MEAG acquires three wind farms in Sweden that are connected to the grid, with a total installed capacity of 30 megawatts. This investment totalling €47m is also part of our RENT (Renewable Energy and New Technologies) programme.

3 June 2013
ERGO announces it will offer a fully revamped life insurance product line as from 1 July 2013. ERGO Annuity Guarantee combines security, return and flexibility in a hitherto unique manner. This product is supplemented by ERGO Annuity Opportunity, a new unit-linked annuity insurance cover without a premium-related guarantee.

Q3/2013

12 August 2013
ERGO publishes a comprehensive programme which will gear management of its business even more strongly to its clients in future. Important new management modules include the introduction of a new customer satisfaction index and the planned creation of a Chief Operating Officer (COO) division for all customer services and group processes.

3 September 2013
Munich Re and the reinsurer Renaissance Re Holdings Ltd., Bermuda, conclude an agreement under which Munich Re is to acquire RenRe Energy Advisors Ltd. (REAL), Renaissance Re's weather risks unit.

5 September 2013
Munich Re announces the sale of the Windsor Health Group (WHG) to US health primary insurer WellCare Health Plans, Inc. The transaction is concluded as expected at the end of the fourth quarter of 2013.

5 September 2013
ERGO now also provides life insurance policies in the Chinese market. ERGO China Life focuses on the economically attractive province of Shandong, which with its roughly 97 million inhabitants is the third-largest Chinese insurance market.

Q4/2013

1 October 2013
Wolfgang Strassl, member of the Munich Re Board of Management, will leave the company at the end of 2013. His functions on the Board of Management are split: Nikolaus von Bomhard will take sole charge of Munich Health as from 1 January 2014. Responsibility for Human Resources and the function of Board member responsible for personnel and welfare matters is transferred to Joachim Wenning, in addition to his responsibility for life reinsurance business.

8 October 2013
Bernhard Kaufmann is appointed new Chief Risk Officer of Munich Re (Group) with effect from 1 January 2014. Kaufmann most recently served as Chief Risk Officer and Head of Integrated Risk Management at ERGO.

21 November 2013
MEAG acquires a 50% stake in Marchwood Power Limited (MPL). MPL owns and operates a natural gas-fired combined cycle power station in Southampton, UK. This investment is part of the infrastructure programme with a currently envisaged volume of €1.5bn.

4 December 2013
ERGO appoints Silke Lautenschläger to its Board of Management with effect from 1 January 2014. She will assume the newly-created function of Chief Operating Officer and thus also responsibility for the new Customer and Sales Services Division. Silke Lautenschläger became a member of the Board of Management of DKV Deutsche Krankenversicherung in 2011.

Members of the Board of Management
From left to right

Torsten Jeworrek
Chairman of the Reinsurance Committee
Reinsurance Development
Corporate Underwriting
Corporate Claims
(since 1 January 2014)
Accounting, Controlling and Central Reserving for Reinsurance
Information Technology
Global Business Architecture
Geo Risks Research/
Corporate Climate Centre

Ludger Arnoldussen
Germany, Asia Pacific and Africa Services

Georg Daschner
Europe and Latin America

Peter Röder
Global Clients and North America

Thomas Blunck
Special and Financial Risks
Reinsurance Investments
Central Procurement

Nikolaus von Bomhard
(Chairman of the Board of Management, Chairman of the Group Committee)
Group Development
Group Investments
Group Communications
Group Compliance
Group Audit
Health (since 1 October 2013; until 31 December 2013 together with Wolfgang Strassl)

Joachim Wenning
Board member responsible for personnel and welfare matters
(since 1 October 2013)
Life
Human Resources
(since 1 October 2013)

Jörg Schneider
Chief Financial Officer
Group Reporting
Group Controlling
Corporate Finance M&A
Integrated Risk Management
Group Legal
Group Taxation
Investor and Rating Agency Relations

Munich Re shares

- Munich Re shares again with convincing performance: The share price increased by 17.8% in the year under review, giving a total return (including dividends) of 23.3%
- Board of Management and Supervisory Board to propose payment of an increased dividend of €7.25 per share at the Annual General Meeting
- Munich Re shares and sustainability: Since 2001, the share has been an ever-present member of sustainability indices such as the DJ Sustainability Indices and the FTSE4Good

In 2013, the sovereign debt crisis, low interest rates and the recession in the eurozone all again cast a shadow over the development of the capital markets. In early May, the yield on ten-year German government bonds fell to a historical low of under 1.2%. Shares thus gained in attractiveness as an asset class, buoyed further by the stabilisation of public finances in several crisis-hit European countries and the continued high liquidity of the stock markets. At the end of the year, the European share price index[1] was at a year high and the DAX 30 even reached a record level.

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

The European insurance sector continued the gratifying price performance begun in 2012 and reached a five-year high towards the end of the year. For the first time in the last 15 years, insurers bettered the performance of the European share price index for two successive years. They also outperformed the European bank index[2] and the German DAX 30. Alongside lower risk spreads on government and corporate bonds, a key driver of this development was the US Federal Reserve's announcement last summer that it would discontinue its low-interest-rate policy ("tapering"). In the second half of the year, this led to rising interest rates on long-term government bonds and expectations of a sustained interest-rate turnaround. Higher interest rates have a positive effect on insurance companies' financial positions and results in the medium and long term. Given their long-term guarantees, life primary insurers benefited especially, with their share prices responding positively in 2013. Reinsurance companies' shares profited from the comparatively low major-loss expenditure.

As a consequence, the capital strength of the insurance sector again improved distinctly. The agreement reached at European level concerning the content and timetable of the new supervisory regime Solvency II, which is scheduled to come into force in 2016, was also positively received. Towards the end of the year, the insurance sector was at times able to rally to valuation levels last reached prior to the outbreak of the financial crisis.

Although shares of reinsurance companies performed particularly well in 2012, the very pleasing price gains in the year under review remained behind those of the primary insurance sector. The discussion on excess capacities and the associated mounting intensity of competition in the reinsurance sector gave rise to unease amongst market

1 European share price index = DJ EURO STOXX 600
2 European bank index = DJ EURO STOXX Banks

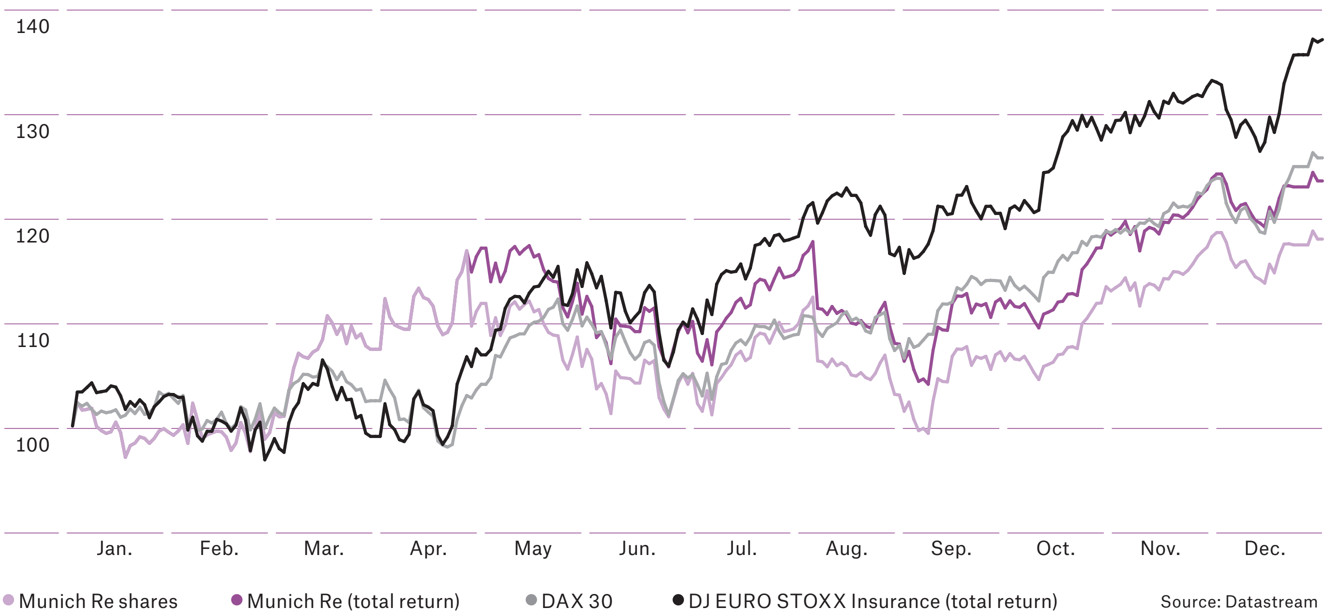
participants. Thus, an increasingly critical view is being taken not only of the declining investment income but also of the growth prospects in core business. Also in view of reinsurers' comfortable capital situation overall, the capital market focused on the return of capital in the form of higher dividends, share buy-backs or special dividends.

Following a strong performance the previous year, Munich Re shares again showed a pleasing growth in value in the year under review, thus reaffirming their importance as an attractive investment. Towards the end of the year, the share price reached a level last achieved in 2002. The price performance was underpinned by a good earnings position, based on a risk- and earnings-conscious underwriting policy in all business areas. The comfortable capitalisation situation prompted the Board of Management to launch a share buy-back programme with a volume of €1bn in November. This underscores the Board's commitment to disciplined and responsible capital management in line with shareholders' interests.

Return on Munich Re shares reaches 23.3%

Munich Re shares closed the year at €160.15, a price gain of 17.8%. Taking into account the dividend paid for the financial year 2012, the total return on Munich Re shares was 23.3%, exceeding that of the European share price index by 2.5 percentage points. The other benchmark indices performed even better: the DAX 30 gained 25.5%, and the European insurance index even rose by 36.7%. However, taking a longer period as a basis, the return on Munich Re shares including dividends has developed more strongly than the European insurance index over the last three- and five-year periods.

Share price performance 1.1.2013 = 100



Source: Datastream

Around 40 analysts from banks and brokerage houses regularly evaluate our shares. At the end of December 2013, 40% of the analysts gave our share a positive assessment, 42% a neutral one, and only 18% a negative rating.

Weighting of Munich Re shares as at 31 December 2013

	%
DAX 30	3.2
DJ EURO STOXX 50	1.3
DJ EURO STOXX Insurance	10.6
MSCI EURO	1.2
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.3
FTSE4Good Global Index	0.2

Munich Re shares also developed very well from a sustainability perspective. Besides being listed in the FTSE4Good, they were again included in the Dow Jones Sustainability Index with an annual assessment that put them among the best in the insurance sector. The specialised sustainability rating agencies oekom, Sustainalytics and Vigeo also rated Munich Re very highly. Their ratings flow into the weightings of various sustainability indices such as the Ethibel Sustainability (ESI) and STOXX Global ESG Leaders indices.

Active capital management is an integral part of our business policy. We thus wish to give our shareholders an appropriate share in the Company's success. Bearing this in mind, we generally aim to pay out at least 25% of the annual result as a dividend. We pursue a policy of stable dividends with increases where possible. This is why we take the current dividend level as a basis which we will strive not to undercut in future dividend payments, subject to the actual results and the capital position. There have not been any cuts in dividend since 1969.

Proposed increase in the dividend to €7.25

For the financial year 2013, the Board of Management and the Supervisory Board intend to propose a dividend of €7.25 (previous year €7.00) at the Annual General Meeting on 30 April 2014. Altogether, this would mean a total payout of €1.3bn (previous year: €1.3bn). Subject to approval by the Annual General Meeting, the dividend will be paid on 2 May 2014. 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 4.5% (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.

Securities reference numbers

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

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.

Around 177m Munich Re shares with a total value of around €24.8bn were traded on the German stock exchanges in the year under review, putting our shares in 14th place among the DAX stocks at year-end 2013. In terms of free-float market capitalisation, we also ranked 14th with around €25bn.

Key figures for our shares

		2013	2012
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	179.3	179.3
Year high	€	162.70	137.95
Date		2.12.2013	27.12.2012
Year low	€	130.85	91.39
Date		17.1.2013	9.1.2012
Year-end closing price	€	160.15	136.00
Annual performance (excluding dividend)	%	17.8	43.5
Beta 250 relative to DAX (daily, raw)	%	1.0	0.9
Market capitalisation at 31 December	€bn	28.7	24.4
Market value/equity at 31 December[1]		1.1	0.9
Average trading volume	'000	667	796
Earnings per share[2]	€	18.50	17.94
Dividend per share	€	7.25	7.00
Dividend yield at 31 December	%	4.5	5.1
Dividend payout (status at 6 March 2014)	€bn	1.3	1.3

1 Including minority interests.
2 Previous years' figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".

→ An overview of Munich Re's ratings can be found on page 92

For many years, Munich Re has been awarded consistently excellent ratings by the leading rating agencies. In the financial year 2013, 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 profitable growth and win clients' loyalty
- A forward-looking and responsible approach is an integral part of our corporate strategy

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.

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 insurance business and regional markets. We thus aim to secure an attractive return while simultaneously maintaining relatively low volatility. Our actions always focus on our clients and their needs.

Risk diversification reduces capital requirements

The risks that we cover differ greatly in nature. Their predominant 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 to our success. The size and mix of our risk portfolio mean we can cover comparatively more risks with the capital available.

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

Our risk management encompasses 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 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 f.

An important success factor is the constant improvement of the value-based methods and processes we use to control and manage our business. One 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, pension 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 requirements of its clients and aims to measurably improve through close communication with them. This encompasses high-quality, needs-oriented, customer-centric sales advice, clear and comprehensible communication, innovative services and rapid assistance in the event of a loss via efficient processes and a lean organisation. In combination with its solid financial strength, this makes ERGO and its specialists reliable partners for insurance and pension product requirements.

ERGO offers the appropriate sales channel for every client. Self-employed agents, direct sales staff, brokers and strong cooperation partners service private clients and firms in Germany and abroad. The primary insurer is making targeted use of its competence in direct selling in order to meet the growing demand from consumers for needs-based digital offerings and services. In addition, sales partnerships link ERGO with a large number of banks in Germany and in various international markets.

Reinsurance – Knowing risks, taking opportunities

Munich Re operates in virtually all classes of reinsurance. Our products range from traditional reinsurance, comprehensive 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 strongly. 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.

Commitment to social and ecological objectives

A responsible approach is an integral part of our corporate strategy. By supporting the UN Global Compact, we commit ourselves to the United Nations' ecological and social principles. Our primary goal is the integration of the aspects of ecology, social responsibility and corporate governance along the entire value chain of our insurance business and in our investments. By signing the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI), we have made a clear commitment to sustainable management. We protect natural resources with our environmental management system, and aim to make the Group as a whole carbon-neutral by 2015. Our social commitment prioritises business-related activities such as projects to prevent losses in the event of natural catastrophes, but also includes the promotion of cultural and social initiatives at our business locations. A key aim of our business strategy is to create long-term value for our clients, shareholders, employees and society as a whole.

More information about our Group-wide activities in the area of corporate responsibility can be found at www.munichre.com/cr/en

Corporate governance

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Contents

Dr. Bernd Pischetsrieder
Chairman of the
Supervisory Board

Ladies and gentlemen,

In the financial year 2013, the Supervisory Board fulfilled all the tasks and duties incumbent upon it by law and under the Articles of Association and its rules of procedure. No member of the Supervisory Board or of the committees attended fewer than half the meetings. We monitored the Board of Management in its conduct of the business, and gave advice on all matters of importance for the Group.

Collaboration between Supervisory Board and Board of Management

The Board of Management satisfied its reporting obligations towards the Supervisory Board in all respects, both verbally and in writing. The Supervisory Board was involved in all important business transactions and decisions of fundamental significance for the Group. During meetings, we held in-depth discussions with the Board of Management about the information provided to us. Cooperation with the Board of Management was characterised in every regard by responsible and focused action aimed at promoting the successful development of Munich Re.

Outside of Supervisory Board meetings, the Board of Management informed us promptly about important events in the Group, including the change in Chief Risk Officer, the sale of the Windsor Health Group (WHG), the acquisition of RenRe Energy Advisors Ltd. (REAL), and the planned share buy-back programme. The shareholder representatives and the employee representatives met with the Chairman of the Board of Management before the meetings for separate discussions of strategic issues and other matters of essential importance.

Between meetings, I held regular discussions with Dr. Nikolaus von Bomhard, Chairman of the Board of Management, about individual questions of strategic development and risk management, as well as about Munich Re's current business situation. Also between meetings, the Chairman of the Audit Committee, Professor Dr. Henning Kagermann, remained in close contact with Dr. Jörg Schneider, the member of the Board of Management responsible for Group reporting.

Focal points of the meetings of the full Supervisory Board

There were six meetings of the Supervisory Board in the year under review. Two representatives of the German Federal Financial Supervisory Authority (BaFin) routinely attended one of the meetings as guests. At five meetings, we discussed the business performance of Munich Re (Group) and other current topics. The Board of Management reported regularly on the situation of Munich Re's investments, addressing the development of the global economy and financial markets in detail, and their impact on the Group's assets and earnings. It also kept us informed about the relevant supervisory requirements, particularly regarding the systemic importance of insurers and the introduction of Solvency II, Europe's new supervisory regime. We took a very close look at the Board of Management's strategic considerations regarding the individual fields of business. In this context, we also always critically examined developments in life primary insurance and Munich Health. We also dealt with the following topics in the individual meetings in 2013:

The meeting on 11 March focused on the Company and Group financial statements for 2012 and the motions for resolution by the 2013 Annual General Meeting. We gave details of this in our report for the financial year 2012. Moreover, we obtained an overview of Munich Re's handling of compliance requirements and its anti-fraud management. We conferred and took decisions regarding the extension of appointments to the Board of Management and the assignment of responsibility for personnel and welfare matters to another Board member, and regarding related adjustments to the

Board of Management's distribution of responsibilities. In addition, we established the personal objectives for the Board members' variable remuneration for 2013. Finally, we appointed the auditor for the financial year 2013 and for the review of the half-year financial report 2013.

The meeting on 24 April was devoted solely to matters involving the Board of Management, specifically the evaluation of the individual Board members' annual performance for 2012 and their multi-year performance for 2010–2012.

On 25 April, directly prior to the Annual General Meeting, we heard the Board of Management's report on the present status of business performance in 2013.

On 17 July, the Supervisory Board requested a presentation of Munich Re's Core Principles, i.e. the pillars of its strategy. We dealt with the focal points of human resources work in the Group and were briefed on the 2012 compensation report in accordance with the German Remuneration Regulation for Insurance Companies (VersVergV).

At the meeting on 17 October, we made adjustments to the Board of Management's distribution of responsibilities owing to planned changes involving individual Board members with effect from 1 January 2014 and 1 January 2015 respectively. We also determined the reference groups on the basis of which the appropriateness of the Board of Management's compensation was to be reviewed in vertical terms. The annual efficiency review was also on the agenda, as was the resolution regarding the Declaration of Conformity. In addition, we discussed Munich Re's asset management with the CEO of MEAG. The President of the Specialty Markets Division of Munich Reinsurance America reported on new developments in the reinsurance market. As part of the request for proposals for our audit mandate that had been initiated by the Audit Committee, we considered a comprehensive report by the Chair of the Committee and conferred at length on the benefits and drawbacks of a change in auditor. Our resolution to re-appoint KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as external auditor for 2014 was then adopted by written consent in lieu of a meeting in November.

On 11 December, the CEO of ERGO presented "Moving forward – My ERGO 2018", ERGO's strategy for the coming five years. Besides this, the Supervisory Board obtained an overview of development, succession planning and appointments at management level. After a detailed consultation, we decided on the Board of Management's remuneration with effect from 1 January 2014 and the assessment bases for the variable remuneration for 2014 (financial objectives for annual and multi-year performance). We took a close look at the report on the Group's risk situation and risk-bearing capacity, and its risk strategy. In its report on Group planning for 2014 to 2016, the Board of Management provided explanations in cases where actual business performance deviated from the planning for the year under review.

Details on the composition of the committees can be obtained on page 43 and from our website at www.munichre.com/supervisory-board

Work of the committees

There are five Supervisory Board committees. They prepare the topics to be addressed and resolved by the full Supervisory Board. At each Supervisory Board meeting, information about the work of the committees was provided to the full Board by the respective Chairs of the committees.

The Personnel Committee met six times in 2013. It essentially prepared the resolutions on matters involving the Board of Management already mentioned in the report on the work of the full Supervisory Board. In addition, it passed resolutions on the extension of the appointment of one member of the Board of Management and looked at fringe benefits for members of the Board of Management. The Committee also adapted the rules of the deferred compensation scheme to take account of revised statutory age limits. It reviewed changes in the memberships of supervisory and advisory boards and comparable offices held by members of the Board of Management, and extended the agreement with a former member of the Board of Management regarding the unremunerated assumption of mandates and representational functions. Besides this, the Committee took a close look at succession planning for members of the Board of Management.

At its four meetings in 2013, the Standing Committee dealt with the preparation of Supervisory Board meetings and topics of corporate governance. It agreed to an informal review of the efficiency of the Supervisory Board's work in 2013, and determined that the measures proposed in 2012 for improving efficiency had been implemented. The Committee regularly obtained information on changes in shareholder structure and took delivery of the annual report on expenditure for donations and sponsoring.

The Audit Committee held nine meetings in the period under review. At the beginning of the year, the Committee performed a self-evaluation of its work on the basis of a comprehensive questionnaire. In the presence of the auditor, it discussed 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 2012. It also concerned itself in detail with the quarterly financial reports in 2013 and discussed the half-year financial report for 2013 with the auditor.

Another key task of the Committee consisted in monitoring the Group's risk situation and risk management on an ongoing basis. In addition to the quarterly and written reports, it also obtained detailed verbal information from the Chief Risk Officer on several occasions. Further issues discussed were the internal control system and risk strategy. Apart from this, the Audit Committee gained an overview of the Group's IT security, and its security and continuity management. The Head of Group Audit informed the members of the Committee about the outcome of the audits for 2012 and the audit planning for 2013. Besides the Group Chief Compliance Officer's annual report, the Committee regularly dealt with compliance and corporate governance issues. The Committee received regular updates about compliance cases brought to its attention, or commissioned reviews of its own accord. The members of the Audit Committee also took advantage of the opportunity – in the absence of the Board of Management – to confer amongst themselves or with the Head of Group Audit, the Group Chief Compliance Officer, the Chief Risk Officer and the external auditors. The Committee closely considered the management-level changes with regard to three of the internal control functions that took place in the year under review. The new Head of Group Audit has already attended a meeting of the Committee to respond to its questions.

The Audit Committee reviewed and monitored the auditor's independence. In this connection, the Committee obtained reports from the auditors on their auditing and non-audit-related services. Likewise, the Audit Committee prepared a report for the full Supervisory Board on the appointment of the external auditor for the financial year 2013, determined the main points of the audits, and set the auditor's fees. Following a resolution by the full Supervisory Board, the Chair of the Committee commissioned KPMG with the audit for the financial year 2013 and also commissioned the auditor's review of the 2013 half-year financial report. At the same time, after intensive preparation, the Audit Committee issued a tender for proposals for the external audit 2014, the result of which was submitted to the full Supervisory Board for resolution.

The Nomination Committee prepared the election of shareholders' representatives to be held at the Annual General Meeting in 2014. At three meetings, it discussed the re-election of Supervisory Board members and suitable candidates for election to the Supervisory Board. With regard to the nomination proposals submitted to the full Board, the Committee took account of the catalogue of criteria adjusted in the year under review, and the objectives determined by the Supervisory Board for its composition.

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

→ Details of this can be found in the corporate governance report on page 24 ff.

Corporate governance and Declaration of Conformity

The Supervisory Board pays close attention to good corporate governance. Together with the Board of Management, we therefore published the compulsory annual Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) in November 2013. We again complied with all the recommendations of the German Corporate Governance Code and intend to continue to comply with it in future. We confirmed the assessment we made in 2012 that all 20 members of the Supervisory Board are to be regarded as independent and that they do not have any conflicts of interests.

Munich Re offered all the members of the Supervisory Board an internal information event again in 2013. Nearly all of them took advantage of the opportunity to enhance their understanding of the core elements of Munich Re's financial planning and control.

Changes on the Board of Management

At the end of the year under review, Dr. Wolfgang Strassl left Munich Re's Board of Management, of which he had been a member since 2005. We would like to thank Dr. Strassl for his long service on the Board, with which he helped to shape Munich Re's development over many years. Dr. Joachim Wenning took over responsibility for personnel and welfare matters from Dr. Strassl with effect from 1 October 2013.

Company and Group financial statements for 2013

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft duly audited the Company and Group management reports and financial statements as at 31 December 2013 and issued them with 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 3 February 2014, the Audit Committee had the opportunity to confer in detail about the preliminary year-end figures as at 31 December 2013. On 18 March 2014, 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, who was present at the meeting, and gave detailed consideration to the auditor's reports. The Chair of the Audit Committee briefed the full Supervisory Board about the outcome of its consultations at the balance sheet meeting.

The full Supervisory Board also reviewed 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 raised no objections to the outcome of the external audit. It approved the Company and Group financial statements on 19 March 2014. The financial statements were thus adopted. Having carefully weighed all relevant aspects, the Supervisory Board followed 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 worldwide. With their work, they have once again contributed to another gratifying result for Munich Re.

Munich, 19 March 2014

For the Supervisory Board

Dr. Bernd Pischetsrieder
Chairman

Corporate governance report

Corporate governance report[1]

The corporate governance report and the Statement on Corporate Governance 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. Since 2013, this has included a reference to the principles of the United Nations (UN) Global Compact, which are included in an annex to the Code of Conduct. Further information on Munich Re's corporate governance is included in the Statement on Corporate Governance. In accordance with Section 289a of the German Commercial Code (HGB), the Statement on Corporate Governance forms 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, effective collaboration between these bodies and with the Group's staff, and open and transparent corporate communications.

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 set out in the Stock Corporation Act (AktG) and the German Corporate Governance Code. The Insurance Supervision Act (VAG) standardises specific requirements for the business organisation of insurance companies and the "fit and proper" criteria for their Board members and members of the Supervisory Board. The Act also provides particular rules for insurance companies' remuneration systems. These rules formed the basis for the Remuneration Regulation for Insurance Companies (VersVergV) issued by the German Federal Ministry of Finance.

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

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

The Declaration of Conformity is available 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 make a declaration of how far they have complied, and are complying, with the Code's recommendations.

We have underscored our approach to corporate responsibility by adopting 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. Since signing up to the agreement, we also report annually in our "Communication on Progress" on our progress in implementing the principles. Guidelines for investments geared to sustainability criteria are provided by the Principles for Responsible Investment (PRI), which we have implemented via our asset manager MEAG since 2006. In 2012, we signed up to the Principles for Sustainable Insurance (PSI). We also report annually on our progress with these two initiatives.

Corporate legal structure

The Articles of Association and 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 Corporation 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

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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 guidelines. The Group Compliance Division of Munich Reinsurance Company reports directly to the Chairman of the Board of Management. At the instigation of the Board of Management, we have established another channel to complement the external independent ombudsman and thus strengthen the compliance system: the compliance whistleblowing portal. Employees and third parties can use this portal to anonymously report criminal behaviour such as bribery and corruption, fraud, conduct liable to cause damage to reputation, and contraventions of antitrust, insider trading and data protection laws.

→
Information about the working practices of the Board of Management can be found in the Statement on Corporate Governance.

Pursuant to Article 16 of the Articles of Association, the Board of Management must consist of at least two members; beyond this, the number of members is determined by the Supervisory Board. The Board of Management of Munich Reinsurance Company had nine members in the year under review.

Collaboration between Board of Management and Supervisory Board

The Board of Management and the Supervisory Board cooperate closely for 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 f. More details about the work of the Supervisory Board can be found in the Statement on Corporate Governance and in the Report of the Supervisory Board on page 19 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 Group's employees in the European Economic Area (EEA).

Objectives of the Supervisory Board for its composition, diversity and independence
In accordance with Section 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 Section 5.4.2 of the German Corporate Governance Code, including at least eight shareholder representatives. No members of the Supervisory Board should have any 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 women, 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 towards meeting these objectives, 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. This objective has been achieved with the adoption by the European Electoral Board, on 18 November 2013, of a set of criteria for employee representatives on the Supervisory Board of Munich Reinsurance Company.

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

During this reporting period, there were five women on the Supervisory Board, three of whom were shareholder representatives and two who were employee representatives.

The Supervisory Board is of the opinion that all 20 of its members are to be regarded as independent within the meaning of Section 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 more than 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 approval of 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. Certain corporate contracts also require the approval of the Annual General Meeting to become effective.

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

Share trading and shares held by Board members

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 undue delay.

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

Management report

3

Munich Re

- Reinsurance offers full range of products, from traditional reinsurance to innovative solutions
- Majority of primary insurance operations concentrated in ERGO Insurance Group
- Health primary insurance outside Germany and international health reinsurance business combined under the Munich Health brand

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 large stretches of the value chain in the risk market. At the same time, it leverages synergies in revenue and costs, whilst reducing the risk-based capital required through broad diversification. Almost 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. These primary insurers have the words “Risk Solutions” added to their logo.

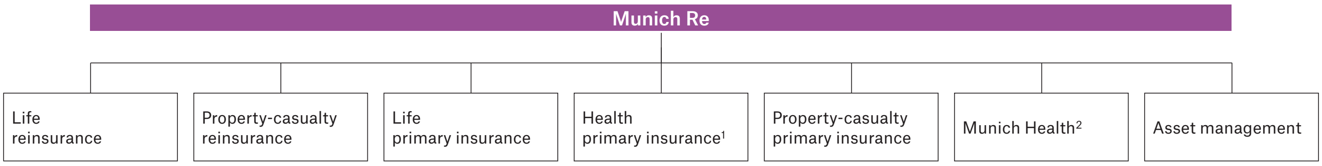
Domination and profit-transfer agreements are in place with many Group companies, especially between ERGO Versicherungsgruppe AG and its subsidiaries.

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. Some 78% (77%) of gross premiums written by ERGO derive from Germany, and 22% (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 and India, and in established markets such as Spain.

Munich Reinsurance Company and ERGO Versicherungsgruppe AG are under unified control within the meaning of the German Stock Corporation Act (AktG). 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 also 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. Our risk expertise and solution-focused approach under the motto “NOT IF, BUT HOW” are key to our success.

The reinsurance divisions

Our business is organised in five divisions.

Our international life business is written in the Life Division.

Four other divisions conduct property-casualty reinsurance. We intend to further strengthen our competitiveness by introducing various structural adjustments scheduled to be implemented by the end of 2014.

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.

Our Europe and Latin America Division is responsible for property-casualty business with our clients from Europe (except Germany), Latin America and the Caribbean. In future, the four market units will be condensed into three, with the exact split to be decided on in the first half of 2014.

The Germany, Asia Pacific and Africa Division conducts property-casualty business with our clients in Germany, Africa, Asia, Australia and the Pacific Islands. As is already the case in the Global Clients/North America Division, facultative business (reinsurance of single risks) will now also be pooled in the two other regional divisions – Europe and Latin America, and Germany, Asia Pacific and Africa.

Special and Financial Risks (SFR) is in charge of the classes of credit, aviation and space, agriculture, enterprise and contingency risks, and of risk solutions for industrial clients. Insurance risk securitisation and risk transfer to the capital markets are handled by our Risk Trading Unit. In addition, the division is responsible for handling our own reinsurance requirements (retrocession). As part of the structural changes, central responsibility for marine business will be allocated to this division in a new divisional unit. The bundling of this business is intended to further enhance underwriting quality and service for clients worldwide, and also product development.

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 Ltd. – New Zealand Branch, Auckland Munich Reinsurance Company of Australasia Ltd., Sydney Munich Re, London (Life Branch)
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 Bell & Clements (London) Ltd., London First Marine Insurance Company, Amelia, Ohio Global Standards, LLC, Wilmington, Delaware Groves, John & Westrup Ltd., London HSB Engineering Insurance Ltd., London HSB Group, Inc., Dover, Delaware HSB Professional Loss Control, Inc., Lenoir City, Tennessee HSB Solomon Associates LLC, Dover, Delaware HSB Specialty Insurance Company, Hartford, Connecticut MSP Underwriting Ltd., London Munich Re Holding Company (UK) Ltd., London Munich Reinsurance America, Inc., Wilmington, Delaware[3] Munich Reinsurance Company of Canada, Toronto Munich Re Underwriting Ltd., London NMU Group Ltd., London Roanoke Group 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
Europe and Latin America	Munich Re do Brasil Resseguradora S.A., São Paulo[3] Munich Re, Madrid[3] Munich Re, Milan Munich Re, Paris Munich Re, London (General Branch)

Germany, Asia Pacific and Africa	Great Lakes, Sydney Great Lakes, 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, Zurich Great Lakes, Dublin Great Lakes, Milan Munich Re of Malta p.l.c., Ta' Xbiex[3] New Reinsurance Company Ltd., Zurich[3] Munich Re Weather & Commodity Risk Advisors, Wilmington, Delaware

1 A detailed list of shareholdings can be found on page 276 ff. in the notes to the consolidated financial statements.
2 The companies listed are mainly subsidiaries and branches outside Germany with equity capital exceeding €5m.
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, with various business models in all forms of life, annuity and health insurance and in nearly all lines of property-casualty insurance and legal protection insurance. These products, in combination with the provision of assistance, other services and individual consultancy, cover the needs of private and corporate clients.

Our primary insurer transacts life and property-casualty insurance under the ERGO brand. This broad offering is supplemented by legal protection insurance from D.A.S., health insurance from DKV, and travel protection insurance from ERV or ERGO Direkt, ERGO's specialist for direct sales. ERGO's many different sales channels include not only its companies' own successful intermediary organisations and direct selling by phone and via the internet but also broker relationships and marketing cooperations, such as the extensive collaboration with the UniCredit Group.

Integrated management of the segments

With its largely integrated management of all segments and administration processes, ERGO is striving in its German business for high-quality service for its clients and sales partners and for high profitability. A single back office supports the various ERGO companies and sales organisations. Corporate functions such as accounting, finance, human resources, information technology and sales management are organised in divisional units and divisions with central responsibility. With the exception of travel insurance, international business is managed under one Board member's area of responsibility.

With effect from 1 April 2014, ERGO is grouping all customer-oriented back-office, benefits and claims-service operations, including the management of applications and contracts, in a new client and sales division. Life and health insurance in Germany will also be managed under one Board member's area of responsibility from that date.

The primary insurance group at a glance[1]

Segment	Selected subsidiaries[2]
Life	ERGO Direkt Lebensversicherung AG, Fürth
	ERGO Insurance N.V., Brussels
	ERGO Lebensversicherung AG, Hamburg
	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. Rechtsschutz 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 Ubezpieczeniowe 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 set-up of Munich Health

Munich Health is based on three pillars. We operate our global health reinsurance business under the Munich Re brand. In primary insurance, we are active in many international markets via subsidiaries, participations and joint ventures. Vis-à-vis our clients, we operate under our proven local brands, e.g. DKV in Spain and Belgium or Daman Health Insurance in Abu Dhabi. In the field of managed care services, Munich Health assists local insurance companies with customised cost and quality control services.

We manage our worldwide activities via five decentralised units. The regions of northern, eastern and central Europe are managed from Munich, as are southern Europe and Latin America. Our North American business is based in Princeton, where a significant change has occurred: as at the end of the year, we withdrew from US primary insurance business, previously written by the Windsor Health Group. The Middle East and Africa are managed from Abu Dhabi and Dubai, and the Asia-Pacific region via our office in Singapore.

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
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 94 f.

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 through 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.

Details of our risk strategy are available on page 110 ff.

The framework for any business activity is our risk strategy, from which we derive various limitations and reporting thresholds. The core of this is available financial resources, which describe the economic capital position of Munich Re. We also 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 whether an activity is beneficial 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 specify the levers for adding value for both management and staff.

Contrasting aspects have to be considered and evaluated when selecting suitable target figures. On the one hand, undue complexity should be avoided in order to ensure target figures remain transparent 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 emphasising added value as the Group's overriding guiding principle. Our business activities are multi-faceted, and the parallel use of different performance indicators is unavoidable.

The Group's performance indicators

At Group level, the main performance metrics are economic earnings and the return on risk-adjusted capital after tax (RORAC).

Economic earnings

Economic earnings are the Group's key performance indicator

→ Information on how the economic equity is calculated is provided on page 124 f.

The starting point for value-based management is the economic value added in a reporting period. We calculate the value we have created in a given period at Group level using the key performance indicator economic earnings, largely in alignment with the future Solvency II supervisory regime. Economic earnings are defined as the change in economic equity in a given period, adjusted for capital inflows and outflows, including dividend payouts and share buy-backs.

Central performance measurement is conducted separately for our underwriting and investments. The main factors here, besides value changes from our new business, are in particular the changes from the market risk (interest, shares and exchange rates), changes from the credit risk (risk spreads, credit ratings and defaults), changes from the market environment of health and life insurance business (mortality, morbidity, longevity and lapses) and the development of claims and costs in property-casualty business.

In applying the uniform Group performance measurement model of economic earnings in the individual business fields, we use conceptually consistent measurement approaches that are individually geared to the characteristics of each of the respective businesses and responsibilities. They include the value added by property-casualty reinsurance and Munich Health, and the excess return from our investment activity (asset-liability management). In life insurance and the bulk of our health primary insurance business, the "value added by new business" and the "change in value of in-force business" on the basis of Market Consistent Embedded Value (MCEV) are additionally applied. The performance metric economic earnings is used directly for ERGO's primary insurance business, as no adjustments for this field of business are necessary. Group corporate management is designed so that we are in a position to maximise value creation while observing subsidiary parameters.

Return on risk-adjusted capital (RORAC)

→ Information on the internal risk model is provided on page 118 ff.

To highlight Munich Re's value orientation, we also use the after-tax return on risk-adjusted capital (RORAC) as a Group performance indicator applied uniformly at Group level. RORAC relates the performance indicator customary in the capital markets (IFRS consolidated result), which we adjust to eliminate the return on additional available equity, to the risk-based capital required (economic risk capital). We determine the level of risk-based capital with our internal, economically focused risk model that is oriented towards future regulatory frameworks.

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

We explain how the additional available economic equity is calculated on page 125

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. Only when the requirements of Solvency II for capital resources and performance calculation have been reliably established and tested do we intend to gear our targets to these performance measures. Although we emphasise risk-based perspectives, we always aspire to meet the high, but fair, expectations of our investors with regard to the return on the total capital placed at our disposal – the return on equity (RoE).

Other performance indicators

Market Consistent Embedded Value (MCEV)

A detailed presentation regarding MCEV is available on Munich Re's website at www.munichre.com/embeddedvalue/en

For life insurance and most of our health primary insurance business, Group corporate management is carried out on the basis of Market Consistent Embedded Value (MCEV), which is valued on the basis of the European Insurance CFO Forum Principles of Market Consistent Embedded Value©[1]. The change in MCEV within one year, adjusted for effects from exchange-rate fluctuations, acquisition or sale of companies, dividends and capital injections, is shown 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 "value added by new business" and "changes in value of in-force business". Our corporate management takes these two parameters into account.

Value added

We use value added as a component of economic earnings for corporate management in property-casualty insurance and Munich Health. The respective value added (adjusted for random fluctuation for this purpose) is determined as follows:

Adjusted result	–	Cost of equity	=	Value added

1 © Stichting CFO Forum Foundation 2008.

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 capital on the basis of risk capital.

IFRS consolidated result

The IFRS consolidated result is a performance measure derived from our external group accounting. It serves as an important criterion for investors, analysts and the general public to assess the performance of the Group and our segments. With its standardised measurement basis, the IFRS consolidated result can be compared to the results of our market competitors and is thus an indicator used in Munich Re's financial reporting.

Asset-liability management

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

The economic value added by the investment result is calculated collectively for reinsurance and Munich Health due to their joint investment management. 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. With ALM, we aim to ensure that changes in macroeconomic factors influence the value of our investments and that of our technical provisions and liabilities in the same way. 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, where possible. This reduces our vulnerability to the effect of capital market fluctuations and stabilises our equity.

Combined ratio

The combined ratio is regularly posted for property-casualty business and international health business. Calculated as the percentage ratio of the sum of expenses for claims and benefits plus operating expenses to earned premiums (all of which are 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. Operating expenses chiefly comprise the costs arising in the acquisition of new business and for the ongoing administration of insurance contracts.

For us, the combined ratio by itself is not a sufficiently informative performance measure. It is 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.

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 also 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 members support this orientation: in general, the higher the hierarchical level, the more 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
Health (since 1 October 2013; until 31 Dec. 2013 together with Dr. Strassl)

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
Corporate Claims (since 1 January 2014)
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
(Chief Financial Officer)
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
(until 31 December 2013)
(Labour Relations Director)
(until 30 September 2013)
Health (from 1 October 2013 together with Dr. von Bomhard)
Human Resources
(until 30 September 2013)

Dr. oec. publ. Joachim Wenning
(Labour Relations Director)
(since 1 October 2013)
Life
Human Resources (since 1 October 2013)

Supervisory Board

Dr. jur. Hans-Jürgen Schinzler
(Honorary Chairman)
Member from 2 January 2004 until 31 December 2012
Chairman from 26 May 2004 until 31 December 2012

Dr. Ing. E.h. Dipl. Ing.
Bernd Pischetsrieder
(Chairman)
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. Deutscher Automobil Schutz 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
President of the Board of Trustees of the Siemens Foundation and former Chairman of the Board of Management of Siemens AG

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

Silvia Müller
Member since 22 April 2009
Employee of ERGO Versicherungs-gruppe AG

Marco Nörenberg
Member since 22 April 2009
Employee of ERGO Versicherungs-gruppe AG

Reinhard Pasch
Member since 22 April 2009
Employee of ERGO Versicherungs-gruppe 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. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder
(Chair)
Herbert Bach
Hans Peter Claußen
Prof. Dr. rer. nat. Dr. Ing. E.h.. Henning Kagermann
Wolfgang Mayrhuber

Personnel Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder
(Chair)
Herbert Bach
Wolfgang Mayrhuber

Audit Committee
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann
(Chair)
Christian Fuhrmann
Marco Nörenberg
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder
Anton van Rossum

Nomination Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder
(Chair)
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann
Peter Löscher

Conference Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder
(Chair)
Herbert Bach
Hans Peter Claußen
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann

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 (until 31 December 2013)	–	Apollo Munich Health Insurance Company Ltd., India
Dr. oec. publ. Joachim Wenning	–	–

1 Status: 31 December 2013.
2 Own group company within the meaning of Section 18 of the German Stock Corporation Act.

Supervisory Board[1]	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. Ing. E. h. Dipl. Ing. Bernd Pischetsrieder (Chairman)	–	Tetra-Laval International S.A. Group, Switzerland
Hans Peter Claußen (Deputy Chairman)	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG[2]	–
Prof. Dr. oec. Dr. jur. Ann-Kristin Achleitner	METRO AG Linde AG	GDF SUEZ S.A., France
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 (until February 2013) Alpine Bau Holding GmbH, Austria (until April 2013)
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) Deutsche Lufthansa AG (Chairman) Lufthansa-Technik AG (until June 2013)	AUA Austrian Airlines, Austria (until June 2013) Österreichische Luftverkehrsholding GmbH, Austria (until June 2013) Heico Corporation, USA UBS AG, Switzerland (until May 2013)
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	–	Sistema Shyam Teleservices Ltd., India Tata Consultancy Services Ltd., India

1 Status: 31 December 2013.
2 Own group company within the meaning of Section 18 of the German Stock Corporation 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 Section 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 remuneration system for members of the Board of Management focuses strongly on long-term objectives, and thus creates a pronounced incentive for sustainable corporate development. Adjustments were made to the variable remuneration component as at 1 January 2013. Particular attention was paid to simplifying the current system of objectives by focusing on the most important personal objectives. In addition, the Supervisory Board was given the possibility to react to developments during the year.

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% performance evaluation/ achievement of objectives)		Group objective Business field objectives Divisional objectives Personal objectives Overall performance	**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% performance evaluation/ achievement of objectives)		Objectives for the business fields – reinsurance – primary insurance – Munich Health Personal objectives Overall performance	**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 prior to 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 prior to 2009 who had not reached the age of 55 in 2008 and Board members first appointed as from 2009)	–	Target overall direct remuneration[2]	Pension contribution		–

1 For the variable remuneration, the share shown presupposes 100% performance evaluation/achievement of objectives.
2 Target overall direct remuneration comprises basic remuneration plus variable remuneration based on 100% performance evaluation/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 extent to which the annually set objectives for annual and multi-year performance are met, and how the component newly introduced in 2013 "Evaluation of overall performance" – which considers the performance of individual members of the Board and of the whole Board – is assessed.

Processes have been laid down for specifying objectives and assessing their achievement, and these processes require review 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 notified to the Supervisory Board.

Achievement and evaluation of objectives is measured at the end of the periods under consideration, there being no adjustment of targets during these periods. Payouts are made at the end of the one-year 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, members of the Board of Management are obliged to invest 50% and 25% respectively of the paid-out variable remuneration in Munich Reinsurance Company shares.

Variable remuneration based on annual performance

Firstly, annual targets for the variable remuneration component geared to annual performance are set on the basis of the consolidated result of Munich Re (Group), the results from the business fields reinsurance and primary insurance, divisional results and personal objectives. In addition, for financial years as from 2013 the Supervisory Board assesses overall performance – particularly performance not taken into account in the objectives – of the Board of Management and the individual Board members, and it also takes into account developments during the appraisal period that are beyond the influence of the Board. Full achievement of the annual objectives (100%) allows for payment of 30% of the overall target amount for variable remuneration.

Details of the assessment bases for the annual performance can be seen in the following table:

Variable remuneration based on annual performance

Category of objective	Share[1]	Assessment basis	Parameters
Collective contribution to corporate success	30%–60%		
Group objective		Derived from key performance indicators in external reporting and other important portfolio and performance data	Return on risk-adjusted capital, RORAC[2]
Business field objectives			
– Reinsurance		Value-based economic performance indicators: – Property-casualty reinsurance – Life reinsurance	Components of economic earnings:[3] – Value added – Value added by new business – Change in the value of in-force business
– Primary insurance		Value-based economic performance indicator	Economic earnings[3]
Individual contribution to corporate success	20%–50%		
Divisional objectives		Value-based economic performance indicators: – Property-casualty reinsurance and Munich Health – Life reinsurance	Components of economic earnings:[3] – Value added – Value added by new business – Change in the value of in-force business
Personal objectives		Personal objectives per Board member	Special focal points such as – Pricing and cycle management – Client management
Overall performance evaluation	20%	Performance of individual Board members and of Board as a whole that is not considered in the objectives or subject to developments during the year	Assessment by Supervisory Board taking into account Section 87 of the German Stock Corporation Act and the German Corporate Governance Code

1 The objectives are weighted individually according to the responsibilities of the individual Board members.
2 Further information on RORAC is provided on page 38 f.
3 Further information on economic earnings is provided on page 38.

The variable remuneration for annual performance is determined on the basis of evaluation by the full Supervisory Board and then paid out in the year after the one-year assessment period. 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. In addition, multi-year performance plans in effect since 2013 envisage an assessment by the Supervisory Board of the overall performance of the Board of Management and the individual Board members. This allows for a response to developments during the three-year appraisal period that are beyond the influence of Board members, and which can also be taken into account along with performance not included in the agreement of objectives. Full achievement of the multi-year objectives (100%) allows for payment of 70% of the overall target amount for variable remuneration.

Details of the assessment bases for the multi-year performance can be seen in the following table:

Variable remuneration based on multi-year performance

Category of objective	Share[1]	Assessment basis	Parameters
Collective contribution to corporate success	20%–60%		
Business field objectives (three-year average)			
– Reinsurance		Value-based economic performance indicators: – Property-casualty reinsurance – Life reinsurance	Components of economic earnings:[2] – Value added – Value added by new business – Change in the value of in-force business
– Primary insurance		Value-based economic performance indicator	Economic earnings[2]
– Munich Health		Value-based economic performance indicator	Component of economic earnings:[2] – Value added
Individual contribution to corporate success	20%–60%		
Personal objectives (three-year period)		Personal objectives per Board member	Special focal points such as – Staff development, including diversity – Sustainable development, social tasks
Overall performance evaluation	20%	Performance of individual Board members and the Board as a whole that is not considered in the objectives or subject to developments during the year	Assessment by Supervisory Board taking into account Section 87 of the German Stock Corporation Act and the German Corporate Governance Code

1 The objectives are weighted individually according to the responsibilities of the individual Board members.
2 Further information on economic earnings is provided on page 38.

The variable remuneration for the multi-year performance is determined on the basis of evaluation by the full Supervisory Board and then paid out in the year after the three-year assessment period. 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 “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

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

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 since 1999, was set up for the last time in 2009 for members of the Board of Management. The participants were granted a certain number of stock appreciation rights. These could only be exercised if, after a two-year vesting period, Munich Re’s share price had risen by at least 20% since inception of the plan and the shares had outperformed the EURO STOXX 50 at least twice over a three-month period during the term of the plan.

The exercising of the rights and proceeds obtained depended on the development of the share price and on fulfilment of the exercise conditions. The amount of income from the stock appreciation rights was limited. The members of the Board of Management were only able to exercise stock appreciation rights under the plans set up in 1999 and 2003–2009. As at 31 December 2013, no further exercisable stock appreciation rights existed.

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 2013 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, overall performance evaluation 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 conforms with the recommendations of the German Corporate Governance Code for 2013. In particular, it also complies with the German Remuneration Regulation for Insurance Companies (VersVergV) of 6 October 2010 concerning the supervisory law requirements for remuneration schemes in the insurance sector.

The level of the 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 for the appropriateness of compensation are 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. Other criteria are the relevant comparative benchmarks for Board remuneration and the prevailing remuneration structure at Munich Reinsurance Company. The Supervisory Board takes account of the level of Board salaries in relation to the level of salaries paid to senior managers and to general staff members over a period of time, and also determines how senior managers and general staff are to be classified for the purpose of this comparison. The consideration of what level of remuneration is appropriate also takes into account data from peer-group companies. 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 another 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 Board members are incapacitated for a period of longer than 12 months and it is probable that they will be permanently unable to fully perform the duties conferred on them (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. This excludes remuneration for board 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 Securities Acquisition and Takeover Act – WpÜG) and may not cover more than the remaining period of the employment contract. If the employment contract is terminated for good cause on grounds that are 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, members of the Board appointed for the first time have become members of a defined contribution plan. For this plan, the Company provides the Board members with a pension contribution geared to their 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 first 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 first appointed as from 1 January 2009, a uniform pension contribution rate of 25.5% of the target overall direct remuneration has been 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. For future service years as of 1 January 2009, these Board members receive an incremental pension benefit generally based on the defined contribution plan for Board members first appointed as from 2009. Since the conversion of the pension system took place while Board members' contracts were still 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.

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. The Supervisory Board determines the relevant target pension level for pension commitments from defined benefit plans and defined contribution plans – also considering length of service on the Board – and takes account of the resultant annual and long-term cost for the Company.

Benefits on termination of employment

Occupational pension

Board members first appointed prior to 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 first 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 members first appointed 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 Members are incapacitated for a period of longer than 12 months and it is probable that they will be permanently unable to fully perform the duties conferred on them.

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 members first appointed 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 defined benefit plan up to 2008 and 80% of the insured occupational pension 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 their appointment without their having given cause for this through a gross violation of their duties or at their own request. The precondition is that the Board members have already passed the age of 50, have been in the employment of the Company for more than ten years when the contract terminates, and have had their 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 members first appointed 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 (BetrAVG)
Board members have vested benefits under the 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 previously.

Benefit amount:
- Under the defined contribution plan for members first appointed 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 (Employers' Retirement Benefits Act, Section 2 para. 1). The entitlement from the incremental pension comprises the pension benefits fully financed under the insurance contract up to the occurrence of the insured event and based on the pension contributions made up to the date of leaving the Company (Employers' Retirement Benefits Act, Section 2 para. 5a). 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 first 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: 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 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 prior to 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 not by 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 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 prior to 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 first appointed between 1 January 2009 and 31 March 2012 who received a pension commitment from the Company for the first time before 1 January 1999. For Board members first appointed as from 2009 who did not receive a pension commitment from the Company before 1 January 1999, and for Board members first 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 (1) of the 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 2013 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 2010–2012 is recognised in the year of payment, i.e. in 2013. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €24.7m (13.3m) 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 around €11.5m compared with the previous year. The main reason for the increase is that, in accordance with DRS 17, remuneration is recognised for the multi-year components for the first time again since 2009, and this totals €12.8m. The basic remuneration and remuneration in kind/fringe benefits increased by €0.3m compared with the previous year, while the amount paid out for annual performance is projected to decrease by €1.6m, as the overall achievement of objectives was lower than in the previous year according to current estimates.

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

Name	Financial year	Basic remuneration	Remuneration in kind/fringe benefits	Annual performance[1]	Multi-year performance[2]	Total
		€	€	€	€	€
Nikolaus von Bomhard	**2013**	**1,200,000**	**30,992**	**1,038,240**	**2,158,156**	**4,427,388**
	2012	1,200,000	32,376	1,160,670	–	2,393,046
Ludger Arnoldussen	**2013**	**570,000**	**46,856**	**505,333**	**1,313,935**	**2,436,124**
	2012	570,000	47,975	706,440	–	1,324,415
Thomas Blunck	**2013**	**570,000**	**37,862**	**413,763**	**1,296,981**	**2,318,606**
	2012	570,000	33,340	642,281	–	1,245,621
Georg Daschner	**2013**	**585,000**	**32,692**	**485,871**	**1,443,050**	**2,546,613**
	2012	585,000	35,806	684,623	–	1,305,429
Torsten Jeworrek	**2013**	**855,000**	**34,418**	**690,070**	**1,898,750**	**3,478,238**
	2012	855,000	35,860	945,417	–	1,836,277
Peter Röder	**2013**	**570,000**	**37,459**	**467,528**	**1,230,880**	**2,305,867**
	2012	570,000	34,829	749,419	–	1,354,248
Jörg Schneider[3]	**2013**	**855,000**	**177,690**	**719,397**	**1,567,020**	**3,319,107**
	2012	855,000	35,394	778,680	–	1,669,074
Wolfgang Strassl[3]	**2013**	**570,000**	**125,134**	**324,826**	**796,838**	**1,816,798**
	2012	570,000	32,990	345,081	–	948,071
Joachim Wenning	**2013**	**570,000**	**33,695**	**416,619**	**1,063,300**	**2,083,614**
	2012	540,000	34,921	613,339	–	1,188,260
Total	**2013**	**6,345,000**	**556,798**	**5,061,647**	**12,768,910**	**24,732,355**
	2012	6,315,000	323,491	6,625,950	–	13,264,441

The total expenditure recognised in 2013 for the Long-Term Incentive Plans (reserve allocations/releases due to the development in value of stock appreciation rights from the 2006–2009 plans) breaks down as follows: von Bomhard €818,075, Arnoldussen €308,570, Blunck €356,314, Daschner €538,881, Jeworrek €653,965, Röder €361,585, Schneider €949,572, Strassl €356,314, Wenning €114,771.

1 At the time of preparation of this report, no Supervisory Board resolution had yet been passed on the amounts to be paid for the 2013 annual performance. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted.
For the 2012 annual performance, a total of €169,276 less was paid out than had been reserved in the financial year 2012. The additional/reduced expenditure breaks down as follows: von Bomhard €42,000, Arnoldussen –€21,347, Blunck –€69,227, Daschner –€54,669, Jeworrek –€43,093, Röder –€47,182, Schneider €23,940, Strassl –€9,337, Wenning €9,639. This results in the following actual bonus payments for 2012: von Bomhard €1,150,800, Arnoldussen €598,500, Blunck €550,620, Daschner €581,490, Jeworrek €807,975, Röder €554,610, Schneider €813,960, Strassl €331,170, Wenning €525,420.
The amounts shown for the annual performance 2013 comprise the respective provision for 2013 and the relevant additional/reduced expenditure for 2012.
2 The amounts paid out in 2013 were for multi-year performance 2010–2012.
3 Remuneration in kind/fringe benefits for 2013 including anniversary payment.

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 100% performance evaluation as per DRS 17 (revised 2010), corridor 0–200%

Name	Set in	for	Annual performance[1, 3] €	Multi-year performance[2, 3] €	Total amounts payable €
Nikolaus von Bomhard	**2013**	**2014**	**861,000**	**2,009,000**	**2,870,000**
	2012	2013	840,000	1,960,000	2,800,000
Ludger Arnoldussen	**2013**	**2014**	**420,000**	**980,000**	**1,400,000**
	2012	2013	399,000	931,000	1,330,000
Thomas Blunck	**2013**	**2014**	**420,000**	**980,000**	**1,400,000**
	2012	2013	399,000	931,000	1,330,000
Georg Daschner	**2013**	**2014**	**420,000**	**980,000**	**1,400,000**
	2012	2013	409,500	955,500	1,365,000
Torsten Jeworrek	**2013**	**2014**	**609,000**	**1,421,000**	**2,030,000**
	2012	2013	598,500	1,396,500	1,995,000
Peter Röder	**2013**	**2014**	**420,000**	**980,000**	**1,400,000**
	2012	2013	399,000	931,000	1,330,000
Jörg Schneider	**2013**	**2014**	**609,000**	**1,421,000**	**2,030,000**
	2012	2013	598,500	1,396,500	1,995,000
Wolfgang Strassl	**2013**	**2014**	**–**	**–**	**–**
	2012	2013	399,000	931,000	1,330,000
Joachim Wenning	**2013**	**2014**	**420,000**	**980,000**	**1,400,000**
	2012	2013	399,000	931,000	1,330,000
Total	**2013**	**2014**	**4,179,000**	**9,751,000**	**13,930,000**
	2012	2013	4,441,500	10,363,500	14,805,000

1 At the time of preparation of this report, no Supervisory Board resolution had yet been passed on the amounts to be paid for 2013. 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 2013 is payable in 2016, that for 2014 in 2017.
3 The information on the assessment bases and parameters on page 49 f. for the amounts set for 2013 also applies to the amounts set for 2014.

Pension entitlements

Personnel expenses of €5.0m (5.0m) were incurred in the financial year to finance the pension entitlements for active members of the Board of Management. Of these, €1.4m was apportionable to defined benefit plans and €3.6m 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	€	€
Nikolaus von Bomhard[3, 10]	**2013**	**407,100**	**10,474,789**	**384,766**
	2012	407,100	10,424,872	398,602
Ludger Arnoldussen[4, 10]	**2013**	**157,500**	**1,850,243**	**269,261**
	2012	157,500	1,673,940	286,621
Thomas Blunck[5, 10]	**2013**	**120,000**	**1,670,842**	**120,889**
	2012	120,000	1,656,569	127,849
Georg Daschner[6]	**2013**	**234,000**	**6,544,532**	**0**
	2012	224,250	6,547,091	0
Torsten Jeworrek[7, 10]	**2013**	**171,000**	**3,324,450**	**149,074**
	2012	171,000	3,356,607	155,570
Peter Röder[7, 10]	**2013**	**90,000**	**1,832,183**	**78,369**
	2012	90,000	1,817,959	82,165
Jörg Schneider[7, 10]	**2013**	**275,000**	**6,222,950**	**253,987**
	2012	275,000	6,210,367	264,544
Wolfgang Strassl[8]	**2013**	**120,000**	**3,838,013**	**130,685**
	2012	120,000	3,142,012	135,120
Joachim Wenning[9, 10]	**2013**	**–**	**–**	**20,316**
	2012	–	–	19,112
Total	**2013**	**1,574,600**	**35,758,002**	**1,407,347**
	2012	1,564,850	34,829,417	1,469,583

See table on next page for footnotes.

Pension entitlements

				Defined contribution plan	
Name	Financial year	Pension contribution rate for target total direct remuneration	Entitlement as at 31 December	Present value of entitlement as at 31 December	Personnel expenses
		%	€/year	€	€
Nikolaus von Bomhard[3, 10]	**2013**	**17.00**	**131,714**	**4,009,204**	**680,000**
	2012	17.00	104,839	3,329,161	680,000
Ludger Arnoldussen[4, 10]	**2013**	**14.75**	**57,111**	**1,662,863**	**280,250**
	2012	14.75	45,339	1,411,130	280,250
Thomas Blunck[5, 10]	**2013**	**16.25**	**67,373**	**1,882,123**	**308,750**
	2012	16.25	53,774	1,625,620	308,750
Georg Daschner[6]	**2013**	**–**	**–**	**–**	**–**
	2012	–	–	–	–
Torsten Jeworrek[7, 10]	**2013**	**19.50**	**111,923**	**3,233,034**	**555,750**
	2012	19.50	88,696	2,733,764	555,750
Peter Röder[7, 10]	**2013**	**20.25**	**73,236**	**2,193,184**	**384,750**
	2012	20.25	57,526	1,827,358	384,750
Jörg Schneider[7, 10]	**2013**	**16.50**	**93,303**	**2,782,075**	**470,250**
	2012	16.50	74,453	2,334,148	470,250
Wolfgang Strassl[8]	**2013**	**21.00**	**77,258**	**2,317,935**	**399,000**
	2012	21.00	61,489	1,952,601	399,000
Joachim Wenning[9, 10]	**2013**	**25.50**	**76,807**	**–**[11]	**484,500**
	2012	25.50	58,957	–	459,000
Total	**2013**		**688,725**	**18,080,418**	**3,563,250**
	2012		545,073	15,213,782	3,537,750

1 In the case of Board members transferred from the old system to the new, the amount corresponds to the value of the annual vested pension at 31 December 2008; in the case of Mr. Daschner, it corresponds to the defined benefit at 31 December.
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 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 Employers' Retirement Benefits Act in the event of premature termination of employment up to 7 March 2015, and to a reduced occupational pension on early retirement in the event of premature termination of employment as from 8 March 2015 or 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 Left the Company as at 31 December 2013 owing to regular termination of employment and is entitled to a reduced occupational pension on early retirement of €175,560 p.a.
9 Entitled to vested benefits under the 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.
10 Entitled to an occupational pension in the event of termination of employment owing to incapacity to work.
11 Defined contribution plan within the meaning of IAS 19, Employee Benefits, so no present value shown.

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 38 f.

The Company result bonus allows employees to 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 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-term 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 an annual 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 basic earnings per share from continuing operations, as shown in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS): each Supervisory Board member receives €4,000 for each full euro by which earnings per share exceed €12, up to a maximum of €40,000. Based on earnings per share of €18.50, variable result-related remuneration of €24,000 is payable for the financial year 2013. The result-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 2013.

Members of the Supervisory Board committees receive an additional 50% of their fixed remuneration, with the Chairs of the committees receiving an additional 100% of their fixed remuneration. 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.

The resolution passed by the Annual General Meeting 2013 to switch the remuneration of the Supervisory Board to a purely fixed remuneration will not be effective until the financial year 2014.

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

Name	Financial year	Fixed remuneration Annual	Fixed remuneration For committee work[2]	Result-related remuneration Annual	Result-related remuneration with long-term incentive function Annual	Total
		€	€	€	€	€
Hans-Jürgen Schinzler	**2013**	**–**	**–**	**–**	**–**	**–**
(Chairman until 31.12.2012)	2012	125,000.00	139,000.00	50,000.00	25,000.00	339,000.00
Honorary Chairman						
Bernd Pischetsrieder	**2013**	**125,000.00**	**149,000.00**	**60,000.00**	**25,000.00**	**359,000.00**
Chairman (from 1.1.2013)	2012	50,000.00	52,000.00	20,000.00	10,000.00	132,000.00
Hans Peter Claußen	**2013**	**75,000.00**	**25,000.00**	**36,000.00**	**15,000.00**	**151,000.00**
Deputy Chairman	2012	75,000.00	25,000.00	30,000.00	15,000.00	145,000.00
Ann-Kristin Achleitner	**2013**	**49,726.03**	**–**	**23,868.50**	**9,945.21**	**83,539.74**
(from 3.1.2013)	2012	–	–	–	–	–
Herbert Bach	**2013**	**50,000.00**	**50,000.00**	**24,000.00**	**10,000.00**	**134,000.00**
	2012	50,000.00	50,000.00	20,000.00	10,000.00	130,000.00
Dina Bösch	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Annika Falkengren	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Frank Fassin	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Benita Ferrero-Waldner	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Christian Fuhrmann	**2013**	**50,000.00**	**43,000.00**	**24,000.00**	**10,000.00**	**127,000.00**
	2012	50,000.00	37,000.00	20,000.00	10,000.00	117,000.00
Peter Gruss	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Henning Kagermann	**2013**	**50,000.00**	**99,000.00**	**1,000.00[3]**	**0.00[3]**	**150,000.00[3]**
	2012	50,000.00	64,000.00	20,000.00	10,000.00	144,000.00
Peter Löscher	**2013**	**50,000.00**	**6,000.00**	**24,000.00**	**10,000.00**	**90,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Wolfgang Mayrhuber	**2013**	**50,000.00**	**50,000.00**	**24,000.00**	**10,000.00**	**134,000.00**
	2012	50,000.00	25,000.00	20,000.00	10,000.00	105,000.00
Silvia Müller	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Marco Nörenberg	**2013**	**50,000.00**	**41,000.00**	**24,000.00**	**10,000.00**	**125,000.00**
	2012	50,000.00	35,000.00	20,000.00	10,000.00	115,000.00
Reinhard Pasch	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Anton van Rossum	**2013**	**50,000.00**	**43,000.00**	**24,000.00**	**10,000.00**	**127,000.00**
	2012	50,000.00	37,000.00	20,000.00	10,000.00	117,000.00
Andrés Ruiz Feger	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Richard Sommer	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Ron Sommer	**2013**	**50,000.00**	**–**	**24,000.00**	**10,000.00**	**84,000.00**
	2012	50,000.00	–	20,000.00	10,000.00	80,000.00
Total	**2013**	**1,099,726.03**	**506,000.00**	**504,868.50**	**209,945.21**	**2,320,539.74**
	2012	1,100,000.00	464,000.00	440,000.00	220,000.00	2,224,000.00

1 Plus turnover tax in each case, in accordance with Article 15 para. 6 of the Articles of Association (version 09/2013).
2 Including attendance fees in the case of members of the Audit Committee and/or Nomination Committee, as per Article 15 para. 4 of the Articles of Association (version 09/2013).
3 After capping in accordance with Article 15 para. 5 of the Articles of Association (version 09/2013).

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-related remuneration	
Name	Financial year	Annual[2]	For committee work[2]	Annual	Total
		€	€	€	€
Hans Peter Claußen	**2013**	**24,895.00**	**–**	**0**	**24,895.00**
Deputy Chairman	2012	38,499.88	2,231.24	0	40,731.12
Frank Fassin	**2013**	**27,000.00**	**–**	**0**	**27,000.00**
	2012	27,000.00	–	0	27,000.00
Silvia Müller	**2013**	**27,000.00**	**–**	**0**	**27,000.00**
	2012	27,000.00	–	0	27,000.00
Marco Nörenberg	**2013**	**27,000.00**	**6,750.00**	**0**	**33,750.00**
	2012	27,000.00	6,750.00	0	33,750.00
Richard Sommer	**2013**	**27,000.00**	**-**	**0**	**27,000.00**
	2012	27,000.00	–	0	27,000.00
Total	**2013**	**132,895.00**	**6,750.00**	**0**	**139,645.00**
	2012	146,499.88	8,981.24	0	155,481.12

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.

Macroeconomic and industry environment

- Global economic growth only moderate
- Slight increase in long-term interest rates, but low-interest-rate environment persists
- Euro gains in value
- Global premium income: strong growth in property-casualty business, more modest expansion in life business
- Marginal decline in rates in property-casualty reinsurance

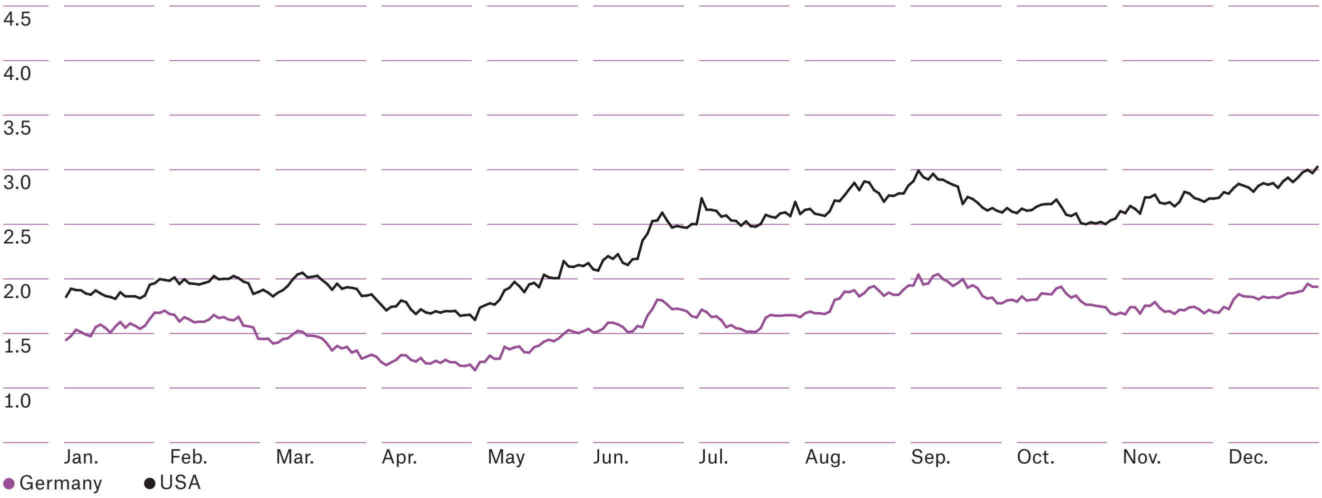
In 2013, as in the previous year, the global economy grew only moderately. The economies of the USA, Japan and the UK expanded. By contrast, the annual average economic output of the eurozone fell: whilst it moved out of recession in the second quarter, the recovery was weak against the background of the still-smouldering sovereign debt and banking crisis. German GDP grew slightly compared with the previous year. Although economic growth was curbed in the major emerging countries, the growth rates of Asian emerging markets were still high by global comparison.

Capital markets

Persistently low interest-rate level

Monetary policy in the most important economies remained very expansive. For example, the European Central Bank (ECB) lowered its key interest rate twice in the course of the year. Nevertheless, in the first half-year the US Federal Reserve indicated that it would begin a gradual exit from bond buying ("tapering") in 2013 if the positive economic development held. It finally announced in December that it would reduce its monthly bond buying. Long-term interest rates in the USA and in Germany rose over the course of the year. At year-end, yields on US and German bonds with periods to maturity of ten years were 3.0% and 1.9% respectively, compared with 1.8% and 1.3% at the end of 2012. The rise in interest rates had a negative impact on the market value of fixed-income bonds. Interest rates remained at historically low levels, presenting insurers with considerable challenges. Regular interest income fell again because – even after the increase in market interest rates – yields on new highly rated fixed-interest securities are far lower than the average return on the securities maturing or sold. Life primary insurers, which have to meet interest-rate guarantees, were particularly affected.

Development of yields on ten-year government bonds (in %)



The euro rose by 4% from US$ 1.32 at the start of the year to US$ 1.37 at year-end. It gained considerably against the Japanese yen (26%) and the Canadian dollar (12%), and slightly against the British pound sterling (2%). As we write a large part of our business outside the eurozone, the rise in the euro distorts the reported premium income development downwards. It also affects the value of the investments accordingly.

Insurance industry

In primary insurance, global premium income for 2013 in the segments property-casualty and health showed somewhat stronger growth after adjustment for inflation than in the previous year. Whilst the weak eurozone economy dampened demand for insurance and thus also business potential for reinsurance, premium development was buoyed by a further very dynamic increase in demand for insurance cover in many emerging markets. A further positive contribution came from price increases on the US market, by far the largest property-casualty insurance market in the world. Rate development varied globally: industrial insurance in particular saw prices decline in many regions. In 2013, growth in global premium income in life primary insurance was only moderate after adjustment for inflation, mainly owing to weak premium development in a number of large emerging markets.

According to provisional estimates, the German insurance industry's premium income increased appreciably in 2013. Premiums in property-casualty insurance rose as in the previous years. After stagnating last year, premiums in life insurance were also up.

Chiefly on account of the rise in interest rates, the shareholders' equity of most reinsurers initially sank slightly in 2013 because fixed-interest investments were valued lower under IFRS accounting regulations. In the course of the year, their capital resources improved, partly thanks to the good results. In natural catastrophe business, there was an increase in the supply of capacity from established and new market players, leading to a decline in rates. Whilst the price level for reinsurance had remained stable in the January and April 2013 renewals, it receded slightly in the renewals as at 1 July. This general trend continued in the renewals at 1 January 2014. There were isolated price increases, however, particularly in regions and classes with high loss frequencies.

Business performance

— Currency-related decline of 1.7% in gross premium income
— Major-loss expenditure below the projected range
— Decreased investment result
— Return on risk-adjusted capital (RORAC) of 12.2% (13.2%) after tax
— Proposed dividend increase to €7.25 (7.00) per share

Board of Management's overall assessment of the business performance and situation of the Group

Last year's consolidated profit exceeded our expectations. At €3.3bn, the result we achieved was again very good, partly thanks to a particularly low tax burden. In property-casualty reinsurance, our profit was really strong again at €2.4bn, with major losses remaining below the volume to be expected. Life reinsurance also accounted for a gratifying €0.4bn, despite various adverse factors. ERGO's result contribution of €0.4bn can be regarded as very positive in that it was higher than projected and a number of negative factors had to be absorbed. Munich Health's result of €0.15bn was respectable, with the sale of the Windsor Health Group (WHG) ultimately turning out better than anticipated.

Munich Re's business performance – Overview and key figures

Return on risk-adjusted capital (RORAC)

		2013	Prev. year	Change
				%
RORAC	%	12.2	13.2	
Economic earnings	€bn	4.2	7.1	–40.0

Dividend

		2013	Prev. year	Change
				%
Total dividend payout	€bn	1.3	1.3	0.9
Dividend amount	€	7.25	7.00	3.6

A definition of RORAC is provided on page 38 f.

The return on risk-adjusted capital (RORAC) totalled 12.2% for the 2013 financial year, compared with 13.2% in 2012. The RORAC for 2013 was thus below our long-term target of 15%. This target, which we set for the first time in 2006 when market interest rates were significantly higher, is very difficult to reach in the current low-interest-rate environment. We thus significantly exceeded our profit target of close to €3bn for 2013, which is equivalent to a RORAC of around 11%.

Information on economic earnings can be found on page 38

The economic earnings in the year under review were mainly due to effects from new and existing business in the field of underwriting. These effects were chiefly influenced by parameter changes, particularly the adjustment to the evaluation of customer behaviour in life primary insurance and adjustments in health primary insurance. While in 2012 economic value added was substantially influenced by interest-rate effects, during the year under review the positive impact from equities and interest rates was offset by currency losses and other negative effects.

Dividend proposal: €7.25 per share

We want our shareholders to participate in our gratifying result again. We will therefore propose to shareholders at the Annual General Meeting payment of a dividend of €7.25 (7.00) per dividend-bearing share.

Key figures[1]

		2013	Prev. year	Change
				%
Gross premiums written	€bn	51.1	52.0	-1.7
Combined ratio				
Reinsurance property-casualty	%	92.1	91.0	
Primary insurance property-casualty	%	97.2	98.7	
Munich Health[2]	%	98.3	100.2	
Technical result	€m	3,656	3,859	-5.3
Investment result	€m	7,657	8,442	-9.3
Operating result	€m	4,409	5,349	-17.6
Taxes on income	€m	108	878	-87.7
Consolidated result	€m	3,342	3,204	4.3
Investments	€bn	209.5	213.8	-2.0
Net technical provisions	€bn	187.7	186.1	0.9
Equity	€bn	26.2	27.4	-4.4

1 Previous year's figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
2 Excluding health insurance conducted like life insurance.

Gross premium income was down on the previous year owing to currency effects. Adjusted for currency translation effects, our premium income showed a moderate rise despite our strict profitability requirements.

Combined ratio 2013 at a gratifyingly low 92.1%

Expenditure for major losses, in particular from natural catastrophes, was below the expected range. This is also reflected in the combined ratio for property-casualty reinsurance, which at 92.1% (91.0%) was slightly better than the value of around 94% we had projected for 2013.

Group premium income

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

Consolidated result

	2013	Prev. year	Change
	€m	€m	%
Reinsurance life	413	496	–16.7
Reinsurance property-casualty	2,384	2,559	–6.8
Primary insurance life	134	155	–13.5
Primary insurance health	130	89	46.1
Primary insurance property-casualty	169	–4	–
Munich Health	150	–91	–
Asset management	–38	–	–
Total	**3,342**	**3,204**	**4.3**

→
Detailed information the business performance of our segments can be found on page 68 ff.

In the financial year 2013, we posted a higher profit for the year of €3.3bn (3.2bn). The improvement in the result is chiefly attributable to the primary insurance business of ERGO and Munich Health.

Percentage of premium from foreign business

%	2013	Prev. year
Reinsurance life	97	97
Reinsurance property-casualty	95	96
Primary insurance life	25	25
Primary insurance health	4	4
Primary insurance property-casualty	40	42
Munich Health	99	98

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.

Munich Re posted a particularly low tax burden for the year as a whole, chiefly due to the recalculation of tax for prior years and to the utilisation of loss carry-forwards.

Events after the balance sheet date

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management in November 2013, we repurchased a further 2.8 million Munich Re shares with a volume of €434m after the balance sheet date up to 6 March 2014.

Reinsurance – Life

- Decline in premium income of 2.7% to €10.8bn influenced by currency translation effects
- Satisfactory technical result of €370m
- Decreased investment result of €826m
- Pleasing consolidated result totalling €413m

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	10,829	11,130	–2.7
Share of gross premiums written in reinsurance	%	38.9	39.5	
Operating result	€m	551	721	–23.6
Consolidated result	€m	413	496	–16.7

Premium

At €10,829m, gross premium volume in life reinsurance was slightly below the previous year's level (€11,130m), exclusively because of currency translation effects relating to the strengthened euro. We generated around 88% of premium in foreign currency, of which 42 percentage points were in Canadian dollars and 19 percentage points in US dollars. If exchange rates had remained unchanged, our premium income would have risen by 2.2%.

Significant impact of large-volume treaties on annual premium income

The positive development in premium volume in recent years was significantly influenced by a number of large-volume treaties where reinsurance primarily serves as a capital substitute. As a financially strong partner, we provide customised solutions that improve our clients' capital structure and solvency. In 2013, we were once again able to conclude or renew a number of such treaties. It is in the nature of this business segment, however, that premium development can be volatile.

We also saw a moderately positive development in our core business – the systematic acceptance of underwriting risks. One of the reasons for this lay in the continuing dynamic expansion of the primary insurance markets in Asia, in which we participate thanks to our good position as a reinsurer. Growth in our North American business was slightly positive, despite the stagnating trend in primary insurance. On the other hand, the sluggish economy in many developed regions impacted our clients' business development and hence reduced reinsurance business potential.

Result

The technical result totalled €370m (420m), meaning that we came gratifyingly close to our target of around €0.4bn. The operating result totalled €551m (721m) and the consolidated result €413m (496m).

In Australia, group disability business saw a market-wide increase in claims. On top of this, we had to make additional provision for more frequent and more costly claims under individual contracts. In the USA, we posted increased expenses – especially in the first three quarters of the year – for mortality covers, particularly under treaties written in the past decade. Moreover, expenditure involving policies with high sums insured was greater than in previous years.

Good results in Canada and Asia

By contrast, we posted particularly gratifying results in Canada and Asia, where our expectations were surpassed owing to good claims experience. High-volume treaties concluded in recent years also again contributed their share to the result.

At €826m, the investment result was below that of the previous year (€913m). The reduction was mainly caused by low disposal gains from the restructuring of our fixed-interest securities. Moreover, regular interest income declined owing to the low interest-rate environment.

Development in individual key markets

In life reinsurance, we operate on a global basis and have local presences in most of the important markets. Our business model is geared to the clients' requirements in the individual markets. Our focus is on traditional reinsurance solutions involving the assumption of underwriting risks and, where required, we can provide a wide range of services along our clients' entire value chain. These include software solutions for automating the risk assessment process that are available worldwide from our subsidiary Munich Re Automation Solutions Limited. We also offer tailor-made structured concepts geared to optimising liquidity or specific items on our clients' balance sheets. These concepts have met with particular success in Europe, Asia and Canada. For several years now, there has been increasing demand for the management of capital market risk embedded in life insurance products. We have therefore created the infrastructure necessary to provide our clients with comprehensive solutions for covering options and guarantees dependent on the capital markets. We hedge the exposure related to this on the capital markets as well. In all fields of our business activity, our clients benefit from our global expertise relating to insurance products and biometric risks, from our structuring know-how and, in particular, from our capital strength.

In Germany, premium income rose slightly to €353m (346m), which we regard as a success, given the fact that life insurance business in the market has been stagnating for several years. Reinsuring mortality and disability risks and assisting our clients with the fundamentals of underwriting, risk assessment and claims management remain key aspects of our business. 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 €2.0bn (1.9bn), mainly owing to growth in group business. This enabled us to retain our position among the leading life reinsurance companies in this largest market worldwide. Despite the intense competition and our clients' increasing retentions, we continue to see good opportunities for growing our business profitably. Our main focus is on writing mortality risks. We also anticipate that the cooperation with our subsidiary Munich Re Automation Solutions Limited, which provides primary insurers with automated risk assessment services, will play a role in this regard. In the past calendar year, the technical result fell short of our expectations, mainly on account of increased expenses for mortality covers, in particular under treaties written in the last decade. However, it was not necessary for us to make adjustments to the reserves. A coincidental accumulation of increased expenses for mortality covers with high sums insured also had an impact on the result.

2013 was another very successful year for our Canadian branch. Munich Re, Toronto (Life) consolidated its position as market leader in all lines in which it conducts business: life, disability, health, critical illness and long-term care. The premium income[1] accounted for in the life reinsurance segment totalled €4.3bn (4.5bn). The decrease is solely attributable to currency translation effects; in original currency, premium volume increased by 3.2%. The high premium level and very favourable claims experience contributed to an outstanding technical result again.

1 €3.1bn (3.2bn) is posted in the Munich Health segment, on which we report on page 81 f.

Leading position in Asia thanks to broad regional infrastructure

Asia is one of the most dynamic economies in the world. We are expecting it to lend sustainable positive impulses to our business development. In recent years, we have positioned ourselves as one of the leading reinsurers in the region by means of a broad regional infrastructure with branch offices especially in the core markets of China, Singapore and Japan. The positive trend in new business continued in 2013. Although premium declined to €0.7bn (1.2bn), this decrease is explained by currency translation effects and the planned termination of a number of large-volume treaties for strengthening our clients' balance sheets. The factors responsible for this success are our broad product range and comprehensive expertise with which we can respond flexibly to the different requirements of our clients and the various markets. The technical result was again very satisfactory.

Our branch in the United Kingdom, Munich Re, London (Life), kept its premium volume stable at €0.9bn (0.9bn), despite the highly competitive and stagnating market environment. 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. Besides this, we are looking to expanding our range of products in order to tap new business potentials. One example is the assumption of longevity risks. We carefully started writing business in this segment in 2011 to diversify our portfolio even better. As in prior years, the technical result remained at a very good level.

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. In 2013, premium income increased to €698m (629m), benefiting materially from the dynamic development of the primary insurance market. After its satisfactory development in the previous year, the technical result was disappointing owing to the negative performance of disability business. In the area of group policies, the claims situation deteriorated market-wide. Besides this, we saw an increase in the number and size of claims in individual business. We are working with our clients on a remediation of the business. In both cases, we had to make additional provision by increasing the reserves.

On the African continent, our South African subsidiary Munich Reinsurance Company of Africa Ltd. posted a decrease in premium volume to €156m (173m). Here, too, the development was exclusively due to changes in exchange rates. In original currency, premium volume rose. Despite the keen competition, we thus retained our position among the leading reinsurers. In the medium term, we expect economic growth to accelerate and hence demand for insurance to rise. We have geared our strategy accordingly and are focusing on the markets with the highest growth rates. As in prior years, the technical result showed pleasing growth.

Reinsurance – Property-casualty

— Slight decline in premium income of 0.2% to €17.0bn influenced by exchange rate effects
— Very good combined ratio of 92.1%
— Investment result down to €1,762m
— Very high consolidated result of €2,384m

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	17,013	17,052	–0.2
Share of gross premiums written in reinsurance	%	61.1	60.5	
Loss ratio	%	61.7	61.0	
Thereof: Major losses	Percentage points	10.4	10.8	
Expense ratio	%	30.4	30.0	
Combined ratio	%	92.1	91.0	
Operating result	€m	2,993	3,597	–16.8
Consolidated result	€m	2,384	2,559	–6.8

Premium

In property-casualty reinsurance, we posted a slight decline in premium income of 0.2% to €17.0bn (17.1bn) in 2013. Approximately 14% of the portfolio is written in euros and 86% in foreign currency, of which 46 percentage points is in US dollars and 15 percentage points in pounds sterling. Compared with the previous year, the development of the euro against other currencies had a negative effect of €665m on our premium income. If exchange rates had remained unchanged, premium volume would have increased by 3.7%.

The increase in premium adjusted for exchange rates is mainly attributable to the expansion of our motor business and the growth of our US agriculture portfolio. Premium volume was also positively influenced by the development of traditional business in the USA. Adverse effects came from portfolio reductions where it proved impossible to achieve adequate prices, terms and conditions.

The renewals for 2013 took place in a very competitive market environment. Given the primary insurers' good capitalisation, demand for reinsurance cover remained relatively stable overall. At the same time, growth on the primary insurance side continued to be impacted by the difficult economic environment, but nevertheless remained largely constant. Reinsurers, on the other hand, provided ample capacity. In the area of non-proportional natural catastrophe covers, we are currently seeing an increase in capacity from capital providers new to the market. Especially pension funds regard reinsurance as an attractive investment alternative for diversifying risks and meeting return requirements in the present low-interest-rate environment. This is raising the pressure on rates, particularly in the US market.

Against this backdrop, it is to be considered positive that price levels for reinsurance cover remained stable overall in our portfolio. Rate increases were achieved in loss-affected segments – for instance in marine reinsurance, which was heavily impacted by Hurricane Sandy and the Costa Concordia disaster. In fire reinsurance business, Hurricane Sandy failed to bring about a broad hardening of the market, but at least prevented the slight erosion of prices anticipated in the USA.

Prices remained almost unchanged in all other markets with the exception of credit insurance, where a certain pressure made itself felt but rates nevertheless remained at an adequate level.

The further year-on-year reduction in interest rates at the time of the renewals was largely compensated for by higher prices.

As a consequence of our profit-oriented underwriting policy, we were again prepared to withdraw from business in 2013 that did not meet our return requirements. For example, we continued to reduce European property business for cycle-related reasons.

Result

Technical result of €2,468m

The consolidated result in property-casualty reinsurance was down on the previous year at €2,384m (2,559m). The operating result, which includes the investment result and technical result, fell to €2,993m (3,597m). The technical result totalled €2,468m (2,788m), benefiting from lower-than-expected major-loss expenditure. Munich Re's customary review of reserves resulted in a reduction in the claims provisions for prior years amounting to around €800m for the full year, which is equivalent to around 4.7 percentage points of the combined ratio. This positive development essentially concerned property and marine business. Over the year as a whole, the safety margin in the reserves remained unchanged at a high level, as Munich Re adhered to its careful approach to determining and adjusting loss reserves.

Major-loss expenditure totalling €1,689m (1,799m) after retrocession and before tax was lower than in the previous year. 2013 was hit by a large number of major losses, but there were no individual occurrences of exceptional volume.

Aggregate losses from natural catastrophes came to €764m (1,284m), representing 4.7 (7.7) percentage points of net earned premiums. The two largest individual claims in 2013 were the flooding in central Europe in early summer (€178m) and a hailstorm in southwestern Germany in July (€159m). Besides this, we were impacted by €151m in claims for Hurricanes Manuel and Ingrid, which raged almost simultaneously on the coasts of Mexico in September. In Europe, Windstorms Christian (€80m) and Xaver (€50m) gave rise to further losses. Another major loss event was the flooding in Canada in mid-June, for which €71m was reserved. Argentina was also hit by a flood catastrophe after heavy rains in April. The flood damage and weather-induced fire in a crude oil refinery cost Munich Re €64m. Haiyan, one of the most powerful tropical cyclones ever, caused €64m in damage in the Philippines, China and Vietnam.

At €925m (515m), man-made major losses were much higher than in the previous year, or 5.7 (3.1) percentage points of net earned premium. Sizeable losses resulted from the evacuation of and loss of production in a mine in the USA (€93m) and an explosion in a Chinese chip-manufacturing plant (€90m). We made provisions totalling €75m for a damaged hydroelectric power station in Russia. A loss resulting from the bond insurance covers for residential housing in Spain led to expenditure of €68m. A liability claim totalling €65m also impacted our result.

The investment result amounted to €1,762m (2,148m), the reduced figure being attributable to lower interest income from fixed-interest securities owing to the still low interest-rate level. Moreover, we posted high write-downs, especially on our inflation and equity derivatives and on our portfolio of physical gold.

Development of premium income and results in each division

Germany, Asia Pacific and Africa

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	3,524	3,508	0.5
Combined ratio	%	86.8	84.5	

This division writes business in Germany, the Asia-Pacific region and Africa. In terms of the division's premium income, approximately 35% is written in Australia/New Zealand and Japan combined, around 30% in Greater China and approximately 10% in Africa/MENA. 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.

The division's premium volume was up marginally to €3,524m (3,508m) overall, mainly owing to our portfolio in China and Australia, where profitable new business more than offset a certain attrition due to lower reinsurance cessions under individual large-volume treaties and from some major clients. In addition, business in the German market was expanded and the portfolio in Japan successfully renewed, despite some increasing pressure on prices. By contrast, our premium volume in Africa was down year on year.

Overall, we are consistently pursuing our strategy of seizing growth opportunities in these markets, but systematically reducing our portfolio where risk-commensurate prices, terms and conditions cannot be achieved. Notwithstanding the significant year-on-year increase in major-loss expenditure, we were thus able to record a very good combined ratio of 86.8% (84.5%), a development that was bolstered by the positive run-off of loss reserves for past underwriting years.

Europe and Latin America

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	3,677	3,861	–4.8
Combined ratio	%	88.5	92.7	

The Europe and Latin America Division writes business in Europe (except Germany), the Caribbean and Central and South America. Approximately 75% of the division's premium income derives from Europe, of which almost half is attributable to the United Kingdom alone. While the focus in the Caribbean and in Central and South America is on property business, particularly in the area of natural hazards covers, European business is strongly weighted in favour of UK motor business.

The division's premium volume decreased to €3,677m (3,861m) in total, chiefly owing to portfolio reductions in cases where it proved impossible to achieve adequate prices, terms and conditions. We succeeded in further optimising our portfolio through profitable new business and the expansion of natural catastrophe covers. We kept constant the capacity we provide for the coverage of natural hazards, particularly windstorm and earthquake, and successfully defended our strong market position in the Caribbean and Latin America.

The Europe and Latin America Division posted below-average major-loss expenditure, the biggest loss events being Hurricanes Manuel and Ingrid in Mexico, Windstorm Christian in northern Europe and damage to a hydroelectric power station in Russia. Further enhanced by our rigorous portfolio optimisation and the release of loss reserves for prior underwriting years, the previous year's already low combined ratio improved even further to 88.5% (92.7%).

Global Clients and North America

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	6,471	6,275	3.1
Combined ratio	%	94.9	93.6	

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

The division's premium volume totalled €6,471m (6,275m). The increase is a result of growth in primary insurance, in particular American Modern and the Watkins Syndicate within Lloyd's, and of traditional reinsurance, especially in the US market. We succeeded in selectively writing profitable business, although there was increased pressure on reinsurance prices in a number of lines. The premium income of our primary insurance companies American Modern and Hartford Steam Boiler Group (HSB Group) amounted to €967m (889m) and €712m (687m) respectively, thus accounting for about 40% of our premium volume in North America. A further €2,300m (2,226m) was contributed by Munich Reinsurance America. The results of our subsidiaries in the USA also developed very pleasingly. In 2013, they were able to pay a dividend of US$ 335m to the Group parent, Munich Reinsurance Company. Our strategy of combining insurance and reinsurance activities again proved successful, and we intend to continue along this path in future.

The division's combined ratio stood at 94.9%, a slight deterioration on the previous year's figure of 93.6%. Although we benefited from somewhat improved major-loss experience, the loss reserve releases for prior years were below last year's level.

Special and Financial Risks

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	3,341	3,408	-2.0
Combined ratio	%	96.7	92.3	

The Special and Financial Risks Division writes business in the specialty classes of agriculture (around 35%), credit and bond (around 20%), and aviation and space (around 10%). This division also comprises Corporate Insurance Partner (around 20%), the Risk Trading Unit, and our Swiss subsidiary New Re Insurance Company Ltd. (New Re)(around 15%).

In our unit Corporate Insurance Partner, we offer our clients in industrial and major-project business a wide range of insurance products. These customised solutions and services are based on our recognised industry- and risk-related knowledge. In addition to traditional business with a focus on natural hazards covers, New Re has specialised above all in structured, made-to-measure reinsurance solutions.

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 total volume of US$ 900m was placed with investors in 2013.

The division's overall premium income declined somewhat year on year to €3,341m (3,408m). An expansion of agricultural reinsurance with selected clients in the USA following last year's major loss contrasted with a decrease in premium volume in aviation and space business owing to our consistent cycle management policy.

Despite the generally pleasing development with regard to major losses in the year under review, the combined ratio for the division deteriorated to 96.7% (92.3%) year on year owing to lower loss reserve releases.

Primary insurance – Life

- Significant reduction in total premium income to €6.9bn, especially due to single-premium business
- Technical result down to –€36m
- Decrease in investment result to €3.3bn
- Good consolidated result totalling €134m; particularly owing to strong German business

Key figures

		2013	Prev. year	Change
				%
Total premium income[1]	€m	6,851	7,268	–5.7
Gross premiums written	€m	5,489	5,798	–5.3
Share of gross premiums written in primary insurance	%	32.9	33.9	
Operating result	€m	–18	360	–
Consolidated result	€m	134	155	–13.5

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.

Premium

Total premium income in life primary insurance – including the savings premiums from unit-linked life insurance and capitalisation products – dropped to €6.9bn (7.3bn) in 2013, a decline of 5.7% compared with the previous year. Gross premiums written amounted to €5.5bn (5.8bn), 5.3% less than in 2012. These developments reflect the widespread economic uncertainty in Germany and abroad, and low interest rates.

At €5.1bn, overall premium income from Germany was down 5.6% on the previous year (€5.4bn). Single-premium income declined by 19.0%, notably in business generated by the capitalisation product MaxiZins and in group life business, owing to lower premium from the German insolvency fund for pensions. New regular-premium business also decreased by 23.8% year on year. Since January 2013, new business fell by 20.2% to €1,144m (1,433m) overall. In terms of annual premium equivalent (APE, i.e. regular premium income plus one-tenth of single-premium volume, the performance measure customary among investors) our new business volume was 22.5% lower than in the same period last year. Gross premiums written in Germany declined overall by 5.1% to €4.1bn (4.4bn).

At the beginning of June 2013, ERGO unveiled a completely new generation of life insurance products to the public. The new product has been sold in two variants since 1 July 2013. ERGO Annuity Guarantee, one of the variants, guarantees for terms of 15 years and above that the capital available when the benefit stage is reached will at least be equal to the total gross premiums paid in, and provides for the option of transforming this into guaranteed annuity payments. During the capital accumulation period, there are no guaranteed surrender values. New Reinsurance Company Ltd. provides an intra-Group reinsurance cover, which in the event of adverse capital market developments has a stabilising effect on the surrender values for customers terminating their policies prematurely. In this case, the customers are paid the individual guaranteed value of their policies. The reinsurance cover secures the guaranteed gross premiums for the benefit stage. The second variant, ERGO Annuity Opportunity, is a unit-linked annuity policy that provides no guarantees but offers the same amount of flexibility in the capital accumulation period. The new generation of products is of great significance for the development of our life insurance business and should account for a large share of our new business in the medium term. The business figures for 2013 did not yet benefit to a material extent from the sale of the new products.

At €1.7bn (1.8bn), overall premium income from international business decreased by 6.0% year on year. In Poland, we generated less premium income from sales through banks. In Austria, we earned lower single-premium income, especially in unit-linked life insurance. International new business declined by 0.3% to €792m (794m). Measured in terms of APE, however, the decrease came to 2.0% owing to lower regular premium income (–2.7%), with Turkey and Austria seeing the biggest decline. Gross premiums written in international business fell by 6.0% to €1.35bn (1.44bn).

ERGO now also provides life insurance policies in the Chinese market through the joint venture ERGO China Life, which commenced operations at the beginning of September 2013. This joint venture, launched by ERGO and the Chinese state-owned financial investor SSAIH, is focusing on the economically attractive province of Shandong. With roughly 97 million inhabitants, Shandong is China's third-largest insurance market. As the company is accounted for using the equity method, its business is not included in the consolidated premiums written, but it is an important initiative for gaining a foothold in the Chinese market.

New business in life insurance

	2013	Prev. year	Change
	€m	€m	%
Germany			
Regular premiums	259	340	–23.8
Single premiums	885	1,093	–19.0
Total	**1,144**	**1,433**	**–20.2**
Annual premium equivalent[1]	348	449	–22.5
International			
Regular premiums	182	187	–2.7
Single premiums	610	607	0.5
Total	**792**	**794**	**–0.3**
Annual premium equivalent[1]	243	248	–2.0

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

Result

The technical result showed a reduction to –€36m (5m), partly because of ongoing low interest rates. In the past financial year, the investment result totalled €3.3bn (3.6bn). The year-on-year decline was attributable to significantly lower net unrealised gains from unit-linked life insurance and the resulting reduction in the investment result, which did not have any overall effect on the income statement. Due to the slight rise in market interest rates, our interest-rate hedging programme also had an adverse impact on the investment result. In German business, to finance the allocation in financial year 2013 to the additional interest reserve provided for under German commercial law, we sold fixed-interest securities, as a result of which we realised gains and reinvested the proceeds. In addition to the aforementioned reasons, the reduced operating result of –€18m (360m) was also due to the expense for the participation of our policyholders in an anticipated tax refund. The consolidated result in the past financial year fell to €134m (155m).

Primary insurance – Health

— Slight decline in premium income of 1.1% to €5.7bn
— Increased technical result of €400m
— Gratifying investment result of €1.3bn
— Good consolidated result totalling €130m

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	5,671	5,732	–1.1
Share of gross premiums written in primary insurance	%	34.0	33.6	
Operating result	€m	284	240	18.3
Consolidated result	€m	130	89	46.1

Premium

At €5.67bn (5.73bn), premium income in the health insurance segment was only slightly lower (–1.1%) than in the previous year, partly owing to the introduction of the "hardship tariff" as at 1 August 2013. Premiums for 2013 showed year-on-year growth of 3.2% in supplementary health insurance and fell by 2.6% in comprehensive health insurance. New business reflected the fact that the future of private health insurance was the subject of intense debate in the run-up to the German parliamentary elections. This discussion caused uncertainty among potential new customers. New business was further impacted by significant price increases following the changeover to the new unisex rates. As expected, new business in comprehensive health insurance declined appreciably year on year (–15.0%). In supplementary health insurance, the decrease of 15.7% in new business was slightly stronger, partly because seasonal year-end business in 2013 was weaker than in the previous year. In travel insurance, which we account for in the health segment and write in Germany and abroad, we registered a decrease of 1.1% in premium volume.

Result

Technical result of €400m

The technical result for the financial year totalled €400m (384m), the increase being partly attributable to an improved claims situation in travel insurance in Germany and abroad. At €1,321m (1,245m), the investment result also developed favourably, especially due to higher regular income. We improved the operating result to €284m compared with the previous year (€240m). The consolidated result rose to €130m (89m).

Primary insurance – Property-casualty

— Slight decrease in premium income to €5.5bn
— Combined ratio of 97.2% impacted by natural catastrophes
— Investment result of €389m higher than in previous year
— Rise in consolidated result to €169m

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	5,507	5,554	−0.8
Share of gross premiums written in primary insurance	%	33.1	32.5	
Loss ratio	%	62.5	64.7	
Expense ratio	%	34.7	34.0	
Combined ratio	%	97.2	98.7	
Operating result	€m	427	290	47.2
Consolidated result	€m	169	−4	–

Premium

Premium income down by 0.8%

Premium volume in property-casualty insurance declined by 0.8% overall to €5.5bn (5.6bn) year on year. In German business, our premium income rose by 1.3% to €3.31bn (3.27bn). Developments in the individual classes of business differed in 2013. Premium in commercial and industrial business fell by a marginal 0.4% in property and marine insurance on account of remedial measures. By contrast, premium in commercial liability insurance and in industrial liability business was up significantly, partly due to the very good development of new business. Personal lines property business showed premium growth of 1.3%, while motor insurance expanded by 4.0%. However, we posted reduced premium income in legal protection insurance (–1.9%) and personal accident insurance (–1.8%), mainly owing to the fact that we took our personal accident product with premium return off the market at the end of 2012 and are now focusing more strongly on personal accident covers without a savings component and securing quality of life in the event of an accident by means of comprehensive assistance services.

Premium volume in international property-casualty insurance was adversely affected in particular by the sale of our South Korean subsidiary ERGO Daum Direct General Insurance Co. Ltd (ERGO Daum), whose premium income of €105m had been included in the figures for the first half of 2012. Growth was apparent especially in Poland and in legal protection business in the UK. However, pleasing organic growth was partly masked by the influence of negative currency influences. Our international business showed an overall reduction of 3.9% in premium volume to €2.2bn (2.3bn).

Result

The technical result in property-casualty insurance improved to €319m (226m) and the investment result to €389m (376m), mainly owing to higher gains on disposals. This led to a rise in the operating result to €427m (290m). The consolidated result accordingly increased to €169m (−4m).

Combined ratio improved to 97.2%

The combined ratio for 2013 amounted to 97.2% of net earned premiums – an improvement compared with the previous year (98.7%). Paid claims and the change in claims provisions totalling €3,286m (3,429m) and net operating expenses of €1,828m (1,802m) compared with net earned premiums of €5,261m (5,301m).

In German business, the combined ratio came to 96.3% (98.0%), 1.7 percentage points below the previous year. Despite the natural hazard losses from the catastrophic flooding in the second quarter and the severe weather events involving intense rainfall and hailstorms in the third quarter, we thus achieved an improvement on the previous year, which had been impacted by significant frost damage losses from the late cold spell in February and a number of random major losses in summer. Our remedial measures in Germany have begun to take effect, enabling us to compensate for the effects of the natural hazard events in the past financial year.

In international business, we recorded an improved combined ratio of 98.7% (99.8%), essentially owing to a further amelioration in claims experience in Turkey and to the sale of ERGO Daum. The result improvement measures we have taken in recent years are paying off.

Munich Health

— Gross premiums of €6.6bn slightly below level of last year
— Improved combined ratio of 98.3% in the year under review
— Decreased investment result of €95m
— Increased consolidated result of €150m

Key figures

		2013	Prev. year	Change
				%
Gross premiums written	€m	6,551	6,703	-2.3
Loss ratio[1]	%	79.8	81.8	
Expense ratio[1]	%	18.5	18.4	
Combined ratio[1]	%	98.3	100.2	
Operating result	€m	167	109	53.2
Consolidated result	€m	150	-91	–

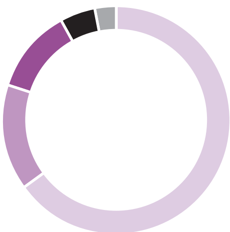
1 Excluding health insurance conducted like life insurance.

With the exception of the German health insurers belonging to ERGO, Munich Re's global healthcare insurance and reinsurance business is combined under the Munich Health brand. We offer our international clients across the world innovative insurance solutions and individual consultancy and services. The disposal of the Windsor Health Group (WHG) agreed upon in late August and the Windsor Health Group operating result do not have a significant impact on Munich Re's result as a whole. Losses from the sale amount to around €25m. The transfer of ownership became effective at the turn of the year, so WHG's income and expenditure are still to be recognised in the Munich Health segment for the whole of 2013.

Premium

Owing to adverse currency translation effects, gross premiums written fell slightly as against the previous year by 2.3% to €6.6bn (6.7bn).

Gross premiums by market region



North America	65%	(66%)
Northern/Eastern/Central Europe	15%	(16%)
Southern Europe/Latin America	12%	(11%)
Middle East/Africa	5%	(4%)
Asia/Pacific	3%	(3%)

Premium volume in reinsurance amounted to €4.6bn (4.7bn), including premium income from large-volume treaties providing capital relief for our clients in North America. They are written by our Canadian subsidiary, Munich Re, Toronto (Life). The decrease in premium was due to negative currency translation effects. In primary insurance, there was a fall in premiums of 4.4%, particularly with respect to the US

Medicare business transacted by WHG after discontinuation of its loss-producing business with pure cost reimbursement products. If exchange rates had remained the same overall, Munich Health's gross premiums in the reporting year would have increased by 1.4%.

Result

Increase in technical result to €135m

The consolidated result amounted to €150m (–91m). The previous year's result had been impacted by impairment losses of goodwill and other intangible assets of the segment. The operating result increased to €167m (109m), and investments generated a result of €95m (115m), a decrease of 17.4% in comparison to the previous year, caused in particular by losses from the sale of WHG. The technical result increased to €135m (36m).

The combined ratio improved to 98.3% (100.2%). This ratio relates only to short-term health business, not to business conducted like life insurance, with the figure for the latter amounting to 7.8% (7.3%) of gross premiums written in the year under review.

In reinsurance, the combined ratio amounted to 99.8% (99.1%), while the figure for primary insurance in the year under review was 93.5% (103.3%). The improvement is due in particular to the discontinuation of WHG's US Medicare business with pure cost reimbursement products.

Investment performance

- High portfolio weight of government bonds with very good credit ratings; fall in market values due to higher interest-rate level
- Net on- and off-balance sheet unrealised gains down, but still at a high level of €15.2bn
- Investment result reaches €7.7bn
- Return on investment (RoI) of 3.5%

Investment mix

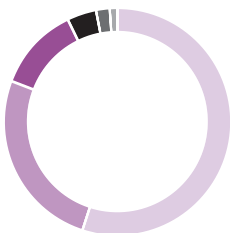
	Reinsurance					
	Life		Property-casualty		Life	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Land and buildings, including buildings on third-party land	263	245	1,218	1,224	1,358	1,393
Investments in affiliated companies	19	20	81	89	44	22
Investments in associates	–	1	737	686	93	110
Loans	34	18	125	52	35,185	34,977
Other securities held to maturity	–	–	–	–	5	7
Other securities available for sale						
Fixed-interest	12,822	14,376	43,156	49,933	33,037	35,101
Non-fixed-interest	1,273	1,023	6,096	4,718	2,537	2,050
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	595	644	52	58
Non-fixed-interest	–	–	36	32	–	–
Derivatives	650	605	406	366	823	947
Designated as at fair value through profit or loss						
Fixed-interest	–	–	–	–	163	167
Non-fixed-interest	–	–	–	–	1	2
Deposits retained on assumed reinsurance	7,847	7,240	1,279	1,181	128	147
Other investments	409	242	1,451	1,142	901	583
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–	6,698	5,957
Total	**23,317**	**23,770**	**55,180**	**60,067**	**81,025**	**81,521**

Despite the uncertainty over the development of the sovereign debt crisis, the capital markets calmed further in the course of 2013. 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 by about 18%, the Dow Jones and the DAX 30 both by around 26%. Starting from a historical low, particularly yields on German, US and UK government bonds and covered bonds rose. We also saw higher yields on corporate bonds, despite shrinking risk spreads.

	Primary insurance				Munich Health		Asset management		Total	
	Health		Property-casualty							
	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
	755	777	93	95	10	30	65	67	3,762	3,831
	11	12	49	40	1	2	9	9	214	194
	169	169	163	154	93	91	45	72	1,300	1,283
	17,916	17,138	1,961	2,210	22	23	2	–	55,245	54,418
	–	–	–	–	–	–	–	–	5	7
	15,179	14,664	5,929	5,612	2,858	3,436	690	377	113,671	123,499
	1,053	928	1,071	736	125	166	76	76	12,231	9,697
	–	–	–	–	–	–	–	–	647	702
	–	–	–	–	1	1	–	–	37	33
	127	155	31	22	2	16	–	–	2,039	2,111
	–	–	–	–	–	–	–	–	163	167
	–	–	–	–	–	–	–	–	1	2
	1	1	5	4	376	394	–	–	9,636	8,967
	207	82	323	594	80	66	453	255	3,824	2,964
	–	–	–	–	1	1	–	–	6,699	5,958
	35,418	**33,926**	**9,625**	**9,467**	**3,569**	**4,226**	**1,340**	**856**	**209,474**	**213,833**

Distribution of investments by type

Total: €209bn (214bn)



Fixed-interest securities	55%	(59%)
Loans	26%	(25%)
Other investments	12%	(10%)
Shares and equity funds	4%	(3%)
Real estate	2%	(2%)
Participating interests	1%	(1%)

We select our investments according to economic criteria and gear them 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 capital 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 decline since the beginning of the year: the increased interest rates improved our Group's economic position, but had a negative impact on the market values of fixed-interest securities. Government bonds with high credit ratings in particular lost value compared with the previous year. The development of exchange rates also led to a decline in market values.

Our return on investment (RoI) fell to 3.5% (3.9%).

Off-balance-sheet unrealised gains and losses

	Fair values		Off-balance-sheet unrealised gains and losses		Carrying amounts	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Land and buildings[1]	8,353	8,048	2,172	1,826	6,181	6,222
Associates	1,721	1,621	430	354	1,291	1,267
Loans	61,316	63,248	6,071	8,830	55,245	54,418
Other securities	5	8	–	1	5	7
Total	**71,395**	**72,925**	**8,673**	**11,011**	**62,722**	**61,914**

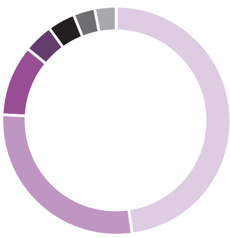
1 Including owner-occupied property.

An overview of the on-balance-sheet unrealised gains/losses is available on page 200

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, fell from €22.5bn to €15.2bn.

Fixed-interest portfolio by economic category[1]

Total: €184bn (194bn)



Government bonds[2]	46%	(48%)
Thereof: inflation-linked bonds	8%	(7%)
Covered bonds	29%	(28%)
Corporate bonds	10%	(10%)
Cash positions/other	5%	(4%)
Structured products (credit structures)	4%	(4%)
Bank bonds	3%	(3%)
Policy and mortgage loans	3%	(3%)

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.

Our investment portfolio is dominated by interest-bearing investments. In the period under review, we reduced our portfolio of government bonds and instead invested more in short-term investments.

At 46%, the largest portion of these are government bonds or government-guaranteed securities, of which around 56% are from eurozone countries; with approximately four percentage points of the items from Italy and around two percentage points from Ireland and Spain respectively. We no longer hold any government bonds from Portugal or Greece.

We made the bulk of our European bond investments in issues of supranational institutions such as the European Financial Stability Facility (EFSF) and the EU. New investments in government bonds from emerging markets are also part of our balanced investment strategy. We primarily reduced our holdings in German and US government bonds.

Covered bonds make up 29% of our fixed-interest securities. Despite a decline owing chiefly to scheduled redemptions, the emphasis remained on German pfandbriefs, with around 36%.

Corporate bonds account for 10% of our interest-bearing investments. Our credit exposure is increased by a further percentage point through derivatives.

Government bonds[1], covered bonds and corporate bonds by country[2] according to fair values[3]

€bn	31.12.2013	Prev. year	Change
Government bonds			
Germany	27.9	31.7	–3.8
USA	11.8	15.2	–3.4
Supranational institutions[4]	6.1	5.4	0.7
Canada	5.0	6.1	–1.1
UK	3.8	4.9	–1.1
Austria	3.3	3.3	–
Italy	3.1	2.6	0.5
France	3.1	3.2	–0.1
Belgium	2.5	2.2	0.3
Australia	2.0	3.0	–1.0
Netherlands	2.0	2.2	–0.2
Finland	1.8	1.9	–0.1
Spain	1.6	1.2	0.4
Poland	1.5	1.4	0.1
Covered bonds			
Germany	19.0	21.2	–2.2
France	9.5	9.5	–
UK	4.8	5.4	–0.6
Netherlands	3.5	3.8	–0.3
Sweden	3.1	3.5	–0.4
Spain	3.0	2.8	0.2
Norway	2.9	2.9	–
Ireland	1.7	1.5	0.2
Corporate bonds			
USA	7.8	8.4	–0.6
Netherlands	2.0	2.1	–0.1
UK	1.7	1.5	0.2
France	1.6	1.6	–

1 Including other public-sector issuers and government-guaranteed bank bonds.
2 Presentation based on approximation and not fully comparable with IFRS figures.
3 Country exposures with more than €1.5bn each within these asset classes.
4 Especially EU and EFSF.

Our portfolio of government bonds, covered bonds and corporate bonds has a good rating structure: as at 31 December 2013, approx. 85% were rated AAA to A.

Rating of government bonds, covered bonds and corporate bonds by country[1] according to carrying amounts

€bn	AAA	AA	A	BBB	Lower	No rating	Total
Germany	22.5	20.1	1.5	0.5	0.1	–	44.7
USA	11.2	1.0	3.0	3.5	0.7	–	19.4
France	5.0	6.8	0.4	0.9	0.1	–	13.2
UK	4.3	4.1	0.6	1.0	–	–	10.0
Netherlands	4.9	0.5	0.7	0.9	0.2	–	7.2
Supranational institutions	3.5	2.5	–	–	–	–	6.0
Canada	1.7	2.6	1.4	0.2	–	–	5.9
Spain	–	–	1.8	2.6	0.6	–	5.0
Austria	2.8	1.0	0.3	0.1	0.1	–	4.3
Italy	–	–	0.2	3.5	0.2	–	3.9
Ireland	–	–	1.3	2.0	0.1	–	3.4
Sweden	2.9	0.1	0.1	0.1	–	–	3.2
Norway	2.9	0.2	–	–	–	–	3.1
Australia	2.5	0.3	0.2	0.1	–	–	3.1
Belgium	0.1	2.1	0.4	–	–	–	2.6
Finland	2.2	–	0.1	–	–	–	2.3
Poland	–	–	1.5	–	–	–	1.5
Denmark	1.4	–	–	0.1	–	–	1.5
Other	0.7	2.1	2.4	3.9	0.6	0.1	9.8
Total	**68.6**	**43.4**	**15.9**	**19.4**	**2.7**	**0.1**	**150.1**

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.

Periods to maturity of government bonds, covered bonds and corporate bonds[1] according to carrying amounts

€bn	Carrying amounts
Up to one year	10.4
Over one year and up to two years	12.8
Over two years and up to three years	12.1
Over three years and up to four years	11.9
Over four years and up to five years	10.2
Over five years and up to ten years	40.8
Over ten years	51.9
Total	**150.1**

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

Our limited investments in bank bonds totalled 3% of our portfolio of fixed-interest securities. At the reporting date, our proportion of bank bonds from southern European states and Ireland amounted to 7% of our bank bond holdings. Overall, the main focus was on senior bonds, i.e. bonds that are not subordinated or subject to loss participation. Subordinated bonds and loss-bearing bonds made up 16% of our bank bond holdings.

Fixed-interest securities: Bank bonds[1]

%	31.12.2013	Prev. year
Senior bonds	84	82
Loss-bearing bonds	5	6
Subordinated bonds	11	12

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

The market value of our portfolio of structured credit products sank somewhat by €0.4bn to €7.1bn (7.5bn). This asset class involves securitised receivables (asset-backed securities or mortgage-backed securities), e.g. securitisations of real estate finance, consumer credit or student loans. Around 55% of our portfolio of asset- and mortgage-backed securities have a rating of AAA.

In the course of the year, we reduced the duration of our fixed-interest investments in reinsurance both in absolute terms and relative to our technical liabilities. The reasons behind this were our tactical restraint on the bond market in anticipation of a slight rise in interest rates, and the release of an additional interest position which no longer needed to be held in reinsurance to compensate for an opposite position in life primary insurance. At the end of the year, the duration of fixed-interest investments in reinsurance was slightly below the duration of the technical liabilities. In primary insurance, the durations of fixed-interest investments have come into closer alignment with those of the technical liabilities. In an environment of slightly increasing interest rates, the duration of the liabilities decreased more than that of the fixed-interest investments. At Group level, the duration of our fixed-interest investments was slightly below the duration of our technical liabilities at the end of the year.

The carrying amount of our equity portfolio (before taking derivatives into account, and including investments in affiliated companies and associates at market value) rose in the course of the year. Our equity-backing ratio was 4.6% (3.7%). The derivatives used to hedge our equity portfolio were reduced. Including hedges, our equity-backing ratio was 4.5% (3.4%). Besides this, we are protecting ourselves against accelerated inflation in an environment of continuing low interest rates. For this, we hold inflation-linked bonds with a volume of €6.8bn (6.8bn) and inflation-linked swaps for a notional amount of €4.5bn (5.2bn). Real assets like shares, property, commodities, and investments in renewable energies and infrastructure also serve as protection against inflation. In the year under review, we invested around €0.4bn in physical gold. Additionally, our investments in real assets have a positive diversification effect on the overall portfolio.

Investment result

Investment result[1]

	2013	Return[2]	Prev. year	Return[2]
	€m	%	€m	%
Regular income	7,498	3.4	7,761	3.6
Write-ups/write-downs	–670	–0.3	8	0.0
Net realised capital gains	1,059	0.5	652	0.3
Other income/expenses	–230	–0.1	21	0.0
Total	**7,657**	**3.5**	**8,442**	**3.9**

1 Details of the result by type of investment are shown on page 243 f. in the notes to the consolidated financial statements.
2 Return in % p.a. on the average market value of the investment portfolio at the quarterly reporting dates.

Regular income

Regular income fell slightly against the previous year. Higher dividend earnings only partially offset the lower interest payments from fixed-interest securities. Despite the rise in interest rates in the past financial year, yields on new investments are far lower than the average return on our existing portfolio of fixed-interest investments.

Write-ups and write-downs

In the past financial year, we posted net write-downs of €670m (–8m), particularly on our inflation and equity derivatives and swaptions. The latter are used in hedging long-term interest-rate guarantees extended to life insurance clients. Owing to the negative development in gold prices in the 2013 financial year, we had to make write-downs of €108m on our gold portfolio. The original acquisition cost of the portfolio was around €400m.

The main reason for the higher write-downs compared with the previous year is the decline in the market values of our swaptions and interest-rate derivatives due to rising interest rates in the past financial year. Even if derivatives are not sold, the changes in their value are reflected in the net balance from write-ups and write-downs. We also needed to make considerably higher write-downs on our inflation derivatives than in the previous year.

Realised gains/losses on investments

In the 2013 financial year, through active asset management we posted net gains on disposal of €1,059m (652m), primarily in our portfolio of fixed-interest securities, especially government bonds, and on equities. By contrast, we posted losses on the disposal of equity derivatives and fixed-interest derivatives. The year-on-year improvement in our result from disposals was due chiefly to higher gains realised in our equity portfolio.

Insurance derivatives

Insurance derivatives

	31.12.2013	Prev. year	Change
	€m	€m	%
Insurance derivatives in investments	569	532	7.0
Liabilities from insurance derivatives	427	461	-7.4
	2013	Prev. year	Change
	€m	€m	%
Result from insurance derivatives	4	17	-76.5

Under insurance-linked derivatives, we subsume the derivative portions of natural catastrophe bonds and of securitisations of mortality and morbidity risks, individually structured insurance-linked derivatives, and derivative components separated from their host contract. This category also includes retrocessions concluded in the form of derivatives used to hedge assumed insurance risks, and embedded derivatives in variable annuities and their derivative hedging instruments. All income and expenditure arising from our insurance-linked derivatives is shown as a result from derivatives in the investment result.

Asset management for clients

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) is the asset manager of Munich Re. In addition, MEAG MUNICH ERGO Kapitalanlagegesellschaft mbh also offers its expertise to private and institutional clients. The volume of assets under management rose by €1.4bn to €12.9bn. The increase from €9.3bn to €10.2bn in portfolios for institutional investors is particularly gratifying.

Assets under management for third parties

	31.12.2013	Prev. year	Change
	€bn	€bn	%
Third-party investments	12.9	11.5	12.1
Thereof: External institutional investors	10.2	9.3	10.5
Thereof: Private-client business	2.7	2.2	18.4

Financial position

- Decrease in equity especially due to lower net unrealised gains on investments
- Further reduction in debt leverage
- Group capital over 2.6 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 (76% of the balance sheet total). Equity (10% of the balance sheet total) and bonds classified as strategic debt (2% of the balance sheet total) are the most important sources of funds.

Group equity

Development of Group equity

	31.12.2013	Prev. year	Change
	€m	€m	%
Issued capital and capital reserve	7,426	7,421	0.1
Retained earnings	12,875	10,938	17.7
Other reserves	2,369	5,650	–58.1
Consolidated result attributable to equity holders of Munich Reinsurance Company	3,313	3,188	3.9
Non-controlling interests	243	242	0.4
Total	**26,226**	**27,439**	**–4.4**

The decline in equity was attributable not only to the dividend distribution but also largely to the decrease in unrealised gains, which derived mainly from our fixed-interest securities available for sale. The consolidated result was the chief factor in increasing equity.

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

		31.12.2013	Prev. year	Change
		€m	€m	%
Strategic debt		4,734	5,796	–18.3
Group equity		26,226	27,439	–4.4
Total		**30,960**	**33,235**	**–6.8**
Debt leverage	%	15.3	17.4	

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 €685m and the debt leverage amounts to only 2.5%.

Technical provisions

Reinsurance business accounts for approximately 32% of technical provisions, primary insurance for about 67%, 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 the British pound sterling.

Restraints on disposal

→ Information on contingent liabilities is provided on page 272 f. 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 €8.4bn (9.5bn). In addition, there were contingent liabilities.

Asset-liability management

More details on ALM as a tool of corporate management are available on page 40

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 (ALM). With ALM, we aim to ensure that macroeconomic factors influence the value of our investments and that of our technical provisions and liabilities in the same way. This stabilises our position against capital market fluctuations. For this purpose, we mirror important features of the liabilities – such as maturity patterns, currency structures and inflation sensitivities on the assets side of the balance sheet – by acquiring investments with similar characteristics, where possible.

In this approach, any deviations from the structure of our liabilities are made consciously, taking due account of our risk tolerance and the achievable risk spreads. These have the purpose of generating income in excess of the expected return on funds required to meet the liabilities. Therefore, we measure investment risks incurred not only in absolute terms, but also in relation to changes of values in our liabilities. In terms of currency positioning, exchange-rate fluctuations affect assets and liabilities in equal measure as a result of this approach. Currency translation losses on assets are largely offset economically by currency translation gains on underwriting liabilities, although owing to accounting regulations that are imperfect from an economic perspective, this relationship is not always adequately reflected in the financial statements. 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.

To configure our economic ALM as effectively as possible, we also use derivative financial instruments in order to hedge investment products against fluctuations on the interest-rate, equity and currency markets. Under IFRS accounting, we recognise fluctuations in the value of these derivative products 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.

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 by the requirements of supervisory authorities and rating agencies. We aim to ensure that our financial strength is such that it enables us to take advantage of 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 equity 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 equity from IFRS equity are described on page 124

We derive our economic equity 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. Furthermore, in addition to dividend payments, we still generally consider share buy-backs an important instrument of active capital management. In November 2013, we announced a buy-back programme for up to €1bn by the 2014 Annual General Meeting. By 6 March 2014, we had repurchased shares with a value of €734m. Including dividend payouts and the share buy-backs from 2006 to 2013, we have been able to return €14.7bn to our shareholders since 2006.

On 21 June 2013, we called our subordinated bond 2003/2023 on the first ordinary call date and repaid the outstanding nominal value of around €1bn after previous partial buy-backs.

In the 2013 financial year, Munich Reinsurance Company generated net retained profits of €1,300m according to German GAAP accounting. Including these net retained profits, the Company's revenue reserves amounted to €3,812m (3,629m) as at the balance sheet date. The shareholders' equity of Munich Reinsurance Company as determined under German GAAP accounting is protected effectively against the risk of loss arising from a random accumulation of losses by a claims equalisation provision totalling €7.7bn. 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 €7.25 per share, or a total of €1.3bn, from Munich Reinsurance Company's net retained profits for the financial year 2013.

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

Composition of the issued capital

As at 31 December 2013, 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 1,919,312 shares held by Munich Re itself at 31 December 2013 (Section 71b of the German Stock Corporation Act – AktG). 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 Corporation 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. 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.

→
Information relating to the remuneration report can be found on page 46 ff.

Contractual agreements are in place with the members of the Board of Management providing for two- or four-year minimum holding periods for the shares of the Company they have to purchase as part of share-based remuneration programmes.

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 (WpHG) 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 statement from March 2014, Berkshire Hathaway Inc. reported that its participation in Munich Reinsurance Company as at 31 December 2013 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 their 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 Corporation Act (AktG), and Section 121a para. 1 and 7a of the German Insurance Supervision Act (VAG). Munich Re's co-determination agreement and Articles of Association have taken over the legal tenets of the German Co-Determination Act (MitbestG). Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. The Board of Management currently comprises eight members. The Supervisory Board appoints the members of the Board of Management pursuant to Section 84 of the Stock Corporation Act 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. For the appointment or dismissal of members of the Board of Management, Article 13 para. 4 of the Articles of Association stipulates a two-thirds majority of the votes cast on the Supervisory Board. If the requisite majority is not obtained in the initial resolution, the appointment or dismissal of the Board of Management requires a simple majority of the votes cast. The second resolution is only possible following a suitable period of reflection and after the issue has been dealt with in the competent committee, but is thereafter also possible by written consent in lieu of a meeting. In exceptional cases, members of the Board of Management may also be appointed by a court of law, pursuant to Section 85 of the Stock Corporation Act.

The German Stock Corporation Act contains general provisions governing amendments to the Articles of Association (Section 124 para. 2 sentence 2, and Sections 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, such a resolution must receive the votes cast by at least three-quarters of 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 Corporation 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 AktG). 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 Corporation 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 Corporation Act. The Board of Management has the following powers to issue and buy back shares:

— The Annual General Meeting of 20 April 2011 authorised the Company, pursuant to Section 71 para. 1 (8) of the German Stock Corporation 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 Corporation 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 permissible 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 (8) of the German Stock Corporation Act to retire the shares without requiring further approval from the Annual General Meeting. By resolution of 7 November 2013, the Board of Management decided to utilise this authorisation to acquire own shares. Around 1.9 million shares had been acquired by 31 December 2013 at a purchase price of €300m.

— 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 24 April 2018 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase 2013). 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 also 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, and 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.

Munich Re's eligible capital 2.6 times higher than the legal requirement

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 2.6 times higher than the legal requirement.

Adjusted solvency

		31.12.2013	Prev. year	Change
				%
Eligible capital of the Group	€bn	26.2	27.1	-3.5
Adjusted solvency ratio	%	262.4	277.8	

The adjusted solvency ratio fell from 277.8% in the previous year to 262.4% in 2013. The fall was due mainly to the decrease 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

	2013	Prev. year	Change
	€m	€m	%
Cash flows from operating activities	2,187	5,535	-60.5
Cash flows from investing activities	292	-4,733	-
Cash flows from financing activities	-2,558	-466	-448.9
Cash flows for the financial year	**-79**	**336**	**-**

In the consolidated cash flow statement, the consolidated profit of €3,342m is used as the starting point for determining the cash inflows from operating activities. The consolidated result is adjusted by €4,049m 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.

Inflows from the sale and/or maturity of investments were determined by cash flows from investing activities. They exceeded the outflows for the acquisition of investments by €752m. With economic effect from the fourth quarter of 2013, we sold the fully consolidated subsidiary Windsor Health Group, Inc., Atlanta, Georgia, including its subsidiaries. In the cash flow statement, we have reduced the sales price by the cash held by the entity sold. In the 2013 financial year, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in a wind park in Sweden for a total of €47m. In the cash flow statement, we have reduced the purchase prices by the cash held by the company acquired.

The cash outflows for financing activities stem mainly from the dividend payment in 2013 and the redemption of a subordinated bond.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – fell by €40m (including currency effects) to €2,820m. There were items pledged as security and other restrictions on title amounting to €26m (44m).

Stakeholders

- Munich Re as clients' first port of call for all risk matters
- Ongoing, open communication with all capital market participants
- Focus of human resources management on staff development
- Group-wide environmental management continuously expanded, generating positive impetus for the Group

For Munich Re, dialogue with clients, brokers, shareholders, investors, staff members and the society within which we operate as an enterprise is a crucial requirement for identifying new challenges and changes at an early stage and for developing appropriate solutions.

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. In Germany, our asset manager MEAG offers its competence not only to around 80,000 private investors, but also to over 60 institutional investors outside the Group, e.g. insurers, utilities, pension funds, church organisations, foundations, local authorities and industrial enterprises.

The product we sell is invisible and sometimes difficult to understand, so we need to be close to clients, understand their needs, and give them comprehensive advice. All three business fields focus particularly on close consultation and successful cooperation with our clients and sales partners with the objective of offering them optimum solutions. We want to be a competent, reliable and transparent partner, whom they can trust.

Reinsurance

We offer our clients the full range of underwriting products

As reinsurers, we apply our extensive risk knowledge to find individual solutions that meet our clients' diverse requirements and add value. We know our cedants' needs, develop innovative risk transfer solutions with them and aim to continue driving forward the expansion of risk competence through strategic cooperations, thus providing our cedants with the full range of underwriting products. Furthermore, clients can access a wide variety of services: as well as our own client platform (connect) and special product publications, the range we offer includes tools to improve business processes, individual consulting services and client seminars on many aspects of underwriting.

Depending on the clients' wishes, we work directly with them or via the reinsurance brokers they commission. We maintain relationships with all relevant reinsurance brokers at local operating and strategic level, and develop these contacts systematically in order to adapt them to changing circumstances. We view brokers as competent client representatives and key know-how partners in developing new, client-centric solutions.

Specialised client managers are responsible for determining clients' needs as precisely as possible and offering tailor-made solutions and support. To this end, we bring all our knowledge and innovative strength to bear and do not shy away from taking unusual approaches – true to our claim NOT IF, BUT HOW. We regularly assume a pioneering role in new coverage concepts, such as 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

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.

You will find the ERGO customer report for 2013 (in German) at www.ergo.de/de/ERGO/Verstehen/Kundenbericht

ERGO's brand proposition "to insure is to understand" expresses the primary insurance group's aim of focusing systematically on customers' actual requirements, with an approach that sets it apart from the competition. We report annually on the implementation of the brand proposition in the ERGO customer report, which was published for the second time in May 2013.

Since 2011, ERGO has responded to consumer demand for clear and comprehensible communication with its "clear language" initiative. Insurance conditions and product information have been simplified and shortened, letters to clients revised and binding writing rules issued. As the first German insurer, ERGO underwent extensive testing by TÜV Saarland for comprehensibility, and received the TÜV certification for understandable communication in 2013. The TÜV experts will also monitor and evaluate the further results of the "clear language" initiative.

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 Customer Workshop on the internet. Listening to their opinions is an integral part of the process of developing new products. In expanding its provision for the growing number of internet-savvy consumers, ERGO is making use of its many years of experience in direct selling. In 2013, for example, ERGO introduced an online check for policy-switchers in private health insurance, a liability policy that can be customised and concluded online, and an app for reporting claims immediately after an accident.

ERGO also bases the improvement of internal processes on feedback from clients. To align client processes even more consistently with their requirements, ERGO is developing a customer satisfaction index. This is based on extensive surveys and measures the company's performance at a large number of contact points, thus identifying potential areas for improvement. In April 2014, responsibility for the most important customer processes will be pooled in a new client and sales division.

Munich Health

Bundling healthcare management for a broad spectrum of clients

Munich Re's global healthcare insurance and reinsurance expertise is combined under the Munich Health brand, enabling a very broad spectrum of clients to be served. Munich Health devises integrated solutions precisely tailored to clients' needs in order to tap the strongly growing business potential in each market.

In primary insurance, for example, we offer individual policies (for private individuals) and group policies (e.g. for companies, employees or public servants). In some cases, brokers help with selling products and client care. For providers that do not operate their own health business, such as banks, Munich Health develops health insurance products and handles their administration. Munich Health's comprehensive core expertise in the health sector flows into the development of global offerings to meet current client requirements and address new trends. These include services for the management of severe medical conditions.

In reinsurance, our cedants around the world are serviced locally by our client managers in regional units. We provide our clients with tailor-made data models and reinsurance models. Alongside specialised client managers, further specialists are available to advise our clients directly on business development and offer specific service packages. These include underwriters for product design, actuaries for pricing and claims specialists for processing operative business. For mission-critical business processes such as claims handling, Munich Health offers clients supporting computer programs with automated test algorithms. Feedback from our clients plays a major role in the further development of our range of products.

Asset management

MEAG handles the investment activities of Munich Re and ERGO as their asset manager. Its range of services includes advice on strategic asset allocation, the tactical implementation of this, and the selection of the individual investments. It also offers its competence to other institutional and private investors. MEAG is represented in Europe, North America (MEAG New York) and Asia (MEAG Hong Kong) and manages all important asset classes. As well as the more traditional classes such as bonds, equities, currencies and real estate, these have for some years now also included commodities, forestry, renewable energies and infrastructure as well as two sustainability funds.

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Information on our asset-liability management is available on page 40

MEAG's investment experts adopt a stringent, risk-based approach with the aim of generating excess return – for the same risk – compared with the requirements of their clients within the Group and externally. Munich Re's insurance units derive their asset management targets from their payment obligations in their core business (asset-liability management) and also specify their risk and return preferences. Specialists at MEAG provide consultancy on structuring portfolios to meet these targets. Depending on the asset class and the investment objectives, MEAG derives investment portfolios on the basis of fundamental indicators, which are then managed according to the "top-down" approach.

MEAG's Mandate Management Division is the interface between MEAG's various units on the one hand, and the Group's insurance companies and MEAG's external clients on the other. The Division advises the Group on strategic investment issues and is responsible for tactical asset management. Around 70 experienced portfolio managers select high-quality securities. The disciplined investment process means that MEAG's retail funds also achieve a generally above-average performance, leading to corresponding recognition from independent fund-rating agencies.

Staff

The efforts of our staff are crucial to the success of Munich Re. Their professional expertise, commitment and continual readiness to embrace innovation are the factors that drive our business forward. We create the necessary conditions for nurturing and enhancing their personal development and performance in all areas. Developing and keeping this high-level expertise and broad experience for the benefit of the Group is one of our most important objectives.

For this reason, we have extended our established programme of uniform succession planning set up in the previous year for our top managers. Greater emphasis is now placed on Group-wide uniform talent management for top management levels, with systematic development towards defined target positions. The resulting transparency also improves the potential for candidates to be appointed to positions across all the business segments.

New rotation and exchange programme promotes practical experience and knowledge transfer

Rotation of managers and staff members within the Group supports the accumulation of expertise and the transfer of knowledge. In the year under review, job moves to other areas and business fields and to other countries have been specifically introduced into the performance appraisal and staff development processes within the reinsurance group. Depending on business requirements, these changes take place on the basis of flexible models – as exchanges, for extended periods and also on a project basis. This is intended to enhance both professional expertise and intercultural competences.

Munich Re's position as a knowledge leader is promoted by the systematic development of outstanding specialists in business-relevant knowledge areas. The existing expert career path in reinsurance has been supplemented by the establishment of Leading Expert positions, creating career paths parallel to those in management functions up to senior management level. Potential candidates for these higher-level specialist functions are prepared for their roles via development programmes. A training programme for Leading Experts with individual development measures has been offered as of this year.

The extensive development of the management culture and competences is the focus of the two-year initiative "ERGO – Focus on Leadership" launched last autumn. All of ERGO's approximately 2,600 managers in Germany are currently completing this "manager triathlon" – a mandatory, multi-stage development programme. In parallel, staff are giving systematic feedback on their managers in the form of upward appraisals. The basis for this comprehensive initiative is the existing "ERGO – Guiding Principles of Leadership", which was developed out of the 2012 employee survey. This also demonstrates our willingness to invest in staff development.

A long-term and important issue for both staff and the Group is the maintenance of health. In all areas of the Group, staff benefits include measures to promote good health. Since April, reinsurance staff in Munich have been able to anonymously seek advice for professional and private crisis situations from external specialists. This Employee Assistance Programme goes beyond established internal corporate health-support initiatives. At MEAG, top managers receive healthcare management training in special workshops, while more than 1,000 ERGO staff have already taken part directly in new group coaching and stress prevention training.

Taking account of professional and private needs also plays an important role in other areas of life. How this can change in different phases of life, and how to react to such changes, were the topics of ERGO generation workshops and diversity projects. These events, which were part of the ERGO diversity communication campaign, are an example of expanded diversity management across the whole Group. As part of this programme, a Diversity Council for reinsurance in North America was set up in 2013. ERGO also piloted an initiative for part-time employment of senior managers. Senior managers of the reinsurance group in Germany already have an established entitlement to part-time work.

In 2013, 41.9% of all new managers in our German reinsurance business were women

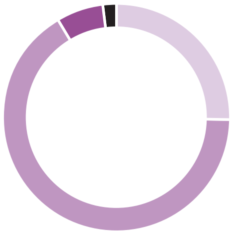
Internationality is a key focus of diversity management, especially in reinsurance. In this connection, the number of international assignments, job rotations and international project teams was further increased in 2013. Another directly measurable success of diversity management is the continually increasing number of women in management positions in the Group over the past three years. This is also illustrated by the fact that in 2013, 41.9% of all new managers in our German reinsurance business were women.

The number of staff in the Group decreased by 1.7% (772) in comparison with the previous year. The main reason for this was the restructuring and sale of the Windsor Health Group , which still employed 968 staff in the Munich Health segment at the end of 2012.

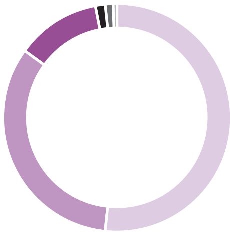
ERGO's "Future of Sales" quality and efficiency initiative launched in Germany in 2012 also began to impact staffing levels and will result in the reduction of around 1,100 jobs by the end of 2014. In 2013, following intensive collaboration with the representative bodies, it was possible to come to an acceptable solution from a social and corporate perspective for all staff whose jobs were being cut or who were being moved to a different location.

Staff

Total: 44,665 (45,437)



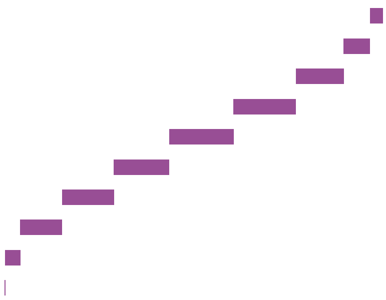
Staff by field of business		
Reinsurance	25.3%	(24.4%)
Primary insurance	66.3%	(65.5%)
Munich Health	6.5%	(8.3%)
Asset management	1.9%	(1.8%)



Staff by region		
Germany	51.8%	(52.1%)
Rest of Europe	33.4%	(30.9%)
North America	11.9%	(13.9%)
Asia and Australasia	1.5%	(1.5%)
Africa, Near and Middle East	1.1%	(1.3%)
Latin America	0.3%	(0.3%)

Age structure of staff

Average: 42.5 (42.0) years



Over 61	3.4%
56–60	7.0%
51–55	12.6%
46–50	16.5%
41–45	17.0%
36–40	14.6%
31–35	13.7%
26–30	11.0%
21–25	4.0%
Up to 20	0.2%

Length of service of staff

Average: 12.1 (11.6) years

Over 41	0.4%
36–40	1.5%
31–35	3.1%
26–30	4.8%
21–25	10.6%
16–20	10.0%
11–15	18.9%
6–10	17.4%
1–5	25.6%
Below 1	7.7%

Percentage of female staff

2013	54.1%
2012	54.0%

Percentage of female staff in management positions

2013	30.2%
2012	29.0%

Shareholders

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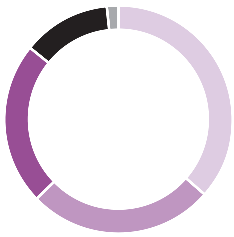
Further information on our shares can be found in the section "Munich Re shares" on page 10 ff.

At the end of the year, our register of shareholders listed around 155,000 shareholders (previous year: 143,000). The vast majority of shares were held by institutional investors such as banks, insurers or investment companies; around 12.0% (11.4%) were in the hands of private investors. At around 74%, the percentage of foreign investors was at around the same level as in the previous year. Our shareholders include sustainability-minded investors, with whom we have an active dialogue.

Additional information on the stake in Munich Reinsurance Company held by Warren E. Buffett and the companies in his group is available on page 96

Our largest shareholder at the end of the year was still Warren E. Buffett, who 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.). Asset manager BlackRock is our second-largest shareholder with around 6.2%. The People's Republic of China, represented by the People's Bank of China/SAFE, China, is the third-largest shareholder with around 3%.

Regional distribution[1]



North America	36.6%
Germany	26.3%
Rest of Europe	23.1%
UK	12.4%
Other countries	1.6%

1 Percentage of share capital. Status: 31 December 2013.

Source: Munich Re share register

We strive for 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 North America; we are now increasingly devoting attention to the emerging financial centres of Asia and the Arab world. We regularly supplement our investor relations activities with special events. For example, last year we presented our business field ERGO International in detail and, for the first time, held an investors' day on the topic of corporate responsibility in Munich. We also offer regular forums for focused exchanges between investors who systematically gear their investment strategy to sustainability criteria.

Detailed information on Munich Re's investor relations can be found at www.munichre.com/ir-en

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 2013, 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.

Around 4,500 shareholders and shareholder representatives participated in the 126th Annual General Meeting on 25 April 2013. Some 34% of the voting share capital was represented in the votes. All the motions were adopted with a clear majority in each case. 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.

Environment and society

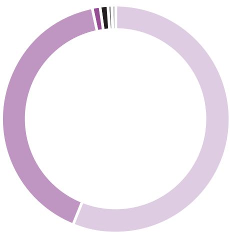
We report on corporate responsibility in core business in the strategy section, in the risk report, in the opportunities report and in the prospects section of the management report

In addition to corporate responsibility in core business, the topics of environment and social commitment constitute major elements of our corporate responsibility strategy.

Environment

We continued to work intensively in 2013 to make sure that our Group-wide environmental management system is applied consistently and that we reach our target of covering 75% of all Munich Re staff. We attach great importance to a continual improvement in the quality of data collection. Seventeen of our locations have been certified to international standard ISO 14001. We have set Group-wide targets to reduce CO_2 emissions – from 2009 to 2015 we will reduce CO_2 emissions by 10% and the whole Group will be carbon-neutral by 2015. Most of our CO_2 emissions derive from our energy consumption and our business travel.

Allocation of CO_2 emissions in 2013 (data for Munich Re Munich)



Indirect energy consumption (electricity, district heating)	56.3%
Business travel	40.5%
Direct energy consumption (diesel, petrol, gas)	1.1%
Waste handling	1.1%
Paper consumption	0.7%
Water consumption	0.3%

Therefore, we are focusing our reduction efforts on the two above-mentioned areas by investing in energy-efficient technologies and minimising travel by using digital communication. Measures that have proved effective in reducing our emissions are converting the ERGO company car fleet to fuel-efficient vehicles, installing solar panels in Princeton, and giving up buildings in Munich that are not energy efficient.

We offset unavoidable CO_2 emissions by buying carbon credits. Selections are made on the basis of best-practice standards and positive social influence through preferred projects. Our successes so far on the road to Group-wide carbon-neutrality by 2015:

— Munich Re's head office in Munich has been carbon-neutral since 2009.
— The major locations of ERGO have been carbon-neutral since 2011.
— Reinsurance and ERGO have been carbon-neutral since 2012.

We will continue to apply our environmental objectives consistently in 2014 by giving advice to and liaising closely with our individual locations.

Society

We also undertake social commitments everywhere we do business. In order to establish a sensible framework for our international civic commitment, we have established a Group-wide corporate citizenship concept with specific sponsorship criteria. We have a clear focus on business-related topics such as the environment, prevention of natural catastrophes, demographic change, health, and the promotion of science, education and cultural activities in the places we do business. A recent example of this is a new collaboration with the Lenbachhaus municipal art gallery in Munich, in which representatives of the two partners work together to develop various exhibition, educational, publication and event formats that can also be used for Munich Re staff and client events.

In the environmental field, in a public–private partnership (PPP) founded by Water Benefit Partners (WBP) and the Swiss Agency for Development and Cooperation (DEZA), we have joined together with 14 other partners to develop an innovative financing mechanism – the Water Benefit Standard – for projects in regions where there are severe water shortages.

Significant increase in staff commitment to volunteering

Our staff are involved in a wide variety of non-profit projects across the world. In Munich and the international units of the reinsurance group, we support various initiatives through the Dr. Hans-Jürgen Schinzler Foundation. In 2013, our staff volunteered more than 2,000 hours of their time to these projects. Our two other corporate foundations – the Munich Re Foundation and the ERGO Foundation "Youth & Future" – supplement this Group-wide approach to corporate citizenship with their various projects. Their foundation capital amounts to a total of €80m, and foundation funds generated from this are used to support various projects at diverse places where we do business. These schemes include long-term projects in microinsurance, the prevention of natural catastrophes, innovative methods of obtaining water, and youth and education projects. The Munich Re Foundation sponsors the world's largest international microinsurance conference, and presents the RISK Award in conjunction with the United Nations. This substantial prize supports groundbreaking projects in disaster prevention.

Detailed information about Group-wide activities in the area of corporate responsibility and our approach to the subject can be found in our corporate responsibility portal. The figures listed there in detail, and the description of the projects we are involved in, demonstrate our commitment in these areas and explain how we embrace these principles in our day-to-day work.

You can find further information about corporate responsibility at Munich Re on our website at: www.munichre.com/cr

Risk report

- Munich Re's risk situation in 2013 manageable and under control
- Capital position still comfortable
- Integrated, Group-wide system for managing operational 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 the Group. It is headed by the Chief Risk Officer (CRO), who – like the local CROs at individual companies – is supported by multidisciplinary 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, and this provides the basis for active management of the risks we incur.

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

Group Committee of the Board of Management responsible for Group-wide risk management

Ensuring that risk management and risk governance systems are in place and continuously enhanced at Group level is one of the most important tasks of the Group Committee, which convenes quarterly together with the CRO and specialists from the business segments as the Group Risk Committee to address fundamental risk issues arising throughout the Group. The Group Committee also meets quarterly together with the CRO and managers from the business segments with responsibility for investments as the Group Investment Committee – the central management committee for important Group-wide issues relating to investments and specific investment risks.

Additionally, there is the Group Compliance Committee (GCC), which deals with compliance and reputational issues and risks at Group level, with a view to standardising the way they are handled throughout the Group. In contrast to the Group Corporate Responsibility Committee (GCRC), which concerns itself with identifying sensitive issues on an abstract level and defining Munich Re's position on them, the GCC focuses on actual 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 Remuneration Regulation for Insurance Companies (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 (a Board committee), was created to function as a special risk committee for reinsurance.

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

Risk management for primary insurance is mainly decentralised to ERGO IRM, and supported by local risk management units. The ERGO Risk Committee, comprising members of the Board of Management, the CRO and the CRO of Munich Re, was set up to be the decision-making body.

Determining the risk strategy

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

Risk strategy

Objectives

Maintain our financial strength, thereby ensuring that we can meet our liabilities to our clients	Protect and increase the value of our shareholders' investment	Safeguard Munich Re's reputation

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 are designed to protect our capital and limit the likelihood of an economic loss for the year. Of particular note 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 will 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 2013, economic earnings at risk stood at €4.3bn.

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

— Other criteria are 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 sovereign 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. If capacity shortages or conflicts with the limit system or regulations arise, defined escalation and decision-making processes must be followed. These have been designed to ensure that the interests of the business are reconciled with risk-management considerations. 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 (restriction to a level we have defined as appropriate) and monitoring. All significant risks are covered.

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 refining 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 and legal entity level or by 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 objective 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 118 ff.

We compare our internal risk model with the standard formula of Solvency II and take part in the Quantitative Impact Studies and stress tests (e.g. 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 areas and specialists to this end. This provides us with a quantitative and qualitative assessment that considers possible interactions between risks.

Risk limits are 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.

The risk management system is subject to internal auditing by Group Audit, which carries out annual checks on various functions in accordance with its audit plan.

Control and monitoring systems

Our internal control system (ICS) is an integrated uniform Group-wide system for managing operational risks that covers all risk dimensions and areas of the Group. It meets Group management requirements, while complying with local regulations.

The risk and control assessments are performed at least annually by managers, specialists and staff in the relevant departments.

ICS risk maps provide transparency regarding significant risks and processes

For each of Munich Re's business segments, the ICS delivers a risk map at process level, which systematically links the significant risks and controls for processes. By making our risk situation transparent in this way, we can focus on and react to weaknesses or changes in internal and external requirements. This means that we are able to identify operational risks at an early stage, locate control shortcomings immediately and take effective remedial action.

Controls performed for the ICS at entity level are based on COSO (Committee of Sponsoring Organizations of the Treadway Commission), a recognised internal control standard in the finance industry. IT-level controls are based on COBIT (Control Objectives for Information and Related Technology), an internationally recognised framework for IT governance.

However, notwithstanding the careful design and diligent use of our ICS, which has now developed into a high-quality system, it can provide only adequate – but not total – certainty that all operational 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. We are nevertheless certain that the controls and documentation requirements in place justify the maximum possible confidence on the part of our stakeholders.

The identification, management and control of risks arising out of the accounting process is indispensable for the production of reliable annual financial statements at both consolidated and individual-company level. It is essential for all items in the accounts to be shown correctly and valued appropriately and for the information provided in the notes and the management report to be complete and correct.

Appropriate internal controls for accounting risks

Financial accounting and reporting are subject to carefully defined materiality thresholds to ensure that the cost of the internal controls performed is proportionate to the benefits derived. 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.

An important feature of the accounting process is timely compliance with new legal requirements in Munich Re's reporting. By means of an 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.

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. 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 internal audit function regularly audits data management in the accounting systems to ensure that it is being performed in a proper and orderly manner.

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

The Audit Committee of the Supervisory Board regularly calls for reports on the effectiveness of the ICS and changes to the risk map from the previous year. The reports prepared by our external auditors and Group Audit describe the controls applied and state whether 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.

Risk reporting

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

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

Our general definition of risk is possible future developments or events that could result in a negative deviation from the Group's prognoses or targets. 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 property-casualty business can be found in the notes to the consolidated financial statements on page 259 ff.

Underwriting risk: Property-casualty insurance

The property-casualty risk category encompasses the underwriting risks in the property, motor, third-party liability, personal accident, marine, aviation and space, and credit classes of insurance, together with special classes also allocated to property-casualty. Underwriting risk is defined as the risk of insured losses 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 design internal processes in such a way as to ensure that quality requirements are met. In doing so, they take account of both the specific exposures in their business and the knowledge and experience of their staff.

In particularly critical areas, the underwriting authorities granted to the operating units are restricted by mandatory Group-wide instructions or limited 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, particularly in reinsurance. 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 in the notes to the consolidated financial statements on page 252 ff.

Underwriting risk: Life and health insurance

The underwriting risk is defined here 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 changed from 2009. These include:

- portability of reserves when moving to another insurer (ageing reserves),
- obligation on insurer to pay benefits for policyholders who have not paid premiums, with no ability to terminate the contract, and the hardship tariff introduced with effect from 1 August 2013,
- the right to change to a new tariff.

The changes are a result of the German Health Insurance Reform Act (GKV-WSG). The new policyholder options are taken into account in the valuation model on the basis of experience to date.

The information provided on underwriting guidelines and limits for property-casualty insurance also applies to life and health reinsurance. 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.

Information on derivative financial instruments can be found on page 201 ff.

Sensitivity analyses of the market risks associated with financial instruments are available on page 265 f.

We use appropriate limit and early-warning systems in our asset-liability management to manage market risks. By means of stress tests and sensitivity and duration analyses, we simulate market fluctuations and devise strategies for counteracting them where necessary. Derivatives such as equity futures, options and interest-rate swaps, which are used in particular for the hedging of exposures, also play an important role in our management of the risks.

Our investments must comply with Group-wide minimum standards as defined in our General Investment Guidelines. We also take account of risk restrictions on investments defined in 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 in securities 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). There are also volume limits for securities lending and repurchase transactions. Investments in asset-backed securities (ABSs) are also controlled through volume limits separate from the counterparty limit system. Group-wide rules for collateral management, for example for OTC derivatives and catastrophe bonds issued, enable the associated credit risk to be reduced. Exposure to issuers of interest-bearing securities and CDSs in the financial sector is additionally limited by a financial sector limit.

We also make use of credit derivatives, especially CDSs, in our management of credit risks.

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 comprehensively assess additional country risks of varying importance for different business segments.

In the area of retrocession and external reinsurance in the primary insurance segment, we control the default risk through the Retro Security Committee. The experts on the committee review the quality of our main retrocessionaires and reinsurance counterparties 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 112 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.

We use scenario analyses to quantify operational risks. The analyses are produced or updated annually at workshops attended by experienced staff from all business segments and affected companies. The results are fed into the modelling of the economic risk capital for operational risks and are validated using various sources of information, such as the ICS (internal control system) and internal and external loss data.

ICS is the main instrument used for the management of operational risks.

In addition, our Security and Continuity Risk Management (SCRM) Framework defines the rules for a standard Group-wide procedure for, in particular, identifying, assessing and managing security risks for people, information and property. Our aim is to protect our employees, ensure the confidentiality, integrity and availability of information, and guarantee the smooth operation of our businesses. To this end, we have put in place an all-embracing business continuity management system, which is an integral component of our business strategy and hence explicitly included in our corporate objectives. It incorporates contingency and recovery plans to ensure that processes and IT operations continue to function. The system is in place at all of the Group's locations and is subjected to regular tests.

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. 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 in our Strategy Committee and regularly monitoring their implementation. The Strategy Committee comprises the members of the Group Committee, the Chief Executive Officers (CEOs) of the business segments and the Head of Group Development. 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).

The action we take to monitor and limit reputational risk ranges from the general identification and recording of risks for the ICS to establishment of whistleblower and ad-hoc reporting procedures. 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. A 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).

Economic risk capital

Overview of the risk situation

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 internal 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 the reinsurance and the primary insurance business segments. In the Munich Health segment, the life and health risk categories and operational risks are shown, but not market and credit risk, which we cover in the reinsurance and insurance segments in line with 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.

Key figure – economic risk capital

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 and 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% equates to 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. Our Group's approach of setting its capital requirement at 1.75 times this risk tolerance figure is thus conservative and provides its clients with 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)

	Reinsurance		Primary insurance		Munich Health	
	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
	€bn	€bn	€bn	€bn	€bn	€bn
Property-casualty	8.9	9.6	0.6	0.6	–	–
Life and health	4.4	5.3	2.1	2.8	0.5	0.7
Market	6.6	6.1	7.1	11.1	–	–
Credit	4.3	4.4	2.1	2.6	–	–
Operational risk	1.1	1.0	0.5	0.6	0.1	0.1
Subtotal	**25.3**	**26.4**	**12.4**	**17.7**	**0.6**	**0.8**
Diversification effect	–8.5	–9.3	–2.8	–3.4	–0.1	–
Total	**16.8**	**17.1**	**9.6**	**14.3**	**0.5**	**0.8**

→	Segment diversification		Group			
	31.12.2013	Prev. year	31.12.2013	Prev. year		Change
	€bn	€bn	€bn	€bn	€bn	%
Property-casualty	–0.5	–0.5	9.0	9.7	–0.7	–7.2
Life and health	–1.2	–1.6	5.8	7.2	–1.4	–19.4
Market	–2.1	–3.2	11.6	14.0	–2.4	–17.1
Credit	–0.1	–0.3	6.3	6.7	–0.4	–6.0
Operational risk	–0.3	–0.3	1.4	1.4	–	–
Subtotal	**–4.2**	**–5.9**	**34.1**	**39.0**	**–4.9**	**–12.6**
Diversification effect	–	–	–10.4	–11.7	1.3	–11.1
Total	**–3.2**	**–4.9**	**23.7**	**27.3**	**–3.6**	**–13.2**

The table shows Munich Re's economic risk capital and risk categories as at 31 December 2013. During last year, the economic risk capital decreased by €3.6bn. The following factors contributed to the reduction:

- The economic risk capital for the property-casualty category fell by €0.7bn due to a decrease in the large and accumulation loss risk. This reduction in the amount of risk capital shown in euros resulted from the depreciation of the US dollar, the Australian dollar and the Japanese yen. It was partially offset by a rise in the basic loss risk.
- Higher interest rates and the depreciation against the euro of all main currencies, in particular the Canadian dollar and the US dollar, led to a reduction of €1.4bn in the economic risk capital for the life and health risk category. At Munich Health, ERC was reduced primarily by the disposal of Windsor Health Group.
- The economic risk capital for market risks fell by €2.4bn, due mainly to the rise in interest rates and the adjustment to the evaluation of customer behaviour in life and health primary insurance that resulted in a reduction in the mismatch position and a fall in the interest-rate risk in the primary insurance segment. This was counteracted by the expansion of the equities exposure in the reinsurance segment.
- The economic risk capital for credit risks decreased by €0.4bn, due mainly to the above-mentioned adjustment to the evaluation of customer behaviour.
- The small change in economic risk capital for operational risks resulted from the updating of the underlying expert estimates.
- The diversification effect between the risk categories "property-casualty", "life and health", "market", "credit" and "operational risk" decreased by €1.3bn, due primarily to a fall of €4.9bn to €34.1bn in the sum of the economic risk capital requirements for the individual risk categories, which in turn also reduces the absolute value of diversification.

Property-casualty

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

Economic risk capital (ERC) – Property-casualty

	Reinsurance		Primary insurance		Segment diversification	
	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
	€bn	€bn	€bn	€bn	€bn	€bn
Basic losses	4.9	4.6	0.5	0.5	-0.3	-0.3
Large and accumulation losses	8.0	8.9	0.3	0.3	-0.1	-0.2
Subtotal	**12.9**	**13.5**	**0.8**	**0.8**	**-0.4**	**-0.5**
Diversification effect	-4.0	-3.9	-0.2	-0.2	–	–
Total	**8.9**	**9.6**	**0.6**	**0.6**	**-0.5**	**-0.5**

→

	Group			Change
	31.12.2013	Prev. year		
	€bn	€bn	€bn	%
Basic losses	5.1	4.8	0.3	6.3
Large and accumulation losses	8.2	9.0	-0.8	-8.9
Subtotal	**13.3**	**13.8**	**-0.5**	**-3.6**
Diversification effect	-4.3	-4.1	-0.2	4.9
Total	**9.0**	**9.7**	**-0.7**	**-7.2**

Losses with a potential cost exceeding €10m within a business segment 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 greater consideration of the interdependencies between treaty years.

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.

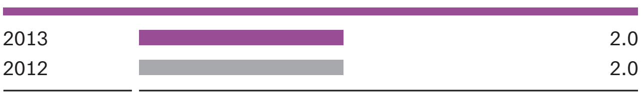
ERC is recalculated quarterly to update the exposure figures, and the data are used to adjust the stochastic models for the natural hazards. The current limit utilisation is determined by a bottom-up process. As ERGO's portfolio is more stable, its exposure is only updated annually.

The economic risk capital for large and accumulation losses was significantly lower than for the previous year. This was mainly due to the depreciation of the US dollar, the Australian dollar and the Japanese yen against the euro, which led to a reduction in the risk for some major natural hazard scenarios. There was also a slight increase in the percentage of external retrocessions. As in 2012, the largest natural catastrophe exposure for Munich Re is the €2.9bn currently retained for the "Atlantic Hurricane" scenario (value at risk for a 200-year return period). With a retention of €2.0bn, "Storm Europe" is the second-largest scenario. The retention for the third-largest scenario, "Cyclone Australia", decreased to €1.9bn, due primarily to the depreciation of the Australian dollar.

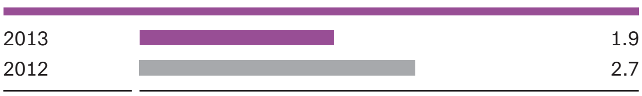
The diagrams show our estimated exposure to the peak scenarios for a return period of 200 years.

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

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



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



As a risk carrier operating worldwide, we can achieve a broad mix and spread of individual risks, which enables us to reduce the volatility of total insurance payments considerably and significantly increase value creation in all areas 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 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.

→ More detailed information on the value of in-force business and value sensitivities can be found in the notes to the consolidated financial statements under risks in life and health insurance business on page 252 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. Adverse 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. We show a valuation of in-force business and value sensitivities for such long-term portfolios in the notes to the consolidated financial statements.

Economic risk capital (ERC) – Market

	Reinsurance		Primary insurance		Segment diversification	
	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
	€bn	€bn	€bn	€bn	€bn	€bn
Equity risk	5.0	4.4	1.5	1.3	–	–
General interest-rate risk	2.7	3.2	4.9	9.0	-2.5	-3.9
Specific interest-rate risk	1.7	2.1	3.5	5.2	-0.6	-1.2
Property risk	1.4	1.3	1.1	0.8	-0.1	–
Currency risk	1.4	1.8	0.2	0.2	-0.1	-0.1
Subtotal	**12.2**	**12.8**	**11.2**	**16.5**	**-3.3**	**-5.2**
Diversification effect	-5.6	-6.7	-4.1	-5.4	–	–
Total	**6.6**	**6.1**	**7.1**	**11.1**	**-2.1**	**-3.2**

→

	Group			
	31.12.2013	Prev. year		Change
	€bn	€bn	€bn	%
Equity risk	6.5	5.7	0.8	14.0
General interest-rate risk	5.1	8.3	-3.2	-38.6
Specific interest-rate risk	4.6	6.1	-1.5	-24.6
Property risk	2.4	2.1	0.3	14.3
Currency risk	1.5	1.9	-0.4	-21.1
Subtotal	**20.1**	**24.1**	**-4.0**	**-16.6**
Diversification effect	-8.5	-10.1	1.6	-15.8
Total	**11.6**	**14.0**	**-2.4**	**-17.1**

Market risks

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

Equity risk

The market value of our investments in equities, including participating interests, was €10.1bn (€8.4bn) as at 31 December 2013. As at that date, on a market-value basis the ratio of equities to total investments was 4.6% (3.7%) before taking derivatives into account and 4.5% (3.4%) 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 4.4, whereas the modified duration of the liabilities side was 3.1. The sensitivity of available financial resources to a parallel increase of one basis point in all interest-rate curves (DV01) amounted to –€4.1m. 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 was 7.4 for fixed-interest investments and 8.1 for liabilities. This leads to exposure to falling interest rates, which arises mainly out of the long-term options and guarantees in life insurance business. These risks are reduced substantially by the extensive interest-rate-risk hedging programme first implemented in 2005. The sensitivity of available financial resources to a parallel increase of one basis point in all interest-rate curves (DV01) amounted to €10.3m.

The decrease in the general interest-rate risk resulted from the improved market environment and the changes in the modelling of customer behaviour. For example, the update produced a shorter payout profile for annuity policies, which reduced sensitivity to interest rates. The generally higher interest rates and adjustment to the evaluation of customer behaviour described above also led to a decrease in the specific interest-rate risk.

Currency risk

The currency risk decreased in relation to the end of the previous year due to lower foreign-currency mismatch 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 the securities can be found in the notes to the consolidated financial statements on page 199 ff.

The market value of our investments in fixed-interest securities and loans as at 31 December 2013 was €176.6bn, representing 81.1% 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 reserves ceded to reinsurers and retrocessionaires were assignable to the following rating categories as at 31 December 2013:

Ceded share of technical provisions according to rating

%	31.12.2013	Prev. year
AAA	4.8	4.6
AA	50.3	50.2
A	36.9	40.0
BBB and lower	4.7	1.6
No rating available	3.3	3.6

The shifts are mainly due to changes in the ratings of a small number of reinsurers and 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 unrealised gains and losses not accounted for in the financial statements include adjustments to items in property-casualty and Munich Health that have not been measured at market value. They relate primarily to land and buildings, and to loans. We perform various valuation adjustments for property-casualty and life and health. In property-casualty, 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.

A detailed presentation of MCEV is available on our website at www.munichre.com/embeddedvalue/de

Available financial resources

€bn	31.12.2013	Prev. year	Change
IFRS equity	26.2	27.4	–1.2
Off-balance-sheet unrealised gains and losses	1.3	1.2	0.1
Value adjustments for property-casualty and life and health[1]	9.1	5.3	3.8
Goodwill and other intangible assets	–4.0	–4.1	0.1
Tax effects and other	–0.2	–0.1	–0.1
Economic equity	**32.4**	**29.7**	**2.7**
Hybrid capital	5.8	6.8	–1.0
Available financial resources	**38.2**	**36.5**	**1.7**

1 The value adjustments are mainly due to changes in assumptions in calculating MCEV for life and health primary insurance.

Hybrid capital comprises subordinated liabilities and the "funds financing new business" of German life primary insurance companies. Attributable neither to shareholders nor to policyholders, they are available for the preliminary financing of 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 following table shows the changes in the figures:

Economic solvency ratio components

		31.12.2013	Prev. year	Change
(A) Economic equity	€bn	32.4	29.7	2.7
(B) Available financial resources	€bn	38.2	36.5	1.7
(C) Available financial resources after dividend and share buy-back	€bn	36.2	35.2	1.0
(D) Economic risk capital (ERC)	€bn	23.7	27.3	-3.6
(B) minus (D): Economic capital buffer	€bn	14.5	9.2	5.3
(C) divided by (D): Economic solvency ratio	%	153	129	

→ We report on our regulatory solvency requirement on page 98 f.

The economic solvency ratio of 153% (129%) was up by 24 percentage points on the previous year, emphasising Munich Re's financial strength. Munich Re's economic risk capital, which is used to calculate the economic solvency ratio, 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 267% (225%).

→ A definition of RORAC is provided on page 38 f.

The "additional available economic equity" is also relevant for the calculation of RORAC: it is the difference between the economic equity and the economic risk capital, and amounted to €8.7bn (€2.4bn) as at 31 December 2013.

Selected risk complexes

Overarching accumulation risks

The effects of the sovereign debt crisis
As an insurer and reinsurer, we manage not only our own assets, but above all those of our clients. This applies in particular to insurances of the person. When we invest, in addition to traditional market risks we also have to accept certain credit risks (the risks of deteriorations in creditworthiness and debtors defaulting). This is clearly the case for corporate bonds, but recently risks have also emerged for types of investment that have previously been widely considered to be safe, examples being the "haircut" for private investors in Greek government bonds, or savings being used to cover the costs of the bank bailout in Cyprus.

Munich Re has substantial investments in the eurozone. We attach importance to a correspondingly broad diversification of investments to cover the euro liabilities arising out of our insurance business. We use government bonds to match our underwriting liabilities in terms of currency and duration, especially for life and health primary insurance. The sovereign debt crisis eased slightly in the eurozone in 2013, but there is also still a great deal of political and economic uncertainty. The spreads on government bonds of peripheral eurozone countries as compared to German Bunds have decreased further, and the eurozone as a whole has moved out of recession. Yet the fundamental state of public finances remains critical in many countries. The need for budget consolidation and expansion of austerity measures despite weak growth and high unemployment present real challenges, especially for politicians at the national level. Currently, the primary default risk in the USA comes from the polarisation of the political standpoints, and particularly from the necessity of agreeing repeated increases to the federal debt ceiling. However, we still regard the default risk in the USA as low, as the parties are well aware of the likely serious consequences of default – including for the global financial system – and recently there has been a noticeable increase in willingness to compromise on issues of budgetary policy.

Despite the increase in interest rates in 2013, bond yields from low-credit-risk countries remain at a relative historical low. The low-interest-rate environment continues to present life insurance companies in the eurozone in particular with major challenges. There is also the risk that highly indebted nations will seek to solve their problems at the cost of savers. The fluctuations on the capital markets give rise to considerable volatility in our investments and liabilities at the valuation dates. We counter these risks with various risk management measures.

In monitoring the country risks, we do not simply rely on the usual ratings, but perform independent analyses of the political, economic and fiscal situation in key 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 or derivatives 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 Investment Committee. These limits are mandatory throughout the Group for investments and the insurance of political risks, and any exceptions must be approved by the Group Committee.

On the basis of defined stress scenarios relating to further developments in the eurozone 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, we counter any negative effects with the high degree of diversification in both our investments and our liability structure, and with our active Group-wide asset-liability management.

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), and definition of appropriate limits.

Climate change

Climate change represents one of the greatest long-term 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 Munich Re.

We promptly act on new findings in climate research

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. The political and regulatory environment in which we operate is developing fast and 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 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.

New and complex risks

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

We identify trends and faint signals in many ways, including systematic trend research, using Munich Re's knowledge management. Regular structured discussions are held in our "emerging risks think-tank" and by our group of experts – the global "emerging risk community" – which investigate the possible impact of emerging risks on Munich Re. They look at interconnections and interdependencies between different risks and other consequences linked directly or indirectly to emerging risks. Cooperation with external partners, such as the CRO Forum's Emerging Risks Initiative, complements our internal early-warning system.

As a consequence of increasing global dependencies and the rapid spread of technological innovations, events which test the limits of traditional scenario-based risk management are occurring with greater frequency. Both the occurrence of an event and its potential consequences are increasingly difficult to foresee – past examples of this are 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 affected regions, but they also hit worldwide supply chains, with an indirect effect that industrial production was 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, thus enabling us to meet the rising demand for reinsurance of these types of risks.

CARE improves assessment of accumulation risks

Legal, supervisory, balance sheet and tax risks

Legal risks

In December 2009, Munich Re's Spain and Portugal branch lodged an appeal against the Spanish antitrust authority (Comisión Nacional de la Competencia – CNC) with respect to an administrative order imposing a fine of €15.9m for alleged collusion restricting competition. The appeal was upheld. The CNC then appealed against the court's decision within the prescribed period. The EU Commission has now intervened in the proceedings as an "amicus curiae".

After the federal legislative procedure for the US Fairness in Asbestos Injury Resolution Act foundered in February 2006, several US states adopted legislative initiatives (tort reform), which we believe may have a positive effect on the settling of asbestos claims. Following revelations about often questionable asbestos-related disease diagnoses and the resulting litigation, a number of investigative committees are looking into these issues. Similar questionable practices have come to light in silicosis litigation. These developments indicate that malicious liability claims are being contested in US legal circles 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 large sums– for asbestos-related diseases and similar liability complexes. Although 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 are seeking to gain increased squeeze-out cash compensation by way of shareholder compensation complaint proceedings. The material risk is limited by the number of shares eligible for compensation (approx. 237,000) and the upper limit on the scale within which the corporate value of ERGO Versicherungsgruppe AG can be set as at the date of valuation.

Following the 2012 Annual General Meeting, three of our shareholders brought legal actions against Munich Reinsurance Company to contest resolutions and to require disclosure. Both complaints were dismissed in December 2012. The dismissal of the disclosure action is not subject to appeal, but an appeal has been submitted in relation to the contesting action. We do not believe that the appeal will be successful. Contesting actions to set aside resolutions of the Annual General Meeting 2013 were also filed, and these were dismissed in December 2013. It is possible that appeals may be lodged.

There is legacy litigation between several former insurance intermediaries and ERGO Lebensversicherung AG, which has now mostly been concluded. In connection with far-reaching claims made 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. There has also been extensive internal auditing at Group level and at ERGO. ERGO has initiated the rectification of errors, and has set aside reserves for any liabilities that may arise. In relation to all these events, additional claims for damages against ERGO and Munich Re have been announced. It is also not possible to completely rule out financial burdens and reputational damage for Group companies in the future as a result of these allegations.

A number of cases are pending before courts with respect to various companies in the Ideenkapital Group, which developed closed-end funds that it marketed in particular to private investors via banks. Its portfolio includes media, property, life insurance and shipping funds. The claimants are fund investors, who for the main part are asserting significant defects in prospectuses and products. It is not possible to exclude the possibility of other claims being filed and that reputational risk will result.

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 policyholders rates that were partly under – but predominately over – the rates approved by the regulators. American Modern self-reported the rate variances to the responsible regulators, and is working with them to draw up a “corrective action plan”.

Balance sheet risks

→ Information on the treatment of goodwill can be found in the notes to the consolidated financial statements on page 166 and further information on the results of the impairment tests on page 186 ff.

Balance sheet risk is the risk of our annual results or our capital being adversely affected by unforeseen reductions in the value of our assets due to provisions or write-downs or increases in our liabilities. It arises primarily out of changes in capital-market parameters or an unforeseen need to adjust assumptions relating to insurance liabilities that could lead to reserves having to be strengthened. In addition, changes in the general macroeconomic environment may affect the cash flows achievable from assets. Assets include goodwill arising on first-time consolidation of subsidiaries, which is subjected to regular impairment tests. Changes in the assumptions on which we have based our calculations could result in decreases in asset values in the future.

Tax risks

As a reaction to the financial markets and sovereign debt crisis, a trend towards increased corporate tax burdens is apparent across Europe. In Germany, discussion is focused on the introduction of a financial transactions tax and the restriction of tax privileges for investment funds. After the already implemented abolition of tax exemption for free-float dividends, it is not unlikely that in future there will be taxation of gains on disposals of 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

After many years of discussions, the European Council, European Parliament and European Commission have decided that Solvency II will come into effect on 1 January 2016. Member States must ensure that the Solvency II Directive has been implemented no later than 31 March 2015. Therefore, we should be able to apply for authorisation of our internal model as from April 2015. EIOPA has published Preparatory Guidelines for Solvency II requirement specifications for the transitional period until Solvency II is implemented.

Consultation continues in the European Parliament and the European Council on the proposals by the European Commission to revise the Insurance Mediation Directive (IMD2), the Markets in Financial Instruments Directive (MiFID2), and the Regulation on key information documents for investment products (PRIPs Regulation). Controversy remains, especially on the issues of transparency of remuneration, and prohibitions on commission. The Scandinavian countries, the Netherlands and the United Kingdom are all seeking to establish the predominance of their own regulatory environment across the EU. However, the German government favours minimum harmonisation that leaves room for national distribution structures.

Work is still in progress at a 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 global financial markets and the real economy. The insurance industry believes that the core business of primary insurers and reinsurers does not give rise to systemic risk. In fact, during the financial crisis insurers contributed towards increased stability. Nonetheless, the Financial Stability Board (FSB) has published a list of nine globally operating primary insurance companies that it classifies as systemically important – the global systemically important insurers (G-SIIs). A decision on the possible systemic importance of reinsurers has been postponed by one year, and is expected in July 2014. It is possible that the global debate will be followed by a national one. In addition, certain legal consequences could have an indirect effect on companies that are not classified as systemically important. It is, for example, to be assumed that certain aspects of a recovery and resolution plan will ultimately be prescribed for all larger insurance companies. Our supervisory experts and many supervisory authorities already regard such plans as constituting an integral part of good risk management today.

The G-20 summit in Pittsburgh in 2009 resolved to make over-the-counter (OTC) derivative trading more transparent and secure. The European Market Infrastructure Regulation (EMIR) – Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories – came into force in August 2012. This introduced a clearing obligation, i.e. standardised OTC derivatives must be cleared by central counterparties (CCPs). Bilateral risk-mitigation techniques – such as the obligation to exchange collateral, or the daily valuation of outstanding contracts – apply to OTC derivatives that are not cleared by a CCP. The Regulation also requires that derivatives should be registered with a trade repository. These obligations will be substantiated in various detailed regulations (technical standards), some of which have yet to be drawn up.

Other legal developments

The German Federal Court of Justice (BGH) had referred a question to the European Court of Justice (ECJ) regarding whether the limitation period for policy models within the meaning of Section 5a para. 2 sentence 4 of the Insurance Contract Act (VVG) (old version) complied with the European directives on life insurance. By a ruling dated 19 December 2013, the ECJ decided that the provision violated European law. In its ruling, the Court made no statement as to the effects on the contracts concerned and the German Federal Court of Justice must now rule on this. The ruling affects all life insurance contracts concluded between 1 January 1995 and 1 January 2008 where there was no proper instruction as regards the right to object, or where not all pertinent contractual information was provided at the conclusion of the contract. The ruling cannot be transferred to apply to classes of business other than life insurance.

The ongoing discussions regarding the German healthcare system may result in further changes to the statutory parameters, notably the "citizens' insurance scheme". If, unlike now, all citizens were to be compulsory members of the German public health insurance scheme, 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 key figures. We determined and documented the risk appetite across the Group hierarchy and communicated it throughout Munich Re. During the whole of 2013, risk exposures were regularly quantified and compared with the risk appetite. We assess Munich Re's risk situation to be manageable and under control.

Opportunities report

- Technical progress, demographic trends and regulatory changes offer profitable growth opportunities
- Development of emerging countries provides opportunities for expanding and further diversifying the portfolio
- Systematic cultivation and widening of expertise allows us to offer new solutions to our clients in key future areas such as renewable energies and weather risks

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. With the primary insurance activities we operate out of the reinsurance segment and with our business fields ERGO and Munich Health, we have expanded our range of profitable growth opportunities. 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 is likely to 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 demand surge and an increase in premium income in most classes of insurance would be triggered by a stronger economic recovery in the USA, or quicker success of reform programmes in the eurozone with a more rapid recovery of the economy, accompanied by sustained growth in the emerging countries. Besides this, such a development could further the gradual normalisation of the bond markets and thus contribute to a continuation of the 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, Munich Re could exploit this demand in all of its business fields. This will also benefit our clients, who will profit from a rapid adjustment of our product solutions to the circumstances of the newly emerging or changing markets.

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. In addition, we are making significant investments in our Exposure Roadmap, a tool to improve risk assessment by evaluating loss susceptibility. 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.

Greater demand for insurance due to rising values in regions with natural hazards exposure

But irrespective of this, there are long-term opportunities for expansion in reinsurance's core business, since the property values in many regions exposed to natural hazards are increasing steeply and the demand for insurance is likely to grow at least as strongly as the supply of capacity from traditional reinsurers and capital market instruments. Munich Re is excellently positioned with its competence in the analysis of major loss events and possible product solutions based on this.

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, e.g. for business interruption risks without prior physical damage, or cyber risks.

The rapid development of emerging countries also provides opportunities for profitably expanding and further diversifying our business portfolio. To provide our clients throughout the world with extensive support, Munich Re already operates as one of the leading reinsurers in many Asian and Latin American growth markets and is increasingly also present as a primary insurer.

Additional opportunities exist in attractive niche markets. 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 the need for farmers 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. This also applies to the acquisition of RenRe Energy Advisors Ltd. (REAL), a US specialist for weather risks. Under its new name of Munich Re Weather & Commodity Risk Advisors LLD, we are systematically expanding our expertise for assuming and trading such risks. Another example of the targeted development of attractive niches is the risk transfer solution we have provided together with our business partners GCube and Marsh for a large solar power plant in Morocco.

In the present economic environment, life insurance presents challenges and opportunities, with rising demand for old-age provision due to greater life expectancy on the one hand, and volatile capital markets with low interest rates on the other. As a reinsurer, Munich Re is a competent partner for life primary insurance companies thanks to its tailored offering of asset protection solutions. We also see growth potential in the coverage of longevity risk, although we are adopting a very prudent and selective approach here, given the difficulties involved in robust trend estimates. Besides this, our reinsurers have closely supported ERGO in structuring its new product family, with the products ERGO Annuity Guarantee and ERGO Annuity Opportunity launched in 2013.

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

In primary insurance, ERGO is consistently pursuing the strategy it adopted with its brand proposition "To insure is to understand". Its strong focus on customer requirements is a key differentiating factor in the market and is opening up additional growth opportunities for us.

In cooperation with its sales partners, ERGO applies a uniform sales advice approach based on analysing a customer's personal circumstances. By using this instrument broadly in all of its sales organisations since 2013, ERGO ensures a uniformly high client consultancy standard. ERGO also systematically utilises policyholder feedback to improve its operating divisions.

Consumers are increasingly purchasing insurance cover via traditional and online channels in parallel. In order to cater to this growing target group, ERGO is expanding its direct sales organisation and offering products via a variety of channels in line with demand. In 2013, the first health and property insurance products became available for purchase online. ERGO is largely building on the competence of ERGO Direkt and taking advantage of intra-group knowledge-sharing. The increasing use of online and digital channels is also being taken into account in ERGO's research and development activities. Hence, ERGO is investing heavily in the development of an e-service offering, aimed at providing customers with tailored access to the various distribution channels.

The capital market phase of persistently low interest rates, paired with a demographically induced strain on state pension schemes, has boosted consumers' demand for private provision through alternative forms of cover. With the introduction of its unit-linked annuity insurance covers – ERGO Annuity Guarantee and ERGO Annuity Opportunity – in the summer of 2013, ERGO has been offering two variants of a product that is unique in the market to date. The new product line takes due account of the clients' central needs, namely flexibility, security and return. The dynamic investment concept significantly improves the return opportunities for our clients, especially in a recovering capital market environment, which also offers growth prospects for us.

Launch of ERGO's joint life insurance venture in China in autumn 2013

Growth opportunities will also derive from the not yet saturated markets of eastern Europe, and from China, India and Southeast Asia. With its internationalisation strategy primarily focused on these high-growth markets, ERGO attained some significant milestones in 2013. Business operations in life insurance commenced in China in autumn 2013. In India, we have been working on setting up a joint venture with the Avantha Group, which will provide ERGO with entry to the Indian life insurance market. In addition, we aim to tap some of the attractive markets in south-east Asia.

Munich Health – Demographic trends fuel growth

The global health market in which Munich Health operates remains a strongly expanding sector. 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.

A global health insurer and reinsurer has a variety of opportunities for growth, depending on the level of development in the international health markets. With its global set-up and combination of primary insurance and reinsurance know-how, Munich Health is in a position to meet many different client needs.

In the industrial countries, the pressure to reform historically evolved health and social security systems is rising. This offers Munich Health opportunities in highly developed markets, despite its withdrawal from US primary insurance business with private clients. For the analysis of health risks, for example, Munich Health provides its reinsurance clients with modern 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.

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, affordable healthcare. Private-sector insurance products, which may be closely intermeshed with state schemes, can play a valuable part in supplying the necessary funds in this situation. Munich Health has come up with successful ideas for expanding internationally, and these are continually being improved. In the Middle East, for instance, Munich Health has succeeded in extending its presence from the United Arab Emirates to Saudi Arabia and Qatar by designing intelligent concepts for leveraging shared infrastructure and processes.

MEAG sees growth opportunities in business with institutional clients

Our asset manager MEAG not only provides its products and services to the insurance companies within our Group, but also achieves above-average performance in managing retail funds for private clients and investment portfolios for institutional investors. On the basis of the methods and processes established for the Group companies in terms of portfolio management, reporting and risk management, we see significant growth opportunities in business with institutional clients, whose conservative and safety-oriented requirements are similar to those of insurance companies on account of specific needs and preferences. Institutional investors include pension funds, municipalities, church institutions, foundations, selected banks, and manufacturing companies.

Prospects

— Original target of close to €3bn for 2013 clearly surpassed with a consolidated result of more than €3.3bn
— Dividend proposal for 2013: €7.25 per share
— Expected return on investment of around 3.3% for 2014
— Consolidated result of €3bn envisaged for 2014

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 2013 with the result achieved

Munich Re (Group)

Comparison of Munich Re (Group) targets for 2013 with results achieved

		Target 2013	Result 2013
Gross premiums written	€bn	50–52	51.1
Consolidated result	€bn	Close to 3	3.3
Return on investment	%	Around 3.3	3.5
Return on risk-adjusted capital (RORAC)	%	15	12.2

At €51.1bn, gross premiums were in the middle of the target corridor of €50–52bn for 2013.

With a consolidated result of more than €3.3bn, our original target of close to €3bn was clearly surpassed, the main reasons being lower-than-anticipated expenditure for major losses in property-casualty reinsurance and claims reserve releases for prior accident years. In addition, we posted a very low tax burden for the year as a whole, chiefly due to the recalculation of tax for prior years and the utilisation of loss carry-forwards. Currency translation effects had a negative impact overall in 2013.

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. We are very satisfied with the RORAC of 12.2% for 2013, as well as with the return of 12.5% on total IFRS capital (return on equity, ROE).

Reinsurance

In 2013, the reinsurance group posted gross premiums of €27.8bn, a figure that was well within the target range of €27–28bn. Gross premiums in life reinsurance totalled €10.8bn, thus coming within the envisaged target corridor of €10–11bn. For property-casualty reinsurance, the original forecast of around €17bn was right on the mark at €17bn. Both in life reinsurance and in property-casualty business, a negative impact derived from currency translation effects of €0.5bn and €0.7bn respectively.

At €370m, the technical result in life reinsurance was satisfyingly close to the target of around €0.4bn for 2013.

The combined ratio of 92.1% in property-casualty reinsurance was better than the figure of around 94% envisaged.

The consolidated result of €2.8bn for 2013 was clearly above the target corridor of €2.3–2.5bn.

Primary insurance

Our total premium income in primary insurance amounted to €18bn – below our 2013 target of around €18.5bn – mainly on account of the decrease of premium in German life primary insurance. At €16.7bn, gross premiums written remained somewhat below the projected value of slightly over €17bn.

In life primary insurance, total premium income amounted to €6.9bn compared with our original forecast of slightly more than €7bn. Gross premiums written came to €5.5bn versus an envisaged figure of just over €5.5bn. In the health primary insurance segment, gross premiums written totalled €5.7bn; at the beginning of the year, our assumption had been somewhat less than €6bn. In property-casualty primary insurance, gross premiums written reached €5.5bn, compared with a target figure for 2013 of marginally over €5.5bn.

The combined ratio in property-casualty business was 97.2% and thus above the target ratio of around 95%, because the losses actually incurred in Germany owing to heavy rainfall and hailstorms were above our expectations.

At the beginning of the year, we had aimed for a result of €400–500m for primary insurance and €350–450m for the ERGO Group. These target results were achieved, with figures of €433m for primary insurance as a whole and €436m for the ERGO Group.

Munich Health

At €6.6bn, gross premiums were almost exactly at the forecast level of just over €6.5bn.

The combined ratio – 98.3% – bettered our target of around 100%, mainly owing to significantly improved claims experience, especially in the case of the Windsor Health Group (WHG).

Munich Health's consolidated result totalled €150m. Given the difficult situation at WHG, we had originally anticipated a lower result for 2013 and had not ruled out a loss for Munich Health. Following successful restructuring measures, WHG's result improved and we were able to sell the group at terms and conditions that were appreciably above our planning assumptions.

Outlook for 2014

In the European Union, state supervision for primary insurers and reinsurers is set to undergo profound changes with the Solvency II regulations. After many years of negotiation, the institutions involved in the EU legislation process (European Parliament, European Commission and Council of the European Union) have agreed on standards which are scheduled to come into effect as at 1 January 2016 and will already impact supervisory practice before that date. More or less parallel to this, the Omnibus II Directive, delegated acts and technical implementation standards will need to be adopted in the respective national legal systems. The new supervisory regulations will impose greater requirements on insurance companies in terms of capital, risk management and reporting. For 2014 and 2015, the European insurance supervisor, EIOPA, has introduced a pre-structured preparatory phase during which the national supervisory authorities are required to bring forward the reporting on selected areas. The aim is to ensure that the insurers and authorities make appropriate progress with their preparations and that the key elements of the new supervisory scheme are consistently structured within Europe. These elements include the governance rules, the requirements regarding the own risk and solvency assessment (forward-looking assessment of own risks, FLAOR) and the criteria for using internal models. The details regarding selected quantitative data, including economic balance sheet and equity information, have also been defined.

Far-reaching changes are on the horizon in the medium term for accounting, in particular the accounting of insurance contracts and financial instruments. These changes will have a major impact on the insurance and reinsurance markets. In June 2013, the International Accounting Standards Board (IASB) published revised proposals for the future accounting of insurance contracts, which will ensure for the first time that such contracts are accounted for in financial statements in an internationally standardised manner. The new requirements for the accounting and measurement of financial instruments under IFRS 9 are scheduled to be published in a final standard in the first half of 2014.

Although the requirements under the new regulatory frameworks (Solvency II, IFRS 4 and IFRS 9) have not been finalised in detail yet and will only become mandatory in subsequent years, all insurance companies concerned will have to make every effort to ensure that they comply with these requirements and begin to prepare themselves for their impact. Given the profound changes to these frameworks, we are anticipating a substantial impact on the insurance industry's product landscape and market environment before the official dates of introduction.

Munich Re (Group) targets

		Target 2014
Gross premiums written	€bn	Around 50
Consolidated result	€bn	3
Combined ratio property-casualty reinsurance	%	Around 94
Combined ratio property-casualty primary insurance	%	Around 95
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 can be found on page 94

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. 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, based on our position at the beginning of the year, a moderately rising interest-rate level will initially tend to lead to higher results – and falling interest rates to lower results – than those forecast in these prospects. Changes in the market value and net gains or losses on the disposal of derivatives used by us as hedging instruments and for fine-tuning investments can substantially impact the result. Changes in exchange rates influence our premium income and results in different directions, depending on which foreign currencies are affected. There may be significant swings if exchange-rate fluctuations are strong, although economically speaking – relative to the volume of our business and our investments – we hold few open currency items on our books.

Reinsurance

Reinsurance remains an attractive business field, with a wide variety of earnings opportunities for us. Although insurance density in the western industrialised countries and some Asian nations is already high, these markets have an additional need for insurance cover – for instance, because exposure to weather-related natural hazards is growing as the climate changes. In regions with very rapid economic development, the demand for insurance protection remains significant for the large centres of high-quality industrial manufacturing and the rising prosperity of their population. As a result, the primary insurance and reinsurance sectors' ever increasing supply of capacity is matched by largely untapped demand potential in many classes of business.

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 provides primary insurers with efficient and flexible protection against major claims and accumulation losses, and strengthens their capital base. In addition to this, we devise innovative coverage concepts that go beyond the scope of traditional reinsurance and to an increasing extent also beyond the conventional boundaries of insurability. 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 therefore see further good development opportunities in life reinsurance. Stimuli will derive especially 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. We structure our products so that they are tailored to our clients' needs while conforming to our risk strategy.

We also expect increasing demand for the management of investment risks in life insurance portfolios. Particularly in life reinsurance, there will also continue to be demand for solutions geared to the optimisation of capital and balance sheets. Despite a principally intact growth trend, premium volume in primary insurance has seen short-term stagnation in many important regions for us due to the weak economy and reduced readiness to purchase insurance because of the financial crisis, which has also had a dampening effect on the demand for reinsurance.

For 2014, we expect gross premiums written in life reinsurance to be around €10.5bn, and the technical result to amount to over €400m, assuming that demand for reinsurance is stable in light of the above factors.

In property-casualty reinsurance, which is traditionally exposed to pricing cycles and random fluctuations in the amount of major losses, Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions. We are currently seeing competition gaining in intensity. Given their good capitalisation, primary insurers are ceding fewer risks to reinsurers. At the same time, reinsurers have been able to provide ample capacity, since their capital base has also continued to improve thanks to the good results posted in 2013. There has thus been surplus capacity on the supply side. Last but not least, insurance-linked securities are increasingly being favoured by institutional investors such as pension funds in their search for a reasonable return. This capital is mainly being channelled into non-proportional catastrophe business such as covers for hurricane losses in the USA, whilst reinsurers that previously focused on this segment are seeking to diversify into other segments. The prices for reinsurance cover in non-proportional catastrophe business accordingly came under pressure during the renewals in 2013. Munich Re's portfolio is not as strongly affected by this development, because proportional treaty business accounts for the major part – around two-thirds – of premium volume from traditional property business. However, competition in all lines of business has increased at least temporarily, whilst weak growth in many markets that have traditionally been highly insured is not being balanced by rising demand from the growth regions.

As a well-diversified reinsurer with extensive know-how, we – in contrast to most providers – are also able to offer specially tailored solutions. These include multi-year treaties (occasionally incorporating cross-line and cross-regional covers), retroactive reinsurance solutions, transactions for capital relief, comprehensive consultation on capital management, and the insurance of complex liability, credit and large industrial risks. Moreover, with our technical expertise and risk knowledge, we are in a position to support rapidly growing industries and to judiciously extend the boundaries of insurability with needs-based covers.

In the renewals at 1 January 2014, we were therefore able to hold our own in a very competitive market environment. In January, treaties with a volume of €8.7bn – somewhat more than half of our treaty business in property-casualty reinsurance – were up for renewal. Our premium volume rose by €235m or 2.7%. This increase is due above all to individual tailor-made risk-transfer solutions for portfolio clients in Asia and Australia. We did not renew business that failed to meet our profitability requirements.

Overall, the prices in our portfolio fell by around 1.5%, especially in natural catastrophe business, with stronger decreases in North America than in Europe. Price levels in casualty business and in credit and bond reinsurance were marginally down overall. In marine and aviation reinsurance, prices fell more than in the other lines of business on average. The fact that the price erosion for Munich Re was relatively low compared with the rest of the market underscores our consistently profit-oriented underwriting policy.

The renewals at 1 April 2014 (mainly Japan) and 1 July 2014 (parts of the US market, Australia and Latin America) will involve a premium volume of around €3.2bn of reinsurance treaty business, with a greater proportion of natural catastrophe business than the renewals in January. Munich Re expects the environment to remain competitive, should there be no major loss events.

For 2014, we anticipate that gross premiums written in property-casualty reinsurance will total around €17.5bn, i.e. slightly higher than last year. We are still aiming for a combined ratio of around 94% of net earned premiums, which would correspond to the ratio for 2013, had there not been fewer random major losses than expected in that period. The fluctuating incidence of major losses in individual years will be a factor of uncertainty in 2014 as well. We have based our estimates on major losses totalling around €2bn, or 12% of net earned premiums.

Gross premiums in reinsurance as a whole should be around €28bn overall in 2014, i.e. about the same level as last year, although currency translation effects could potentially have a considerable impact. We project that the consolidated result for 2014 in reinsurance will be in the range of €2.3–2.5bn, some €0.4bn below the result for 2013, which was particularly good, partly for tax-related reasons.

Primary insurance

We see good opportunities for primary insurance not only in evolving foreign markets but also in various sectors of the German market.

In future, the ERGO Insurance Group will gear itself even more strongly to clients' needs. With effect from 1 April 2014, ERGO is grouping all customer-oriented back-office, benefits and claims-service operations, including the management of applications and contracts, in the new Customer and Sales Services Division. Life and health insurance in Germany will also be managed under one Board member's area of responsibility from that date.

Munich Re's consolidated financial statements show the business transacted by ERGO in the three primary insurance segments life, health, and property-casualty.

In life primary insurance, our total premium income is likely to be somewhat below last year's level at just under €7bn, with gross premiums written ranging between €5bn and €5.5bn. Given the persistently low interest rates worldwide and a climate that is thus not conducive to private provision for old age, the environment remains challenging. Development will be substantially influenced by volatile, heavily interest-rate-dependent single-premium business. With the product generation we launched in the German market in summer 2013, we see good opportunities to position ourselves promisingly in this difficult market.

For the health primary insurance segment, we are proceeding on the assumption that gross premiums written will remain at roughly the same level as last year, i.e. at slightly over €5.5bn. In private health insurance, the premium adjustment we make in the financial year 2014 will be significantly lower than in 2013. The falling number of insureds in our portfolio is leading to a decline in premium in comprehensive health cover. In supplementary health business, by contrast, we see good growth opportunities overall, particularly in supplementary long-term care insurance and company health insurance. We therefore expect a moderate increase in premium in this portion of our portfolio.

In property-casualty primary insurance, gross premiums written are likely to amount to a little over €5.5bn. For German business, we are anticipating a mild increase to slightly under €3.5bn. At the same time, we are attaching great importance to adequate prices. Particularly in the highly competitive German motor market, we are consistently implementing measures to improve the earnings situation. In international business, we project that gross premium volume will move sideways at a level of €2.2bn. The combined ratio in property-casualty business should be down by around two percentage points and amount to a good level of around 95%, with domestic business in particular contributing to the improvement.

As last year, total premium income in primary insurance in 2014 should be somewhat over €18bn, with gross premiums written totalling a good €16.5bn.

For the primary insurance segment, we project a consolidated result for 2014 in the range of €400–500m, with €350–450m for the ERGO Group. The difference between the consolidated result targets for the primary insurance segment and ERGO is mainly attributable to intra-Group business between primary insurance and reinsurance. The mean of the two result ranges is marginally below the consolidated result for 2013.

Munich Health

We remain convinced that, owing to medical advances and improved life expectancy, there is a wide range of growth opportunities available to Munich Health in the international healthcare markets. We intend to utilise these opportunities even better in future by adjusting our strategic orientation. In reinsurance, we expect growth to result from our clients' increasing numbers of insureds and a rise in demand for non-traditional reinsurance solutions. Based on the outcome of the main renewals in January, we are anticipating a moderate strengthening of profitability. Following the sale of WHG, we project stable development in primary insurance business, with the profitability of our major subsidiaries in Spain and Belgium remaining high. Altogether, we expect a profit of around €100m for 2014, a lower figure than last year, which benefited from positive special factors.

We are proceeding on the assumption that gross premiums written will amount to just over €5.5bn in 2014. The reduction compared with 2013 stems mainly from the sale of WHG.

The combined ratio is likely to be somewhat above last year's level, i.e. around 99%.

Investments

In the current environment of pronounced political uncertainty and the resultant recurring price volatility in the capital markets, we will continue to attach great importance to a widely diversified investment portfolio. We see the main risks for the current year in the further development of the sovereign debt and banking crisis. A persistently low interest-rate environment in the foreseeable future will have a significant impact on the whole insurance industry and other major investors.

Thanks to our strongly diversified investments, we are well prepared for various capital market scenarios, each of which involves potential losses in individual asset classes. Given the regional diversification of our portfolio, however, we are proceeding on the assumption that these losses will be absorbed by increases in value in other asset classes. This balanced investment strategy has proved its worth in recent years. For 2014, we are planning to further reduce our portfolio of government bonds in individual industrialised countries, and to moderately build up investments in corporate and emerging-market bonds.

The duration of the investment portfolio is a key lever of our asset-liability management. We gear the duration of our investments closely to the duration of our liabilities. As a result, both sides of the economic risk-based balance sheet – important for managing our business – respond similarly to changes in interest rates, whilst there may be significant fluctuations in the consolidated balance sheet under IFRS. We marginally cut the duration in the reinsurance segment in the 2013 financial year. In principle, we intend to keep the duration constant in 2014. In life primary insurance, we aim to prolong the average investment period somewhat in the current financial year. Besides the duration, we also take the currencies and inflation sensitivity of our liabilities into account in the development of our investment strategy. For 2014, we plan to moderately reduce our portfolio of inflation-linked bonds. Over the course of the year, we will make the fine-tuning of our investments dependent on our current market assessments, whilst rigorously adhering to our fundamental strategy of gearing assets to the structure of our liabilities.

In 2013, we increased our investments and equity investment commitments in infrastructure, renewable energies and new technologies (RENT) to around €1.5bn. We are planning to further expand this investment in 2014, provided that the parameters are reliable and we can generate an appropriate return. We are aiming to achieve this by continuing to strongly diversify our infrastructure investments both regionally and by segment. This enables us to achieve a spread of the technological and political risks and thus of this portfolio's main risk drivers. We will be additionally focusing on bonds and loans for infrastructure projects in 2014. We plan to slightly expand our real estate portfolio over the next few years, subject to market developments.

For 2014, we anticipate consistently low interest-rate levels and hence somewhat lower regular income from fixed-interest securities and loans. We also intend not to significantly increase our relatively low equity-backing ratio of 4.5%, so that write-down risks are low, but so are our chances of realising gains on disposal. Regular income from our investments should total around 3.2%, or 0.2 percentage points lower than last year. Taking into consideration the result from the disposal of investments, write-ups and write-downs, and other income and expenses, we expect the investment result to be marginally lower than last year at almost €7.5bn, equivalent to an annual investment return of around 3.3% or decrease of 0.2 percentage points on last year.

Munich Re (Group)

We estimate that the Group's gross premiums written for 2014 will total around €50bn, roughly €1bn less than in 2013, mainly owing to foreseeable negative currency translation effects and the sale of WHG.

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 very low level of interest rates on low-risk investments.

→ Information on economic earnings can be found on page 38

As regards the economic value added in terms of economic earnings, we anticipate a pleasing albeit lower figure than last year, in line with the IFRS results anticipated for the Group and the business segments. This forecast is based on the assumption of unchanged capital markets and modelling parameters, and a normal major-loss incidence. Adjusted to eliminate special factors in the past year, economic earnings would thus be at around the same level as in 2013.

Provided that loss experience is average, our assumption for 2014 is that Munich Re will post a technical result of the same level as last year's €3.7bn.

For 2014, we are aiming for a consolidated result of €3bn, some €0.3bn below the particularly good result in 2013. 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. We anticipate that compared with last year, the effective tax rate will return to a normal range of 20–25%.

In the period from mid-November 2013 to the end of February 2014, we bought back shares with a value of around €700m; another €300m are to be repurchased before the Annual General Meeting on 30 April 2014. We are using this measure to return unneeded capital to shareholders. Despite the buy-back, our good capital position will allow us to continue paying attractive dividends and selectively utilising opportunities for profitable growth. Since November 2006, Munich Re has carried out share buy-backs with a total volume of €6.7bn. Subject to approval by the Annual General Meeting, the dividend will rise by 25 cents to €7.25 per share.

Consolidated financial statements and notes

4

Consolidated balance sheet as at 31 December 2013[1]

Assets » Consolidated balance sheet as at 31 December 2013 – Assets (XLS, 43 KB)

	Notes			31.12.2013	Prev. year	Change	
		€m	€m	€m	€m	€m	%
A. Intangible assets							
I. Goodwill	(1)		3,292		3,376	–84	–2.5
II. Other intangible assets	(2)		1,380		1,564	–184	–11.8
				4,672	**4,940**	**–268**	**–5.4**
B. Investments							
I. Land and buildings, including buildings on third-party land	(3)		3,762		3,831	–69	–1.8
II. Investments in affiliated companies and associates	(4)		1,514		1,477	37	2.5
Thereof: Associates accounted for using the equity method			1,291		1,267	24	1.9
III. Loans	(5)		55,245		54,418	827	1.5
IV. Other securities							
1. Held to maturity	(6)	5			7	–2	–28.6
2. Available for sale	(8)	125,902			133,196	–7,294	–5.5
3. At fair value through profit or loss	(9)	2,887			3,015	–128	–4.2
			128,794		136,218	–7,424	–5.5
V. Deposits retained on assumed reinsurance	(10)		9,636		8,967	669	7.5
VI. Other investments	(11)		3,824		2,964	860	29.0
				202,775	**207,875**	**–5,100**	**–2.5**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				**6,699**	**5,958**	**741**	**12.4**
D. Ceded share of technical provisions	**(12)**			**5,305**	**5,730**	**–425**	**–7.4**
E. Receivables							
I. Current tax receivables			602		572	30	5.2
II. Other receivables	(13)		11,357		11,475	–118	–1.0
				11,959	**12,047**	**–88**	**–0.7**
F. Cash at banks, cheques and cash in hand				**2,820**	**2,860**	**–40**	**–1.4**
G. Deferred acquisition costs	**(14)**						
Gross			9,603		9,256	347	3.7
Ceded share			61		74	–13	–17.6
Net				9,542	9,182	360	3.9
H. Deferred tax assets	**(15)**			**6,989**	**6,219**	**770**	**12.4**
I. Other assets	**(16)**			**3,527**	**3,605**	**–78**	**–2.2**
Total assets				**254,288**	**258,416**	**–4,128**	**–1.6**

1 Previous year's figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".

Equity and liabilities

» Consolidated balance sheet as at 31 December 2013 – Equity and liability (XLS, 44 KB)

	Notes		31.12.2013	Prev. year		Change
		€m	€m	€m	€m	%
A. Equity	**(18)**					
I. Issued capital and capital reserve		7,426		7,421	5	0.1
II. Retained earnings		12,875		10,938	1,937	17.7
III. Other reserves		2,369		5,650	-3,281	-58.1
IV. Consolidated result attributable to Munich Reinsurance Company equity holders		3,313		3,188	125	3.9
V. Non-controlling interests		243		242	1	0.4
			26,226	**27,439**	**-1,213**	**-4.4**
B. Subordinated liabilities	**(20)**		**4,424**	**5,504**	**-1,080**	**-19.6**
C. Gross technical provisions						
I. Unearned premiums	(21)	7,994		8,134	-140	-1.7
II. Provision for future policy benefits	(22)	111,427		109,769	1,658	1.5
III. Provision for outstanding claims	(23)	53,061		53,751	-690	-1.3
IV. Other technical provisions	(24)	13,519		13,960	-441	-3.2
			186,001	**185,614**	**387**	**0.2**
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**(25)**		**7,043**	**6,258**	**785**	**12.5**
E. Other accrued liabilities	**(26)**		**4,169**	**4,318**	**-149**	**-3.5**
F. Liabilities						
I. Bonds and notes issued	(27)	248		259	-11	-4.2
II. Deposits retained on ceded business	(28)	2,762		2,947	-185	-6.3
III. Current tax liabilities		2,795		4,038	-1,243	-30.8
IV. Other liabilities	(29)	12,432		13,240	-808	-6.1
			18,237	**20,484**	**-2,247**	**-11.0**
G. Deferred tax liabilities	**(15)**		**8,188**	**8,799**	**-611**	**-6.9**
Total equity and liabilities			**254,288**	**258,416**	**-4,128**	**-1.6**

Consolidated income statement for the financial year 2013[1]

Items » Consolidated income statement for the financial year 2013 (XLS, 50 KB)

	Notes			2013	Prev. year		Change
		€m	€m	€m	€m	€m	%
Gross premiums written		**51,060**			**51,969**	**-909**	**-1.7**
1. Earned premiums	**(30)**						
Gross		50,840			52,189	-1,349	-2.6
Ceded		1,668			1,690	-22	-1.3
Net			49,172		50,499	-1,327	-2.6
2. Income from technical interest	**(31)**		**6,764**		**6,918**	**-154**	**-2.2**
3. Expenses for claims and benefits	**(32)**						
Gross		40,698			41,842	-1,144	-2.7
Ceded share		782			846	-64	-7.6
Net			39,916		40,996	-1,080	-2.6
4. Operating expenses	**(33)**						
Gross		12,690			12,918	-228	-1.8
Ceded share		326			356	-30	-8.4
Net			12,364		12,562	-198	-1.6
5. Technical result (1–4)				**3,656**	**3,859**	**-203**	**-5.3**
6. Investment result	**(34)**						
Investment income		13,196			14,030	-834	-5.9
Investment expenses		5,539			5,588	-49	-0.9
Total			**7,657**		**8,442**	**-785**	**-9.3**
Thereof: Income from associates accounted for using the equity method			7		88	-81	-92.0
7. Other operating income	**(35)**		**782**		**839**	**-57**	**-6.8**
8. Other operating expenses	**(35)**		**922**		**873**	**49**	**5.6**
9. Deduction of income from technical interest			**-6,764**		**-6,918**	**154**	**2.2**
10. Non-technical result (6–9)				**753**	**1,490**	**-737**	**-49.5**
11. Operating result				**4,409**	**5,349**	**-940**	**-17.6**
12. Other non-operating result	**(36)**			**-673**	**-830**	**157**	**18.9**
13. Impairment losses of goodwill	**(36)**			**29**	**140**	**-111**	**-79.3**
14. Net finance costs	**(36)**			**-257**	**-297**	**40**	**13.5**
15. Taxes on income	**(37)**			**108**	**878**	**-770**	**-87.7**
16. Consolidated result				**3,342**	**3,204**	**138**	**4.3**
Thereof: Attributable to Munich Reinsurance Company equity holders				3,313	3,188	125	3.9
Attributable to non-controlling interests	(18)			29	16	13	81.3
	Notes			€	€	€	%
Earnings per share	**(53)**			**18.50**	**17.94**	**0.56**	**3.1**

1 Previous year's figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".

Statement of recognised income and expense for the financial year 2013

» Statement of recognised income and expense (XLS, 43 KB)

€m	2013	Prev. year
Consolidated result	**3,342**	**3,204**
Currency translation		
Gains (losses) recognised in equity	–714	–67
Recognised in the consolidated income statement	–	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	–1,572	2,936
Recognised in the consolidated income statement	–1,040	–589
Change resulting from valuation at equity		
Gains (losses) recognised in equity	35	27
Recognised in the consolidated income statement	–	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	–1	–
Recognised in the consolidated income statement	–	1
Other changes	2	16
I. Items where income and expenses recognised directly in equity are reallocated to the consolidated income statement	–3,290	2,324
Remeasurements of defined benefit plans	184	–382
Other changes	–	–
II. Items where income and expenses recognised directly in equity are not reallocated to the consolidated income statement	184	–382
Income and expense recognised directly in equity (I + II)	**–3,106**	**1,942**
Total recognised income and expense	**236**	**5,146**
Thereof:		
Attributable to Munich Reinsurance Company equity holders	228	5,115
Attributable to non-controlling interests	8	31

Group statement of changes in equity for the financial year 2013

» Group statement of changes in equity (XLS, 60 KB)

€m	Issued capital	Capital reserve
Status at 31.12.2011	**588**	**6,831**
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	–	–
Remeasurements of 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**	**6,836**
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	–	–
Remeasurements of 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	–4	9
Retirement of own shares	–	–
Status at 31.12.2013	**581**	**6,845**

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			
11,755	**–170**	**3,603**	**–223**	**4**	**696**	**247**	**23,331**
–414	–	–	–	–	414	–	–
–	–	–	–	–	3,188	16	3,204
–339	–	2,343	–69	–8	–	15	1,942
–	–	–	–69	–	–	2	–67
–	–	2,336	–	–	–	11	2,347
29	–	7	–	–9	–	–	27
–	–	–	–	1	–	–	1
–374	–	–	–	–	–	–8	–382
6	–	–	–	–	–	10	16
–339	–	2,343	–69	–8	3,188	31	5,146
–13	–	–	–	–	–	–33	–46
–	–	–	–	–	–	–	–
–	–	–	–	–	–1,110	–3	–1,113
26	93	–	–	–	–	–	121
–	–	–	–	–	–	–	–
11,015	**–77**	**5,946**	**–292**	**–4**	**3,188**	**242**	**27,439**
1,933	–	–	–	–	–1,933	–	–
–	–	–	–	–	3,313	29	3,342
196	–	–2,578	–710	7	–	–21	–3,106
–	–	–	–710	–	–	–4	–714
–	–	–2,599	–	–	–	–13	–2,612
6	–	21	–	8	–	–	35
–	–	–	–	–1	–	–	–1
188	–	–	–	–	–	–4	184
2	–	–	–	–	–	–	2
196	–	–2,578	–710	7	3,313	8	236
2	–	–	–	–	–	–4	–2
–	–	–	–	–	–	–	–
–	–	–	–	–	–1,255	–3	–1,258
24	–218	–	–	–	–	–	–189
–	–	–	–	–	–	–	–
13,170	**–295**	**3,368**	**–1,002**	**3**	**3,313**	**243**	**26,226**

Consolidated cash flow statement for the financial year 2013

» Consolidated cash flow statement for the financial year 2013 (XLS, 45 KB)

€m	2013	Prev. year
Consolidated result	**3,342**	**3,204**
Net change in technical provisions	4,049	2,533
Change in deferred acquisition costs	–360	152
Change in deposits retained and accounts receivable and payable	–856	1,858
Change in other receivables and liabilities	–2,325	–646
Gains and losses on the disposal of investments	–1,058	–651
Change in securities held for trading	–839	–584
Change in other balance sheet items	249	391
Other income/expenses without impact on cash flow	–15	–722
I. Cash flows from operating activities	2,187	5,535
Change from losing control of consolidated subsidiaries	–34	35
Change from obtaining control of consolidated subsidiaries	–74	–260
Change from the acquisition, sale and maturities of other investments	752	–4,217
Change from the acquisition and sale of investments for unit-linked life insurance	–343	–361
Other	–9	70
II. Cash flows from investing activities	292	–4,733
Inflows from increases in capital and from non-controlling interests	107	121
Outflows to ownership interests and non-controlling interests	296	43
Dividend payments	1,258	1,113
Change from other financing activities	–1,111	569
III. Cash flows from financing activities	–2,558	–466
Cash flows for the financial year (I + II + III)	**–79**	**336**
Effect of exchange-rate changes on cash	39	34
Cash at the beginning of the financial year	2,860	2,490
Cash at the end of the financial year	2,820	2,860
Additional information		
Income tax paid (net) – included in the cash inflows from operating activities	1,223	265
Dividends received	519	399
Interest received	6,496	6,932
Interest paid	552	671

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 315a para. 1 of the German Commercial Code (HGB) 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 rules designated in Section 315a para. 1 of the German Commercial Code.

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 Corporation Act (AktG)

In November 2013, 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 Corporation 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.

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 consolidated balance sheet and the consolidated income statement for the financial year 2012 and the relevant items of the notes to the consolidated financial statements (see section "Changes in accounting policies and other adjustments"). The other previous-year figures have been calculated on the same basis as the figures for the financial year 2013.

Changes in accounting policies and other adjustments

Application of the recognition, measurement and disclosure methods follows the principle of consistency.

In the financial year 2013, the following new or amended IFRSs had to be applied for the first time:

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. We have made the necessary adjustments in the statement of recognised income and expense.

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 thus revises the definition of fair value: it is now defined 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 the way Munich Re measures fair value complies with the new provisions. This review found that adjustments in measurement were largely unnecessary.

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 only includes rules for IFRS first-time users and is thus basically 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, IAS 34, Interim Financial Reporting, and the consequential amendment to the interpretation of 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. In the case of a retrospective change in accounting policies or a retrospective adjustment or reallocation of items under IAS 8, the publication of a binding third comparative balance sheet is only necessary if the change has a major impact. Where such a binding third comparative balance sheet has to be published, 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 amendments 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 material effects on Munich Re, since we have recognised actuarial gains and losses directly in equity since 2006. We have applied the amendments prospectively, as a retrospective application for prior periods did not appear appropriate, also from a cost-benefit point of view. The past service cost for a plan curtailment of €12m was recognised in the first quarter as income in the consolidated income statement. Based on an estimate, the return on plan assets recognised in the consolidated income statement is €18m lower in the first quarter than it would have been under the previous method. Accordingly, the difference compared with the actual income is €18m higher and recognised as a revaluation in equity with no effect on profit or loss. In December 2012, the Accounting Standards Committee of Germany (DRSC) published "Implementation Guidance 1 (IFRS) Specific Issues Relating to Accounting for Partial Retirement Arrangements in Accordance with IFRSs" with regard to the revised IAS 19. For reasons of materiality and from a cost-benefit point of view, we have also applied this implementation guidance prospectively. This resulted in a reduction in "other provisions" of €5m, which we recognised as income in the consolidated income statement in the first quarter.

The amendments to **IFRS 7 (rev. 12/2011), Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities,** introduced new disclosures for the notes to the financial statements regarding such cases. 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. This change currently has 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.

In the financial year, we voluntarily adopted the following IFRSs early:

IAS 36 (rev. 05/2013), Recoverable Amount Disclosures for Non-Financial Assets, affects corrections and additions to disclosure requirements if the recoverable amount of an impaired asset is the fair value less costs of disposal. The amendments may result in moderate extended disclosure requirements.

Our method of calculating technical interest has been modified further with effect from the first quarter. The portion of investment income corresponding to the deposit interest expense is now included as a component in the calculation of the technical interest, and thus in the technical result also in all reinsurance segments and in the Munich Health segment. This change provides for a more accurate presentation of the technical result. As a consequence of the change, the income from technical interest in the financial year 2013 is €1m higher than it would have been under the previous method. Given that these amounts are insignificant, the refinement has, in accordance with IAS 8.8, only been applied to future periods.

The following modifications were applied retrospectively and the previous year's figures adjusted with the aim of providing more relevant information and improving the presentation and comparability of the financial statements:

a) Our disclosure of costs directly connected with equity capital measures has been modified with effect from the first quarter. Previously, externally generated costs directly connected with such measures were recognised in the capital reserve after taking tax effects into account. These costs are now shown in retained earnings. The informative function of the consolidated financial statements is thus enhanced, as the issued capital and capital reserve of Munich Reinsurance Company are directly evident in the consolidated financial statements. As a result of the modification, the capital reserve at 31 December 2013 is €31m higher than it would have been with the previous disclosure method, while retained earnings at 31 December 2013 are €31m lower.

In the fourth quarter, the following modifications were applied retrospectively:

b) Interest on income tax assets and liabilities is recognised under the corresponding income tax items. As a consequence of the change, the tax liabilities as at 31 December 2013 have increased by €43m, and the other reserves have been reduced by the same amount. In the income statement, our other operating result for 2013 is €53m higher, with a corresponding increase in the taxes on income.

c) The calculation of the impairment of the acquired insurance portfolio (present value of future profits, PVFP) did not correctly take deferred taxes into account. The calculation of the impairments and deferred taxes has been modified accordingly.

d) The regular review of our valuation of associates at equity found that the carrying amount to be posted in the consolidated financial statements required correcting. One consolidated entry has been amended.

The changes a) and b) have been made in accordance with IAS 8.14 and IAS 8.22. The consolidated balance sheet for the financial year 2012 is affected by the adjustments as follows:

Consolidated balance sheet

€m	31.12.2012 as originally recognised	Changes due to adjustments in 2012 a)	b)	c)	d)	31.12.2012
Assets						
A. II. Other intangible assets	1,518		–	46	–	1,564
B. II. Investments in affiliated companies and associates	1,467		–	–	10	1,477
Thereof: Associates accounted for using the equity method	1,257		–	–	10	1,267
Equity and liabilities						
A. I. Issued capital and capital reserve	7,390	31	–	–	–	7,421
A. II. Retained earnings	10,946	–31	–	39	–16	10,938
A. IV. Consolidated result attributable to Munich Reinsurance Company equity holders	3,195		–	–8	1	3,188
C. IV. Other technical provisions	13,935		–	–	25	13,960
E. Other accrued liabilities	4,425		–107	–	–	4,318
F. III. Current tax liabilities	3,931		107	–	–	4,038
G. Deferred tax liabilities	8,784		–	15	–	8,799

The effects on the consolidated income statement for the financial year 2012 are as follows:

Consolidated income statement

€m	2012 as originally recognised	Changes due to adjustments in 2012 b)	c)	d)	2012
3. Expenses for claims and benefits					
Gross	41,837	–	–	5	41,842
Net	40,991	–	–	5	40,996
4. Operating expenses					
Gross	12,906	–	12	–	12,918
Net	12,550	–	12	–	12,562
5. Technical result	**3,876**	**–**	**–12**	**–5**	**3,859**
6. Investment result					
Investment income	14,024	–	–	6	14,030
Total	8,436	–	–	6	8,442
Thereof: Income from associates	82	–	–	6	88
7. Other operating income	**879**	**–40**	**–**	**–**	**839**
8. Other operating expenses	**923**	**–50**	**–**	**–**	**873**
10. Non-technical result	**1,474**	**10**	**–**	**6**	**1,490**
11. Operating result	**5,350**	**10**	**–12**	**1**	**5,349**
12. Other non-operating result	**–836**	**6**	**–**	**–**	**–830**
15. Taxes on income	**866**	**16**	**–4**	**–**	**878**
16. Consolidated result	**3,211**	**–**	**–8**	**1**	**3,204**
Thereof: Attributable to Munich Re AG equity holders	3,195	–	–8	1	3,188

The relevant items of the segment information and notes for the previous year have been adjusted.

Standards or changes in standards not yet entered into force

Unless otherwise stated, 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.

Unless mentioned separately below, the following standards are mandatory for financial years beginning on or after 1 January 2014. Only the IFRIC Interpretation 21, Levies, has not yet been adopted into European law. The other standards were adopted in March, April, November or December 2013.

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 any 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 changes are unlikely to have any major effects on Munich Re's consolidated companies.

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 two other amendments are not expected to have any major effects on Munich Re.

IFRS 12 (05/2011), Disclosure of Interests in Other Entities, combines the disclosures regarding facts and circumstances governed by IFRS 10, IFRS 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 before. In particular, IFRS 12 requires disclosures relating to unconsolidated structured entities, subsidiaries with significant non-controlling interests, discretionary judgments and assumptions in evaluating the nature of interests in other entities, as well as detailed information on each significant joint arrangement and associate. Munich Re will mainly be affected by the extended disclosure requirements relating to non-consolidated structured entities, interests in joint arrangements, discretionary judgements and assumptions.

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.

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 scope of application of the standard. 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.

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 results in a change in the need to consolidate an entity only for the comparative period, no adjusted comparative information for prior periods is necessary. In addition, the requirement to provide information for prior periods is removed for unconsolidated structured entities.

As mandated by the IASB, application of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 , including the Transition Guidance for these standards, 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. Munich Re has chosen first-time application from 1 January 2014.

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. Instead, 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. There are also additional disclosure requirements for investment entities. The amendments are of no relevance for Munich Re.

The amendments to **IAS 32 (rev. 12/2011), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities**, clarify some issues in relation to the admissibility of offsetting financial assets and financial liabilities. We are currently proceeding on the assumption that these changes will have no practical significance for Munich Re.

The amendments in **IAS 39 (rev. 06/2013), Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting**, determine that the novation to a central counterparty of a derivative that is designated as a hedging instrument will not lead to a discontinuation of hedge accounting where that novation is required by legislation or regulation. The involvement of a central counterparty is not mandatory for existing business transactions. The amendments are unlikely to have any material effects on Munich Re.

IFRIC Interpretation 21 (05/2013), Levies clarifies the point of recognition of a liability within the scope of IAS 37 for levies imposed by governments, other than income taxes, that do not fall within the scope of application of other IFRSs. As well as determining the point of recognition, the Interpretation clarifies how to interpret the definition of "present obligation" within the meaning of IAS 37 with respect to such levies. This interpretation has no practical relevance for Munich Re.

The following new or revised standards will not become mandatory until a later date. The relevant information will be disclosed separately. Without exception, the legal changes have not yet been adopted into European law.

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 generally 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. The discussion regarding hedge accounting has already been concluded and the new rules were integrated into IFRS 9 in November 2013. The IASB published another exposure draft for the rules regarding recognition of impairments in March 2013, and invited comments on the draft to be submitted by July 2013.

Besides this, in November 2012 the IASB published an exposure draft providing for a further change in the measurement rules relating to financial assets. 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.

Consultation about these two drafts was completed at the beginning of 2014, so that the current IASB planning envisages publication of the final and complete IFRS 9 in the second quarter of 2014.

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. Given the ongoing discussions on the project, it was evident that this date was not realistic either. The IASB therefore provisionally decided in February 2014 to schedule the date for the mandatory first-time application of IFRS 9 for financial years beginning on or after 1 January 2018.

In November 2013, the IASB published an amendment to **IAS 19 (rev. 11/2013), Employee Benefits**, which aims to clarify the allocation of contributions from employees or third parties that are linked to the employee's service rendered in the same period in which they are payable. This amendment is mandatory for financial years beginning on or after 1 July 2014 and is unlikely to have any material effects on Munich Re.

The amendments published in December 2013 under the project **"Annual Improvements to IFRSs 2010-2012 Cycle"** refer to: IFRS 2, Share-based Payment; IFRS 3, Business Combinations; IFRS 8, Operating Segments; IFRS 13, Fair Value Measurement; IAS 16, Property, Plant and Equipment; IAS 24, Related Party Disclosures; and IAS 38, Intangible Assets. The amendments mainly concern clarifications of individual provisions that have turned out to be unclear in practice; they are unlikely to be relevant for Munich Re. The amendments will be mandatory for financial years beginning on or after 1 July 2014.

The IASB also concluded the project **"Annual Improvement to IFRSs 2011–2013 Cycle"** in December 2013 with the publication of the revised standards. These amendments concern IFRS 1, First-time Adoption of International Financial Reporting Standards; IFRS 3, Business Combinations; IFRS 13, Fair Value Measurement; and IAS 40, Investment Property Measured at Fair Value. Clarifications were also made to these standards concerning individual provisions that have turned out to be unclear in practice; they are unlikely to be relevant for Munich Re. The amendments will be mandatory for financial years beginning on or after 1 July 2014.

In January 2014, the IASB published **IFRS 14, Regulatory Deferral Accounts**. This interim standard, which is mandatory for financial years beginning on or after 1 January 2016, is only of significance for IFRS first-time users and will therefore have no effect on Munich Re.

Consolidation

Consolidated group

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	108	240	348
Additions	14	9	23
Reductions	22	23	45
31 Dec. financial year	100	226	326

1 In addition, 62 German and 3 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 2013 in accordance with Section 313 para. 2 of the German Commercial Code (HGB)".

Cash flows and net assets from obtaining and losing control of consolidated subsidiaries or other operations are shown below:

Cash flows arising from obtaining control

€m	2013	Prev. year
Total consideration for obtaining control	–95	–274
Non-cash consideration for obtaining control	–	–
Cash consideration for obtaining control	**–95**	**–274**
Cash over which control was obtained	21	14
Total	**–74**	**–260**

Net assets obtained

€m	2013	Prev. year
Goodwill/gain from bargain purchase	–2	19
Other intangible assets	9	190
Investments	72	253
Cash	21	14
Other assets	46	41
Technical provisions (net)	–	–
Other liabilities	–51	–243
Total	**95**	**274**

Cash flows arising from losing control

€m	2013	Prev. year
Total consideration for losing control	98	39
Non-cash consideration for losing control	–	–
Cash consideration for losing control	**98**	**39**
Cash over which control was lost	–132	–4
Total	**–34**	**35**

Net assets lost

€m	2013	Prev. year
Goodwill	–	–
Other intangible assets	–	2
Investments	42	172
Cash	132	4
Other assets	126	37
Technical provisions (net)	–82	–95
Other liabilities	–60	–41
Total	**158**	**79**

Further information on our gains and losses from losing control can be found in the notes to the consolidated balance sheets under Assets (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 10 July 2013, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the wind park company Vingkraft Hakarp AB (VH AB), Hässleholm, Sweden, from Eolus Vind AG, Hässleholm, Sweden. Vingkraft Hakarp AB operates three completed Swedish wind parks (Hakarp, Kaptensberget and Åsen) that are connected to the power grid. Prior to the transaction, the wind parks were transferred as a contribution in kind by Eolus Vind AB to Vingkraft Hakarp AB. Immediately after acquisition, Vingkraft Hakarp AB was renamed Wind Farms Götaland Svealand AG (WFGS). The purchase price of €47.2m (SEK 411.5m) for the wind park company was settled in cash.

The acquisition is 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	WFGS
Purchase price	**47**
Cash	47
Liabilities incurred	–
Assets acquired	**49**
Intangible assets	9
Investments	38
Receivables[1]	–
Cash at bank, cheques and cash in hand	–
Deferred tax assets	2
Other assets	–
Liabilities assumed	**2**
Other reserves	–
Liabilities	–
Deferred tax liabilities	2
Other liabilities[2]	–
Revenue included in the consolidated income statement since the acquisition date	2
Result included in the consolidated income statement since the acquisition date	–
Contributions to the consolidated revenues as if the acquisition date for the business combination had been 1 January 2013[3]	2

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.

On 1 October 2013, via our subsidiary Dallas Acquisition Corporation, Delaware, Munich Re acquired 100% of the voting shares in RenRe Commodity Advisors LLC, Delaware (RCA) for a cash payment. The RCA subsidiary, Renaissance Trading Ltd., Bermuda, assumes and trades with weather risks (derivatives). The business of Renaissance Trading also includes the trading of commodity contracts in oil and natural gas, with the aim of offering one-stop risk solutions. With the acquisition of RCA, we are actively expanding our know-how and product range for weather risks and increasing the diversification of our weather derivatives, as additional regions and classes of business are covered. After the acquisition, RenRe Commodity Advisors was renamed Munich Re Weather & Commodity Risk Holding and its legal form changed to an Inc. Renaissance Trading was renamed Munich Re Trading, its legal form changed to an LLC and its headquarters moved to Delaware.

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	23	29	52
Additions	–	3	3
Reductions	1	7	8
31 Dec. financial year	22	25	47

Number of other associates (not valued at equity)

	Germany	Other countries	Total
31 Dec. previous year	42	10	52
Additions	1	–	1
Reductions	4	–	4
31 Dec. financial year	39	10	49

Information on the measurement of investments in associates can be found in the notes under Assets 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 using a liability adequacy test; cf. notes under Liabilities C – Gross technical provisions. 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 and 6–50% respectively, and those of the brand names 1–30 years and 3–100%; the items in question are generally amortised on a straight-line basis. Impairments or impairment losses reversed are recognised if required. Recognised impairments and impairment losses reversed 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 impairments and impairment losses reversed 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; 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-linked 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. Information on the valuation models and processes can be found under (4) Hierarchy for the fair value measurement of investments.

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, physical gold, physical gas 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 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. We measure physical gold at the acquisition cost; if the recoverable amount is lower than the carrying amount, a write-down for impairment is made. If there is a subsequent recovery in value, we reverse the impairment loss up to the amount of the original acquisition cost. Physical gas and 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 for payment of an amount 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, the amounts paid 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; thus securities that we have borrowed are not recognised in the balance sheet. Interest income from these transactions is recognised in the investment result.

Recognition of financial instruments

Financial assets are accounted for at the trade date.

Determining fair values

IFRS 13 defines fair value 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. All investments and other items that are recognised at fair value, and such investments and other items that are not recognised at fair value but for which a fair value is disclosed in the notes, are allocated to one of the valuation hierarchy levels of IFRS 13. This valuation hierarchy provides for three levels.

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 and parts of investment funds (except property funds) 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 and exchange-traded subordinated bonds 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. Moreover, we have allocated to this level investments for which prices are provided by price quoters but for which there is no proof that these were based on actual market transactions. The financial instruments we have allocated to this level mainly comprise bearer bonds and bond funds, borrowers' note loans, covered bonds, subordinated securities, derivatives not traded on the stock market, and physical gas.

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 land and buildings, real-estate funds, investments in private equity, certain credit structures, and investments in affiliated companies and associates measured at fair value. We have also allocated insurance-linked derivatives and derivative components that are separated from the host insurance contract to Level 3.

In the case of loans and investments in associates accounted for using the equity method, as well as bank borrowing and bond and note liabilities not traded on an active market, we have decided on a case-by-case basis to which level of the fair value hierarchy to allocate the respective fair values.

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 applied 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 such factors providing evidence of impairment of 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. They are matched by corresponding changes in the technical provisions (see Equity and liabilities D – Technical provisions for life insurance policies where the investment risk is borne by the policyholders), which are included in the technical result. The change in technical provisions also includes changes from additional premium components. Recognising these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

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; see Equity and liabilities C – Gross technical provisions. 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, including any interest on taxes, 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 under Equity and liabilities C – Gross technical provisions. 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; cf. under Equity and liabilities C – Gross technical provisions.

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 Assets 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 issued capital comprises the subscribed capital less the accounting value of own shares held by Munich Reinsurance Company at the balance sheet date. Acquisition costs exceeding the accounting value are deducted from retained earnings. 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. Retained earnings are reduced by the externally generated costs directly connected with equity capital measures, after taking tax effects in account.

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. In addition, reversals of impairment losses on equity investments available for sale are recognised in this equity item, without impact on profit or loss.

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 D – Ceded share of technical provisions. 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 G – Deferred acquisition costs. 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.

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

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 adjustments. 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 (BaFin), the supervisory rules in accordance with the German Insurance Supervision Act (VAG), 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 B – Investments), 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 Notes to the consolidated balance sheet – Assets (2) Other intangible assets, Assets (14) Deferred acquisition costs, and Equity and liabilities (22) 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 C – Gross technical provisions. 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 C – Investments for the benefit of life insurance policyholders who bear the investment risk. 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 and similar obligations**. 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 such as 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).

Revaluations of pension obligations can result from changes in demographic or financial assumptions or from the change in the effect of the asset ceiling. They are recognised 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 B – Investments.

Current tax liabilities comprise current taxes on income and interest on back tax 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 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. Assets H – Deferred tax assets.

Foreign 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 94, 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	31.12.2013	Prev. year	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Australian dollar	1.54020	1.26990	1.46934	1.44637	1.31878	1.27085	1.24945	1.20458	1.27053	1.24301
Canadian dollar	1.46405	1.31270	1.42889	1.37610	1.33657	1.33091	1.28592	1.24578	1.29628	1.31298
Pound sterling	0.83200	0.81110	0.84087	0.85436	0.85048	0.85064	0.80782	0.79195	0.81098	0.83444
Rand	14.43230	11.18580	13.82880	13.22540	12.37200	11.81310	11.27420	10.33260	10.41550	10.17240
Swiss franc	1.22550	1.20680	1.22920	1.23438	1.23101	1.22778	1.20783	1.20345	1.20146	1.20792
US dollar	1.37795	1.31840	1.36146	1.32442	1.30583	1.32006	1.29740	1.25111	1.28368	1.31077
Yen	144.8300	113.9960	136.7610	130.9720	128.9230	121.6110	105.3770	98.3731	102.8660	103.9420

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.

Munich Re uses different performance indicators and measures. The main performance metrics at Group level are economic earnings and the return on risk-adjusted capital (RORAC). Besides this, IFRS result contributions are the basis of planning and strategy in all segments. Therefore the uniform assessment basis used for measuring the segment result is the operating result adjusted to eliminate non-operating components. The operating result is split into a technical result and a non-technical result, with an interest component allocated to the underwriting business in the form of technical interest (cf. Notes to the consolidated income statement – (31) Interest on technical provisions). 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). Our segment reporting no longer has a consolidation column.

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.

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 under "Other 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, 50 KB)

	Reinsurance			
	Life		Property-casualty	
€m	31.12. 2013	Prev. year	31.12. 2013	Prev. year
A. Intangible assets	**159**	**170**	**1,920**	**2,050**
B. Investments				
I. Land and buildings, including buildings on third-party land	263	245	1,218	1,224
II. Investments in affiliated companies and associates	19	21	818	775
Thereof: Associates accounted for using the equity method	–	1	733	682
III. Loans	34	18	125	52
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	14,095	15,399	49,252	54,651
3. At fair value through profit or loss	650	605	1,037	1,042
	14,745	16,004	50,289	55,693
V. Deposits retained on assumed reinsurance	7,847	7,240	1,279	1,181
VI. Other investments	409	242	1,451	1,142
	23,317	**23,770**	**55,180**	**60,067**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of technical provisions	**1,096**	**1,140**	**1,932**	**2,186**
E. Other segment assets	**6,885**	**6,019**	**10,041**	**9,765**
Total segment assets	**31,457**	**31,099**	**69,073**	**74,068**

Segment equity and liabilities » Segment equity and liabilities (XLS, 57 KB)

	Reinsurance			
	Life		Property-casualty	
€m	31.12. 2013	Prev. year	31.12. 2013	Prev. year
A. Subordinated liabilities	**1,138**	**1,343**	**3,177**	**3,838**
B. Gross technical provisions				
I. Unearned premiums	28	37	5,587	5,776
II. Provision for future policy benefits	13,633	13,352	27	32
III. Provision for outstanding claims	5,948	5,652	37,847	39,097
IV. Other technical provisions	396	432	49	81
	20,005	**19,473**	**43,510**	**44,986**
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholder	–	–	–	–
D. Other accrued liabilities	**201**	**198**	**589**	**721**
E. Other segment liabilities	**5,468**	**6,600**	**10,123**	**10,406**
Total segment liabilities	**26,812**	**27,614**	**57,399**	**59,951**

					Primary insurance		Munich Health		Asset management		Total	
		Life		Health	Property-casualty							
	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year
	953	**1,077**	**672**	**677**	**945**	**932**	**12**	**23**	**11**	**11**	**4,672**	**4,940**
	1,358	1,393	755	777	93	95	10	30	65	67	3,762	3,831
	137	132	180	181	212	194	94	93	54	81	1,514	1,477
	92	109	168	168	161	152	93	90	44	65	1,291	1,267
	35,185	34,977	17,916	17,138	1,961	2,210	22	23	2	–	55,245	54,418
	5	7	–	–	–	–	–	–	–	–	5	7
	35,574	37,151	16,232	15,592	7,000	6,348	2,983	3,602	766	453	125,902	133,196
	1,039	1,174	127	155	31	22	3	17	–	–	2,887	3,015
	36,618	38,332	16,359	15,747	7,031	6,370	2,986	3,619	766	453	128,794	136,218
	128	147	1	1	5	4	376	394	–	–	9,636	8,967
	901	583	207	82	323	594	80	66	453	255	3,824	2,964
	74,327	**75,564**	**35,418**	**33,926**	**9,625**	**9,467**	**3,568**	**4,225**	**1,340**	**856**	**202,775**	**207,875**
	6,698	**5,957**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**–**	**6,699**	**5,958**
	1,700	**1,862**	**20**	**22**	**386**	**340**	**171**	**180**	**–**	**–**	**5,305**	**5,730**
	8,082	**7,893**	**3,674**	**3,575**	**4,411**	**4,456**	**1,667**	**2,085**	**77**	**120**	**34,837**	**33,913**
	91,760	**92,353**	**39,784**	**38,200**	**15,367**	**15,195**	**5,419**	**6,514**	**1,428**	**987**	**254,288**	**258,416**

					Primary insurance		Munich Health		Asset management		Total	
		Life		Health	Property-casualty							
	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year	31.12. 2013	Prev. year
	73	**75**	**–**	**–**	**2**	**–**	**34**	**248**	**–**	**–**	**4,424**	**5,504**
	30	15	99	99	1,766	1,755	484	452	–	–	7,994	8,134
	69,182	69,508	27,175	25,544	434	425	976	908	–	–	111,427	109,769
	1,758	1,648	941	917	5,730	5,483	837	954	–	–	53,061	53,751
	4,458	4,688	8,405	8,500	136	149	75	110	–	–	13,519	13,960
	75,428	**75,859**	**36,620**	**35,060**	**8,066**	**7,812**	**2,372**	**2,424**	**–**	**–**	**186,001**	**185,614**
	7,042	**6,257**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**–**	**7,043**	**6,258**
	524	**531**	**291**	**288**	**2,344**	**2,353**	**169**	**178**	**51**	**49**	**4,169**	**4,318**
	6,451	**7,047**	**1,189**	**1,113**	**1,925**	**2,276**	**1,132**	**1,682**	**137**	**159**	**26,425**	**29,283**
	89,518	**89,769**	**38,100**	**36,461**	**12,337**	**12,441**	**3,708**	**4,533**	**188**	**208**	**228,062**	**230,977**
										Equity	**26,226**	**27,439**
										Total equity and liabilities	**254,288**	**258,416**

Segment income statement

» Segment income statement (XLS, 149 KB)

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Gross premiums written	**10,829**	**11,130**	**17,013**	**17,052**
1. Earned premiums				
Gross	10,836	11,139	16,920	17,323
Ceded	462	450	683	650
Net	10,374	10,689	16,237	16,673
2. Income from technical interest	683	658	1,183	1,323
3. Expenses for claims and benefits				
Gross	8,312	8,536	10,211	10,393
Ceded share	225	286	198	193
Net	8,087	8,250	10,013	10,200
4. Operating expenses				
Gross	2,749	2,831	5,009	5,085
Ceded share	149	154	70	77
Net	2,600	2,677	4,939	5,008
Thereof:				
Amortisation and impairment losses of acquired insurance portfolios	3	3	–	–
5. Technical result (1–4)	**370**	**420**	**2,468**	**2,788**
6. Investment result				
Investment income	1,843	1,966	4,675	5,077
Investment expenses	1,017	1,053	2,913	2,929
Total	826	913	1,762	2,148
Thereof:				
Interest and similar income	738	728	1,326	1,520
Interest charges and similar expenses	4	3	16	13
Write-downs of investments	558	636	1,231	1,107
Write-ups of investments	552	616	932	1,041
Income from associates accounted for using the equity method	–	–	-28	16
7. Other operating income	108	121	264	246
Thereof:				
Interest and similar income	74	83	28	22
Write-ups of other operating assets	4	11	21	27
8. Other operating expenses	70	75	318	262
Thereof:				
Interest charges and similar expenses	21	24	36	31
Write-downs of other operating assets	2	4	6	13
9. Deduction of income from technical interest	-683	-658	-1,183	-1,323
10. Non-technical result (6–9)	**181**	**301**	**525**	**809**
11. Operating result	**551**	**721**	**2,993**	**3,597**
12. Other non-operating result, net finance costs and impairment losses of goodwill	-111	-126	-452	-344
13. Taxes on income	27	99	157	694
14. Consolidated result	**413**	**496**	**2,384**	**2,559**
Thereof:				
Attributable to Munich Reinsurance Company equity holders	413	496	2,377	2,559
Attributable to non-controlling interests	–	–	7	–

	Primary insurance						Munich Health		Asset management		Total	
	Life		Health		Property-casualty							
	2013	Prev. year	2013	Prev. year	2013	Prev. year	2013	Prev. year	2013	Prev. year	2013	Prev. year
	5,489	**5,798**	**5,671**	**5,732**	**5,507**	**5,554**	**6,551**	**6,703**	**–**	**–**	**51,060**	**51,969**
	5,472	5,791	5,672	5,729	5,450	5,514	6,490	6,693	–	–	50,840	52,189
	118	135	46	48	191	214	168	193	–	–	1,668	1,690
	5,354	5,656	5,626	5,681	5,259	5,300	6,322	6,500	–	–	49,172	50,499
	3,240	3,289	1,410	1,372	209	224	39	52	–	–	6,764	6,918
	7,555	7,816	5,977	6,021	3,457	3,653	5,186	5,423	–	–	40,698	41,842
	83	97	24	23	131	157	121	90	–	–	782	846
	7,472	7,719	5,953	5,998	3,326	3,496	5,065	5,333	–	–	39,916	40,996
	1,176	1,240	704	689	1,851	1,843	1,201	1,230	–	–	12,690	12,918
	18	19	21	18	28	41	40	47	–	–	326	356
	1,158	1,221	683	671	1,823	1,802	1,161	1,183	–	–	12,364	12,562
	85	55	5	5	1	–	–	–	–	–	94	63
	-36	**5**	**400**	**384**	**319**	**226**	**135**	**36**	**–**	**–**	**3,656**	**3,859**
	4,219	4,613	1,725	1,593	565	564	152	196	17	21	13,196	14,030
	944	987	404	348	176	188	57	81	28	2	5,539	5,588
	3,275	3,626	1,321	1,245	389	376	95	115	-11	19	7,657	8,442
	2,696	2,792	1,284	1,277	248	291	80	101	3	5	6,375	6,714
	1	3	3	2	–	1	–	–	–	–	24	22
	394	260	110	74	65	77	3	32	28	2	2,389	2,188
	125	404	62	81	37	33	11	19	–	2	1,719	2,196
	8	-5	14	11	22	46	6	14	-15	6	7	88
	103	127	37	55	146	147	70	93	54	50	782	839
	5	6	1	13	3	2	12	14	1	3	124	143
	28	33	4	6	3	10	7	9	–	–	67	96
	120	109	64	72	218	235	94	83	38	37	922	873
	16	9	16	15	53	59	19	18	1	1	162	157
	10	10	6	6	19	33	12	4	–	–	55	70
	-3,240	-3,289	-1,410	-1,372	-209	-224	-39	-52	–	–	-6,764	-6,918
	18	**355**	**-116**	**-144**	**108**	**64**	**32**	**73**	**5**	**32**	**753**	**1,490**
	-18	**360**	**284**	**240**	**427**	**290**	**167**	**109**	**5**	**32**	**4,409**	**5,349**
	-31	-123	-76	-101	-276	-343	-2	-222	-11	-8	-959	-1,267
	-183	82	78	50	-18	-49	15	-22	32	24	108	878
	134	**155**	**130**	**89**	**169**	**-4**	**150**	**-91**	**-38**	**–**	**3,342**	**3,204**
	135	156	130	89	147	-18	149	-94	-38	–	3,313	3,188
	-1	-1	–	–	22	14	1	3	–	–	29	16

» Non-current assets by country (XLS, 43 KB)

Non-current assets by country[1]

€m	31.12.2013	Prev. year
Germany	7,798	7,601
USA	1,798	1,915
UK	511	548
Austria	358	390
Sweden	287	253
Italy	234	273
Poland	182	163
Netherlands	156	145
France	154	157
Spain	123	127
Switzerland	92	96
Portugal	61	66
Others	237	259
Total	**11,991**	**11,993**

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 non-current assets per segment

€m	31.12.2013	Prev. year
Reinsurance life	105	97
Reinsurance property-casualty	377	434
Primary insurance life	405	52
Primary insurance health	5	13
Primary insurance property-casualty	154	161
Munich Health	46	28
Asset management	5	2
Total	**1,097**	**787**

Gross premiums written[1]

	Reinsurance		Primary insurance		Munich Health		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year	2013	Prev. year
Europe								
Germany	1,138	1,081	12,827	13,086	68	117	14,033	14,284
UK	3,830	4,451	286	237	207	401	4,323	5,089
Belgium	79	35	415	447	466	445	960	927
Spain	535	455	50	56	658	664	1,243	1,175
Poland	8	8	1,012	1,009	–	–	1,020	1,017
Others	2,685	2,750	2,061	2,121	391	192	5,137	5,063
	8,275	8,780	16,651	16,956	1,790	1,819	26,716	27,555
North America								
USA	8,189	7,510	–	–	1,120	1,249	9,309	8,759
Canada	4,709	4,866	3	2	3,111	3,167	7,823	8,035
	12,898	12,376	3	2	4,231	4,416	17,132	16,794
Asia and Australasia								
Australia	1,602	1,632	–	–	–	–	1,602	1,632
China	1,348	1,061	1	1	42	51	1,391	1,113
Japan	516	712	–	1	2	2	518	715
Taiwan	327	567	–	–	42	43	369	610
Others	659	689	6	114	100	96	765	899
	4,452	4,661	7	116	186	192	4,645	4,969
Africa, Near and Middle East								
South Africa	326	425	–	–	–	–	326	425
United Arab Emirates	15	16	–	1	230	187	245	204
Others	363	349	1	2	85	71	449	422
	704	790	1	3	315	258	1,020	1,051
Latin America	1,513	1,575	5	7	29	18	1,547	1,600
Total	**27,842**	**28,182**	**16,667**	**17,084**	**6,551**	**6,703**	**51,060**	**51,969**

1 The premiums are generally allocated according to the location of the risks insured.

Notes to the consolidated balance sheet – Assets

1 Goodwill

Development of goodwill

	Reinsurance			
Goodwill from the acquisition of	Munich Re America		Other	
€m	2013	Prev. year	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	1,046	1,062	454	435
Accumulated impairment losses at 31 Dec. previous year	–	–	51	27
Carrying amount at 31 Dec. previous year	1,046	1,062	403	408
Currency translation differences	-45	-16	-16	-5
Additions	–	–	2	24
Reclassifications	–	–	–	–
Impairment losses	–	–	–	24
Carrying amount at 31 Dec. financial year	**1,001**	**1,046**	**389**	**403**
Accumulated impairment losses at 31 Dec. financial year	–	–	51	51
Gross carrying amount at 31 Dec. financial year	1,001	1,046	440	454

→	Primary insurance			
Goodwill from the acquisition of	ERGO Insurance Group		Other	
€m	2013	Prev. year	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	1,754	1,754	554	554
Accumulated impairment losses at 31 Dec. previous year	–	–	381	381
Carrying amount at 31 Dec. previous year	1,754	1,754	173	173
Currency translation differences	–	–	–	–
Additions	–	–	3	–
Reclassifications	–	–	–	–
Impairment losses	–	–	28	–
Carrying amount at 31 Dec. financial year	**1,754**	**1,754**	**148**	**173**
Accumulated impairment losses at 31 Dec. financial year	–	–	409	381
Gross carrying amount at 31 Dec. financial year	1,754	1,754	557	554

→	Munich Health		Total	
Goodwill from the acquisition of	Other			
€m	2013	Prev. year	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	156	154	3,964	3,959
Accumulated impairment losses at 31 Dec. previous year	156	40	588	448
Carrying amount at 31 Dec. previous year	–	114	3,376	3,511
Currency translation differences	–	2	-61	-19
Additions	–	–	5	24
Reclassifications	–	–	–	–
Impairment losses	–	116	28	140
Carrying amount at 31 Dec. financial year	**–**	**–**	**3,292**	**3,376**
Accumulated impairment losses at 31 Dec. financial year	156	156	616	588
Gross carrying amount at 31 Dec. financial year	156	156	3,908	3,964

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 2013	**1,374**	**1,754**	**164**

The goodwill from the acquisition of Munich Re America has been allocated to a group of divisions (cash-generating units), which together make up the "reinsurance property-casualty segment". Apart from the goodwill from the acquisition of Munich Re America, the carrying amount shown for this 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. This other goodwill is not significant in comparison with the total goodwill and is tested for impairment on the basis of the same key assumptions used for the goodwill from the acquisition of Munich Re America. 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 goodwill, either individually or in sum. We regard as "significant" within the meaning of IAS 36.134 and IAS 36.135 amounts of 10% or more of total Group goodwill.

Significant 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
Basis for calculating the recoverable amount	Value in use	Value in use
Key assumptions regarding the planning calculation (at the time of the planning)	In the detailed planning phase (three years), we expect a rise in premium income with a relatively constant combined ratio. 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), we expect results to fall initially. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level
Growth rates after the detailed planning phase	1.5%	1.5%
Discount rates	9.8%	11.2%

The calculation of these values in use is based on distributable target results 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 target results achievable long term on the basis of the last adjusted planning year and a growth rate derived taking macroeconomic forecasts into account.

Cost-of-equity rates derived using the Capital Asset Pricing Model (CAPM) were used as discount rates. Calculations are based on distributable target results after consideration of normalised taxes. In the above table, for disclosure purposes, a corresponding discount rate before tax is given in each case. Sensitivity analyses were performed for the discount rates, growth rates and distributable target results. In the case of the cash-generating unit ERGO, the recoverable amount is approximately €450m above its book value. A 105 BP increase in the discount rate before tax would lead to the value in use of the cash-generating unit equalling its book value if distributable target results remained constant. Insofar as the increase in the discount rate is based on a rise in interest rates, it should be considered that the positive effects of higher interest rates on the investment result and on the technical result are not included in this estimate.

Amount of impairment losses recognised in profit or loss during the period

In the financial year 2013, our impairment testing of goodwill identified an impairment. The goodwill from the acquisition of ERGO Previdenza was written down by €28m in the fourth quarter of 2013, mainly owing to a decline in ERGO Previdenza's business volume. The impairment loss was recognised as impairment losses of goodwill in the life primary insurance segment.

2 Other intangible assets

Development of other intangible assets

	Acquired insurance portfolios		Software			
			Self-developed		Other	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	1,311	1,359	350	342	889	814
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	818	768	220	184	659	605
Carrying amount at 31 Dec. previous year	493	591	130	158	230	209
Currency translation differences	-3	-4	–	–	-4	2
Additions						
Business combinations	–	–	–	–	–	–
Other	1	–	11	8	105	90
Disposals						
Loss of control	–	–	–	1	–	1
Other	–	16	–	1	3	7
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	63	78	35	34	65	63
Impairment losses	43	–	4	–	4	–
Carrying amount at 31 Dec. financial year	**385**	**493**	**102**	**130**	**259**	**230**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	924	818	256	220	697	659
Gross carrying amount at 31 Dec. financial year	1,309	1,311	358	350	956	889

→	Acquired brand names		Acquired distribution networks/client bases		Acquired licences/ patents	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	283	286	710	744	291	122
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	242	201	367	311	19	12
Carrying amount at 31 Dec. previous year	41	85	343	433	272	110
Currency translation differences	-1	–	-8	-1	-5	–
Additions						
Business combinations	–	1	–	–	9	177
Other	–	1	1	–	–	–
Disposals						
Loss of control	–	–	–	–	–	–
Other	1	2	–	–	–	–
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	8	17	40	60	13	8
Impairment losses	–	27	–	29	10	7
Carrying amount at 31 Dec. financial year	**31**	**41**	**296**	**343**	**253**	**272**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	192	242	317	367	36	19
Gross carrying amount at 31 Dec. financial year	223	283	613	710	289	291

Continued on next page

	Self-developed		Miscellaneous Other		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	–	5	83	82	3,917	3,754
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	–	5	28	29	2,353	2,115
Carrying amount at 31 Dec. previous year	–	–	55	53	1,564	1,639
Currency translation differences	–	–	–1	1	–22	–2
Additions						
Business combinations	–	–	–	12	9	190
Other	–	–	8	–	126	99
Disposals						
Loss of control	–	–	–	–	–	2
Other	–	–	–	4	4	30
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	–	–	8	7	232	267
Impairment losses	–	–	–	–	61	63
Carrying amount at 31 Dec. financial year	**–**	**–**	**54**	**55**	**1,380**	**1,564**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	–	–	34	28	2,456	2,353
Gross carrying amount at 31 Dec. financial year	–	–	88	83	3,836	3,917

The impairment losses are distributed between the following different Group segments: In reinsurance, €3m (–) is apportionable to life and €11m (–) to property-casualty; in primary insurance, €43m (13m) is apportionable to life, and €1m (–) to property-casualty. The Munich Health segment saw impairment losses of €3m (50m).

Intangible assets from the acquisition of insurance portfolios were written down by €43m due to changes in assumptions regarding the long-term interest-rate level based on the long-term regular return on investments. The impairment loss is recognised in the life primary insurance segment. Besides this, intangible assets from investments in renewable energy sources were written down by €10m. The impairment is due to anticipated changes which have now occurred in the regulation of solar power in Spain and was recognised in the life reinsurance segment (€2m) and the property-casualty reinsurance segment (€8m).

Assets pledged as security and other restrictions on title amount to €160m (–). Commitments to acquire other intangible assets total €7m (3m). Costs of €3m (4m) 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	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	4,912	4,903
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	1,081	1,014
Carrying amount at 31 Dec. previous year	3,831	3,889
Currency translation differences	–12	9
Additions		
Business combinations	–	–
Other	38	32
Disposals		
Loss of control	–	–
Other	11	36
Impairment losses reversed	20	33
Depreciation and impairment losses		
Depreciation	80	77
Impairment losses	14	40
Reclassification	–10	21
Carrying amount at 31 Dec. financial year	**3,762**	**3,831**
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	1,130	1,081
Gross carrying amount at 31 Dec. financial year	4,892	4,912

The impairment losses reversed are distributed between the following different Group segments: in reinsurance, €1m (4m) is apportionable to life and €4m (18m) to property-casualty; in primary insurance, €13m (9m) is apportionable to life, €2m (1m) to health and – (€1m) to property-casualty.

Impairment losses reversed are chiefly attributable to appreciations in value following the revitalisation of real estate.

The impairment losses are distributed between the following segments: in reinsurance, €1m (–) is apportionable to life and €2m (–) to property-casualty; in primary insurance, €11m (36m) is apportionable to life, – (€3m) to health and – (€1m) to property-casualty.

The impairment losses were mainly due to the fact that the life cycle of property had been exceeded.

The fair value of investment property at the balance sheet date amounted to €5,525m (5,350m). Valuations for the directly held portfolio are performed by valuers within the Group, and those for the indirectly held portfolio by external valuers. Valuations are made in accordance with the rules of IFRS 13. Property is allocated to Level 3 of the fair value hierarchy; see Assets B – Investments. Determining the sustainability of cash inflows and outflows, taking into account the market conditions at the 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 of property and its individual opportunity/risk profile, 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 €838m (724m). Expenditures recognised in the carrying amount for assets in the course of construction total – (€31m) at the balance sheet date. Contractual commitments to acquire other intangible assets amount to €14m (35m).

4 Hierarchy for the fair value measurement of investments

All investments recognised at fair value are allocated to one of the fair value hierarchy levels of IFRS 13, as are those investments which are not recognised at fair value in the balance sheet but for which a fair value has to be disclosed in the notes. Information on the criteria for allocation to the individual levels of the fair value hierarchy can be found in the notes to Assets B – Investments, Determining fair values. Regularly, at each reporting date, we assess whether the allocation of our investments to the levels of the fair value hierarchy is still appropriate. If changes in the basis of valuation have occurred – for instance, if a market is no longer active or the valuation was performed using inputs requiring another allocation – we make the necessary adjustments.

The following table provides an overview of the models used to measure the fair values of our investments.

Valuation models

Bonds	Pricing method	Parameters	Pricing model
Interest-rate risks			
Loans against borrower's note/ registered bonds	Theoretical price	Sector-, rating- or issuer-specific yield curve	Present-value method
Cat bond (host)	Theoretical price	Interest-rate curve	Present-value method
Mortgage loans	Theoretical price	Sector-specific yield curve	Present-value method

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
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	Listing of underlying shares Money-market interest rate Dividend yield	Present-value method
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 index 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
Inflation swaps	Theoretical price	Zero-coupon inflation swap rates Swap curve Money-market interest-rate curve	Present-value method
Currency risks			
Currency options	Theoretical price	At-the-money volatility Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen (European)
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 cat bonds Historical event data 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)

Bonds with embedded options	Pricing method	Parameters	Pricing model
Callable bonds	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix	Hull-White model
CMS floaters	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix	Hull-White model
Zero-to-coupon switchable bonds	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix	Hull-White model
Zero-to-CMS switchable bonds	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix	LIBOR market model
Volatility bonds	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix	LIBOR market model
CMS floaters with variable cap	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix	Replication model (Hagan)
CMS steepeners	Theoretical price	Money-market/swap interest-rate curve Issuer-specific spreads Volatility matrix Correlation matrix	Replication model (Hagan)
Dax-Cliquet	Theoretical price	Listing of underlying shares Volatilities Issuer-specific spreads Money-market/swap interest-rate curve	Black-Scholes (European) Present-value method
Convergence bonds	Theoretical price	Money-market/swap interest-rate curves Issuer-specific spreads Volatility matrix Correlation matrix	LIBOR market model
Multi-tranches	Theoretical price	At-the-money volatility index and skew swap curve Money-market interest-rate curve Sector-, rating- or issuer-specific curve	Black-76, present value method
FIS loans against borrower's note	Theoretical price	At-the-money volatility index and skew swap curve Money-market interest-rate curve Sector-, rating- or issuer-specific curve	Black-76, present value method
Swaption notes	Theoretical price	At-the-money volatility index and skew swap curve Money-market interest-rate curve Sector-, rating- or issuer-specific curve	Black-76, present value method

Fund	Pricing method	Parameters	Pricing model
Real estate funds	–	–	Net asset value
Private equity funds	–	–	Net asset value

Insurance-linked derivatives (excluding variable annuities) are allocated to Level 3 of the fair value hierarchy. The valuation of the derivative components of catastrophe bonds is based on the values supplied by brokers for the underlying bonds, which is why it is not possible to quantify the inputs used that were not based on observable market data. If no observable inputs are available for customised insurance derivatives, valuation is made using the present-value method on the basis of current interest-rate curves and historical event data. Due to the low volume, the effects of alternative inputs and assumptions are immaterial.

At Munich Re, the valuation of variable annuities is performed on a fully market-consistent basis. The parameters requiring consideration in this valuation are biometric and lapse rates, volatilities, interest-rate curves and currency spot rates. The lapse rates used are modelled dynamically and range between 0.5% and 20%, depending on the specific insurance product and current situation of the capital markets. The assumptions with regard to mortality are based on published mortality tables, which are adjusted with a view to the target markets and the actuaries' expectations. The dependency between different capital market parameters is modelled by correlation matrices. Since parameters not observable on the market were also used in valuation, we allocate these products to Level 3 of the fair value hierarchy.

The other investments allocated to Level 3 are mainly external fund units (in particular, private equity and real estate) as well as relatively illiquid credit structures (especially collateralised mortgage-backed securities and credit-linked obligations). In the case of the former, market data are not available on a regular basis; rather, net asset values (NAVs) are provided by the asset managers. With regard to the latter, the quality of the market quotes available from market data providers is insufficient, so we resort to broker valuations. With these investments, we thus do not perform our own valuations using inputs not based on observable market data but rely on what is supplied by the brokers. We regularly subject the valuations supplied to plausibility tests on the basis of comparable investments.

At 31 December 2013, around 12% (83%) of the investments measured at fair value were allocated to Level 1 of the fair value hierarchy, 84% (14%) to Level 2 and 4% (3%) to Level 3.

Allocation of investments to levels of the fair value hierarchy

				31.12.2013
€m	Level 1	Level 2	Level 3	Total
Investments measured at fair value				
Investments in affiliated companies measured at fair value	38	–	176	214
Investments in associates measured at fair value	–	–	9	9
Other securities available for sale				
Fixed-interest	769	110,125	2,777	113,671
Non-fixed-interest	8,092	2,032	2,107	12,231
Other securities at fair value through profit or loss				
Held for trading, and hedging derivatives[1]	783	2,092	77	2,952
Designated as at fair value through profit or loss	–	164	–	164
Other investments	–	31	–	31
Investments for the benefit of life insurance policyholders who bear the investment risk	6,135	564	–	6,699
Total	**15,817**	**115,008**	**5,146**	**135,971**
Investments not measured at fair value[2]				
Loans	25	60,456	619	61,100
Other securities held to maturity	–	5	–	5
Total	**25**	**60,461**	**619**	**61,105**

→

				Prev. year
€m	Level 1	Level 2	Level 3	Total
Investments measured at fair value				
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, and hedging derivatives[1]	754	2,368	33	3,155
Designated as at fair value through profit or loss	–	169	–	169
Other investments	–	–	–	–
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**

1 Including hedging derivatives of €229m (309m) accounted for under "other assets".
2 As the requirement to provide information on investments not measured at fair value through profit or loss became mandatory for the first time with respect to the financial year 2013, there are no comparative figures for the previous year.

At the end of the financial year, we reallocated large portions of our bonds and certain bond funds from Level 1 to Level 2 owing to a modification by the Institute of Public Auditors in Germany (IDW) to the interpretation of the rules of IFRS 13. As a result, we now consistently take account of the fact that in the bond market there is generally no active trading on exchanges, prices being quoted by pricing agencies and brokers. This means that in some cases there is no proof that the Level 1 requirements have actually been fulfilled, so that in accordance with the requirements of the IDW, reallocation is considered necessary on the basis of a prudent interpretation.

Moreover, we have reallocated portions of the other mortgage-backed securities (MBSs) in our portfolio from Level 3 to Level 2. These portfolios are now valued solely on the basis of observable market inputs. At the same time, we reallocated commercial mortgage-backed securities (CMBSs) from Level 2 to Level 3, since we did not use inputs observable in the market for valuing them, given the markets' lack of liquidity.

The only investments held for trading that are allocated to Level 3 are derivatives.

The following table presents the reconciliation from the opening balances to the closing balances for investments allocated to Level 3.

Reconciliation for investments allocated to Level 3

€m	Investments in affiliated companies measured at fair value 2013	Prev. year	Investments in associates measured at fair value 2013	Prev. year
Carrying amount at 31 Dec. previous year	194	214	16	16
Gains and losses	–15	30	–7	–
Gains (losses) recognised in the income statement	–4	–8	–6	–2
Gains (losses) recognised in equity	–11	38	–1	2
Acquisitions	21	7	–	1
Disposals	10	60	–	2
Transfer to Level 3	5	34	–	1
Transfer out of Level 3	19	31	–	–
Changes in the market value of derivatives	–	–	–	–
Carrying amount at 31 Dec. financial year	**176**	**194**	**9**	**16**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	–4	–8	–6	–2

→

			Other securities available for sale	
	Fixed-interest		Non-fixed-interest	
€m	2013	Prev. year	2013	Prev. year
Carrying amount at 31 Dec. previous year	2,118	626	1,978	1,202
Gains and losses	–3	12	45	27
Gains (losses) recognised in the income statement	27	–3	–18	–30
Gains (losses) recognised in equity	–30	15	63	57
Acquisitions	1,895	459	299	834
Disposals	1,627	523	214	168
Transfer to Level 3	488	1,800	1	82
Transfer out of Level 3	93	256	1	–
Changes in the market value of derivatives	–1	–	–1	1
Carrying amount at 31 Dec. financial year	**2,777**	**2,118**	**2,107**	**1,978**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	33	3	–21	–28

Continued on next page

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			Other securities at fair value through profit or loss		Total	
	Held for trading, and hedging derivates		Designated as at fair value through profit or loss			
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Carrying amount at 31 Dec. previous year	33	8	–	–	4,339	2,066
Gains and losses	38	–12	–	–	58	57
Gains (losses) recognised in the income statement	39	–12	–	–	38	–55
Gains (losses) recognised in equity	–1	–	–	–	20	112
Acquisitions	14	11	–	–	2,229	1,312
Disposals	9	–	–	–	1,860	753
Transfer to Level 3	–	26	–	–	494	1,943
Transfer out of Level 3	–	–	–	–	113	287
Change in the market value of derivatives	1	–	–	–	–1	1
Carrying amount at 31 Dec. financial year	**77**	**33**	**–**	**–**	**5,146**	**4,339**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	36	–12	–	–	38	–47

5 Investments in affiliated companies and associates

Breakdown of investments in affiliated companies and associates

€m	31.12.2013	Prev. year
Investments in affiliated companies		
Accounted for at fair value	214	194
Investments in associates		
Accounted for using the equity method	1,291	1,267
Accounted for at fair value	9	16
Total	**1,514**	**1,477**

The fair value of investments in associates accounted for using the equity method amounted to €1,721m (1,621m) at the balance sheet date. In the financial year, shares of losses of associates amounting to €2m (4m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet totalled €4m (30m).

The aggregated assets of all associates amount to €9,537m (9,945m), liabilities to €5,581m (6,146m), results for the year to €372m (187m), and revenue to €4,130m (3,877m). For associates not accounted for using the equity method, assets amount to €142m (149m), liabilities to €110m (116m), results for the year to – (€3m), and revenue to €134m (127m).

Write-downs amounting to €101m (52m) result mainly from anticipated changes which have now occurred in the regulation of solar power in Spain.

A list of all our shareholdings can be found in the section “List of shareholdings as at 31 December 2013 in accordance with Section 313 para. 2 of the German Commercial Code (HGB)”.

6 Loans

Breakdown of loans

	Carrying amounts	
€m	31.12.2013	Prev. year
Mortgage loans	4,482	4,439
Loans and advance payments on insurance policies	593	605
Other loans	50,170	49,374
Total	**55,245**	**54,418**

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, see (4) Hierarchy for the fair value measurement of investments, totalled €61,316m (63,248m) at the reporting date.

Contractual period to maturity

	Carrying amounts	
€m	31.12.2013	Prev. year
Up to one year	2,016	1,252
Over one year and up to two years	2,723	1,985
Over two years and up to three years	1,947	2,980
Over three years and up to four years	2,498	2,015
Over four years and up to five years	2,209	2,550
Over five years and up to ten years	13,394	13,034
Over ten years	30,458	30,602
Total	**55,245**	**54,418**

Rating of "other loans" according to carrying amounts

€m	31.12.2013	Prev. year
AAA	23,784	21,951
AA	18,277	20,553
A	4,743	4,085
BBB or lower	2,770	2,295
No rating	596	490
Total	**50,170**	**49,374**

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.

7 Other securities held to maturity

At 31 December 2013, the category "Other securities held to maturity" contains debt securities issued by banks of €5m (7m). The fair value of these debt securities amounts to €5m (8m). 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	31.12.2013	Prev. year	31.12.2013	Prev. year
Up to one year	5	3	5	3
Over one year and up to two years	–	4	–	5
Total	**5**	**7**	**5**	**8**

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.

8 Other securities available for sale

Breakdown of other securities available for sale

	Carrying amounts		Unrealised gains/losses		Amortised cost	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Fixed-interest securities						
Government bonds						
Germany	7,858	10,682	302	1,066	7,556	9,616
Rest of EU	21,751	22,162	920	1,610	20,831	20,552
USA	10,784	13,546	254	1,407	10,530	12,139
Other	11,933	13,062	265	1,055	11,668	12,007
Corporate debt securities	50,322	52,501	2,330	3,907	47,992	48,594
Other	11,023	11,546	590	935	10,433	10,611
	113,671	**123,499**	**4,661**	**9,980**	**109,010**	**113,519**
Non-fixed-interest securities						
Shares	7,700	6,177	1,683	1,247	6,017	4,930
Investment funds						
Equity funds	438	329	44	35	394	294
Bond funds	2,019	1,224	65	69	1,954	1,155
Real estate funds	540	536	26	18	514	518
Other	1,534	1,431	157	134	1,377	1,297
	12,231	**9,697**	**1,975**	**1,503**	**10,256**	**8,194**
Total	**125,902**	**133,196**	**6,636**	**11,483**	**119,266**	**121,713**

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 are largely rated A or better. Assets pledged as security and other restrictions on title amount to €7,309m (8,503m). Some €1,525m (1,303m) 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 €6,636m (11,483m) in unrealised gains and losses, €3,121m (5,709m) has been recognised in equity (other reserves), after deduction of provisions for deferred premium refunds, deferred taxes, non-controlling interests, and consolidation and currency translation effects.

Disposal proceeds in the financial year

€m	2013	Prev. year
Fixed-interest securities	43,641	46,079
Non-fixed-interest securities		
Quoted	20,491	14,393
Unquoted	789	986
Total	**64,921**	**61,458**

Realised gains and losses

€m	2013	Prev. year
Gains on disposal	2,083	1,850
Fixed-interest securities	1,043	1,129
Non-fixed-interest securities	1,040	721
Losses on disposal	441	832
Fixed-interest securities	250	635
Non-fixed-interest securities	191	197
Total	**1,642**	**1,018**

Contractual period to maturity of fixed-interest securities

	Carrying amounts		Amortised cost	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Up to one year	8,812	11,526	8,737	12,131
Over one year and up to two years	10,109	8,747	9,862	8,501
Over two years and up to three years	11,224	10,858	10,785	10,259
Over three years and up to four years	10,546	10,599	10,079	9,984
Over four years and up to five years	9,775	10,679	9,278	10,030
Over five years and up to ten years	32,712	34,145	31,154	30,897
Over ten years	30,493	36,945	29,115	31,717
Total	**113,671**	**123,499**	**109,010**	**113,519**

Rating of fixed-interest securities according to fair values

€m	31.12.2013	Prev. year
AAA	39,968	54,883
AA	35,486	32,735
A	15,897	17,935
BBB	19,071	15,576
Lower	3,064	2,229
No rating	185	141
Total	**113,671**	**123,499**

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 €2,723m (2,846m) held for trading and securities of €164m (169m) designated as at fair value through profit or loss.

The securities held for trading are made up of fixed-interest securities totalling €647m (702m), non-fixed-interest securities totalling €37m (33m) and derivatives held for trading amounting to €2,039m (2,111m). The securities designated as at fair value through profit or loss comprise €163m (167m) assignable to fixed-interest securities and €1m (2m) to non-fixed interest securities. €188m of the securities at fair value through profit or loss is due within one year.

Rating of fixed-interest securities according to fair values

€m	31.12.2013	Prev. year
AAA	472	392
AA	107	233
A	136	199
BBB	95	45
Lower	–	–
No rating	–	–
Total	**810**	**869**

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 2013, 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 €1,056m (1,154m).

Disclosure of derivatives by balance sheet item

€m			31.12.2013	Prev. year
Fair value	Qualifying for hedge accounting	Balance sheet item		
Positive	No	Investments, other securities held for trading	2,039	2,111
	Yes	Other assets	229	309
Negative	No Yes	Liabilities, other liabilities	–955	–969
Total			**1,313**	**1,451**

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 2013, the open positions amounted to €1,313m (1,451m), or 0.5% (0.6%) of the balance sheet total.

Open positions

Periods to maturity in years	< 1	1–2	2–3	3–4	4–5	> 5	31.12. 2013	Prev. year
€m								
Interest-rate risks								
Traded on the stock exchange								
Fair values	9	–	–	–	–	–	9	6
Notional amounts	8,283	–	–	–	–	–	8,283	8,609
Over-the-counter								
Fair values	34	23	23	212	–2	746	1,036	1,311
Notional amounts	2,096	831	3,538	2,096	386	16,426	25,373	28,538
Total interest-rate risks								
Fair values	43	23	23	212	–2	746	1,045	1,317
Notional amounts	10,379	831	3,538	2,096	386	16,426	33,656	37,147
Currency risks								
Traded on the stock exchange								
Fair values	–	–	–	–	–	–	–	–
Notional amounts	20	–	–	–	–	–	20	21
Over-the-counter								
Fair values	–5	–	–	–	–	17	12	–14
Notional amounts	19,619	–	–	–	–	219	19,838	20,226
Total currency risks								
Fair values	–5	–	–	–	–	17	12	–14
Notional amounts	19,639	–	–	–	–	219	19,858	20,247
Equity and index risks								
Traded on the stock exchange								
Fair values	26	21	–	–	–	–	47	38
Notional amounts	5,692	772	–	–	–	–	6,464	2,014
Over-the-counter								
Fair values	–7	15	–	–	–	–	8	17
Notional amounts	144	9	1	–	–	–	154	404
Total equity and index risks								
Fair values	19	36	–	–	–	–	55	55
Notional amounts	5,836	781	1	–	–	–	6,618	2,418
Credit risks								
Over-the-counter								
Fair values	–	–	–	–	57	–	57	–6
Notional amounts	71	32	24	22	2,449	–	2,598	2,832
Weather risks								
Traded on the stock exchange								
Fair values	1	–	–	–	–	–	1	–
Notional amounts	3	–	–	–	–	–	3	–
Over-the-counter								
Fair values	–1	–	–	–	–	–	–1	6
Notional amounts	50	–	3	–	–	–	53	54
Total weather risks								
Fair values	–	–	–	–	–	–	–	6
Notional amounts	53	–	3	–	–	–	56	54
Commodity risks								
Traded on the stock exchange								
Fair values	1	–	–	–	–	–	1	–
Notional amounts	200	–	–	–	–	–	200	–
Over-the-counter								
Fair values	2	–	–1	–	–	–	1	22
Notional amounts	638	362	135	38	–	–	1,173	1,804
Total commodity risks								
Fair values	3	–	–1	–	–	–	2	22
Notional amounts	838	362	135	38	–	–	1,373	1,804
Insurance risks								
Over-the-counter								
Fair values	–59	11	44	65	40	41	142	71
Notional amounts	1,412	788	839	996	951	8,438	13,424	16,015
Total of all risks								
Fair values	**1**	**70**	**66**	**277**	**95**	**804**	**1,313**	**1,451**
Notional amounts	**38,228**	**2,794**	**4,540**	**3,152**	**3,786**	**25,083**	**77,583**	**80,517**

Under the risk type "insurance risks", we essentially subsume for property-casualty business the derivative portions of natural catastrophe bonds, individually structured insurance-linked 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 German life primary insurance are hedged using swaptions, interest-rate swaps and total return swaps. These derivatives are shown in the category "interest-rate risks/over-the-counter". In order to fulfil interest-rate guarantees extended to clients, we hedge against falling interest rates. At the reporting date, the fair values for these derivatives totalled €411m (502m), and the underlying notional amounts €3,553m (3,991m). We also hedge against increasing interest rates at the same time because these cause the market value of fixed-interest securities to fall. The fair values for these derivatives totalled €111m (33m), and the underlying notional amounts €3,913m (1,328m). The investment result from derivatives includes a loss of €57m (–116m) from fluctuations in value of these items.

Although the derivatives used by Munich Re essentially serve to hedge against risks, only an amount of €219m (296m) 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 derivatives used for this purpose amounted to €184m (249m) at the balance sheet date. In 2013, the following changes in value were recognised in the consolidated income statement: –€65m for the hedging instruments and €65m 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 being 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 €3m (–4m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €35m (47m) 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	31.12.2013	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 €3,006m (2,461m), tangible assets in renewable energies amounting to €498m (500m), physical gold of €290m (–), physical gas of €21m (–), and forestry investments totalling €10m (3m). Deposits with banks include receivables of €144m (142m) from borrowers under repurchase agreements that have been booked by us as the lender.

€2,993m (2,454m) of the deposits with banks is due within one year. With these deposits, the fair values largely correspond to the carrying amounts. Assets pledged as security and other restrictions on title amount to €10m (19m) 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	2013	Prev. year
Gross carrying amount at 31 Dec. previous year	545	282
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	45	22
Carrying amount at 31 Dec. previous year	500	260
Changes due to currency translation	-3	–
Additions		
Business combinations	38	259
Other	4	2
Disposals		
Loss of control	–	–
Other	–	–
Impairment losses reversed	–	1
Depreciation and impairment losses		
Depreciation	31	22
Impairment losses	10	–
Reclassification	–	–
Carrying amount at 31 Dec. financial year	**498**	**500**
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	86	45
Gross carrying amount at 31 Dec. financial year	584	545

The impairments were due to anticipated changes which have now occurred in the regulation of solar power in Spain.

The tangible assets in renewable energies include items pledged as security and other restrictions on title amounting to €253m (219m).

12 Ceded share of technical provisions

Ceded share of technical provisions

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Unearned premiums	–	–	109	124
Provision for future policy benefits	736	743	–	–
Provision for outstanding claims	363	387	1,817	2,053
Other technical provisions	-3	10	6	9
Total	**1,096**	**1,140**	**1,932**	**2,186**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Unearned premiums	1	1	10	12	82	72
Provision for future policy benefits	1,667	1,845	–	–	–	–
Provision for outstanding claims	32	16	10	10	304	264
Other technical provisions	–	–	–	–	–	4
Total	**1,700**	**1,862**	**20**	**22**	**386**	**340**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Unearned premiums	74	95	276	304
Provision for future policy benefits	7	7	2,410	2,595
Provision for outstanding claims	90	78	2,616	2,808
Other technical provisions	–	–	3	23
Total	**171**	**180**	**5,305**	**5,730**

Details of the ceded share of technical provisions are shown in (21) Unearned premiums, (22) Provisions for future policy benefits, (23) Provisions for outstanding claims, (24) Other technical provisions and (40) Credit risks from ceded reinsurance business.

13 Other receivables

Breakdown of other receivables

€m	31.12.2013	Prev. year
Amounts receivable on primary insurance business	1,345	1,427
Accounts receivable on reinsurance business	4,237	4,731
Interest and rent	2,722	2,872
Miscellaneous receivables	3,053	2,445
Total	**11,357**	**11,475**

€498m (460m) of the amounts receivable on primary insurance business is apportionable to receivables from insurance agents. The miscellaneous receivables contain receivables of €887m (708m) 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 €437m (79m).

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 according to carrying amounts

	Carrying amounts	
€m	31.12.2013	Prev. year
Up to one year	10,043	10,474
Over one year and up to two years	91	109
Over two years and up to three years	100	272
Over three years and up to four years	386	136
Over four years and up to five years	24	77
Over five years and up to ten years	87	69
Over ten years	626	338
Total	**11,357**	**11,475**

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 2013, our accounts receivable on ceded reinsurance business were split between the following ratings (based on those of Standard & Poor's):

Rating of accounts receivable

€m	31.12.2013	Prev. year
AAA	–	–
AA	26	384
A	61	38
BBB and lower	1	1
No external rating	113	181

€367m (429m) 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 €161m (158m).

14 Deferred acquisition costs

Deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	2,365	1,984	1,327	1,271
Ceded share	1	1	31	29
Net	**2,364**	**1,983**	**1,296**	**1,242**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	3,334	3,430	1,731	1,721	754	748
Ceded share	2	7	1	4	13	14
Net	**3,332**	**3,423**	**1,730**	**1,717**	**741**	**734**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	92	102	9,603	9,256
Ceded share	13	19	61	74
Net	**79**	**83**	**9,542**	**9,182**

Development of gross deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Status at 31 Dec. previous year	1,984	1,947	1,271	1,431
Currency translation differences	–150	14	–59	7
Change in consolidated group/Other	–	–	–	–7
New deferred acquisition costs	729	340	1,573	1,982
Changes				
Amortisation	–198	–327	–1,458	–2,142
Impairment losses	–	10	–	–
Status at 31 Dec. financial year	**2,365**	**1,984**	**1,327**	**1,271**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Status at 31 Dec. previous year	3,430	3,502	1,721	1,679	748	702
Currency translation differences	–2	4	–	–	–9	21
Change in consolidated group/Other	–11	–	–	–	–3	–2
New deferred acquisition costs	308	350	212	235	366	380
Changes						
Amortisation	–320	–257	–202	–193	–348	–330
Impairment losses	–71	–169	–	–	–	–23
Status at 31 Dec. financial year	**3,334**	**3,430**	**1,731**	**1,721**	**754**	**748**

€m	Munich Health 31.12.2013	Munich Health Prev. year	Total 31.12.2013	Total Prev. year
Status at 31 Dec. previous year	102	125	9,256	9,386
Currency translation differences	–7	–14	–227	32
Change in consolidated group/Other	–	–	–14	–9
New deferred acquisition costs	173	277	3,361	3,564
Changes				
Amortisation	–176	–286	–2,702	–3,535
Impairment losses	–	–	–71	–182
Status at 31 Dec. financial year	**92**	**102**	**9,603**	**9,256**

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 future mortality, lapses and profit participation, and regarding long-term interest-rate levels were adjusted in 2013 on the basis of the long-term regular return on investments. The German Federal Court of Justice's (BGH) rulings from 2012 on the offsetting of acquisition costs and the amount of surrender values with regard to life insurance were also taken into consideration. Overall, these adjustments 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

	31.12.2013		Prev. year	
€m	Assets	Liabilities	Assets	Liabilities
Assets				
A. Intangible assets	179	288	205	346
B. Investments	2,324	2,652	1,809	3,678
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	2	–	3
E. Receivables	20	96	84	35
I. Other assets	663	912	595	783
Total assets	**3,186**	**3,950**	**2,693**	**4,845**
Equity and liabilities				
C. Net technical provisions	2,157	3,856	1,836	3,480
E. Other accrued liabilities	765	373	923	450
F. Liabilities	335	9	259	24
Total equity and liabilities	**3,257**	**4,238**	**3,018**	**3,954**
Off balance sheet				
Loss carry-forwards and tax credits	546	–	508	–
Total	**6,989**	**8,188**	**6,219**	**8,799**

The deferred taxes for technical provisions include the deferred taxes for deferred acquisition costs and €2,207m (1,916m) for claims equalisation provisions, which are not posted under IFRS.

The excess of deferred tax liabilities over deferred tax assets amounts to €1,199m (2,580m). The reduction of €1,381m (–265m) was recognised as follows: €1,008m (–579m) without impact on profit or loss and €419m (362m) 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 €42m (48m) 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	31.12.2013
Deferred tax assets for					
Corporation tax loss carry-forwards	414	248	106	279	489
Trade tax loss carry-forwards	54	1	2	38	19
Loss carry-forwards from capital losses	2	–	–	2	–
Tax credits	38	–	2	2	38
Total	**508**	**249**	**110**	**321**	**546**

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

	31.12.2013			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	84	98	182	30	192	222
Expiring in over three years and up to ten years	489	64	553	856	520	1,376
Expiring in over ten years	469	17	486	67	396	463
Not expiring	563	683	1,246	476	827	1,303
	1,605	**862**	**2,467**	**1,429**	**1,935**	**3,364**
Trade tax loss carry-forwards						
Not expiring	121	135	256	330	132	462
	121	**135**	**256**	**330**	**132**	**462**
Loss carry-forwards from capital losses						
Expiring in up to three years	–	–	–	9	–	9
Expiring in over three years and up to ten years	–	18	18	–	–	–
Expiring in over ten years	–	–	–	–	–	–
Not expiring	–	–	–	–	–	–
	–	**18**	**18**	**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	38	–	38
	38	**–**	**38**	**38**	**–**	**38**

16 Other assets

These mainly comprise owner-occupied property totalling €2,419m (2,391m), plant and equipment of €249m (273m), advance payments on insurance amounting to €389m (393m), derivatives totalling €229m (309m), miscellaneous deferred items of €134m (130m), and recoveries from policyholders totalling €33m (23m). Some €12m (15m) of the owner-occupied property involves finance leases.

Development of property, plant and equipment

€m	Owner-occupied property 2013	Operating and office equipment 2013	Other 2013	Total 2013
Gross carrying amount at 31 Dec. previous year	3,417	962	55	4,434
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	1,026	689	34	1,749
Carrying amount at 31 Dec. previous year	2,391	273	21	2,685
Currency translation differences	–11	–4	–	–15
Additions				
Business combinations	–	–	–	–
Other	84	95	7	186
Disposals				
Loss of control	–	–	–	–
Other	–	7	3	10
Impairment losses reversed	7	–	–	7
Depreciation and impairment losses				
Depreciation	58	105	5	168
Impairment losses	4	2	–	6
Reclassification	10	–1	–	9
Carrying amount at 31 Dec. financial year	**2,419**	**249**	**20**	**2,688**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	1,091	729	31	1,851
Gross carrying amount at 31 Dec. financial year	3,510	978	51	4,539

→

€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	3,385	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

The impairment losses reversed are distributed between the following different Group segments: In reinsurance, €1m (2m) is apportionable to life and €1m (2m) to property-casualty; in primary insurance, €3m (16m) is apportionable to life, €2m (6m) to health and – (€1m) to Munich Health.

The impairment losses are distributed between the following different Group segments: in reinsurance – (€5m) is apportionable to life and – (€6m) to property-casualty; in primary insurance, the impairment losses amount to – (€2m) in life, €4m (–) in health, €1m (–) in property-casualty, and €1m (2m) in Munich Health.

Property is allocated to Level 3 of the fair value hierarchy; see Assets B – Investments.

The fair value of the property amounts to €2,828m (2,698m). 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 €78m (158m) for property and €15m (17m) for plant and equipment. Commitments to acquire property total €33m (33m) and commitments to acquire plant and equipment €13m (12m). For plant and equipment, no assets were pledged as security or other restrictions on title .

17 Non-current assets and disposal groups held for sale and sold during the reporting period

In the third quarter of 2013, with economic effect from the fourth quarter of 2013, we sold the fully consolidated subsidiary Windsor Health Group, Inc., Atlanta, Georgia, including its subsidiaries. The loss from the sale of these companies totalled €25m. It is shown under “investment result” and “other non-operating result” in the consolidated income statement.

Notes to the consolidated balance sheet – Equity and liabilities

18 Equity

The total share capital of €587,725,396.48 at 31 December 2013 is divided into 179,341,212 no-par-value registered shares, each fully paid up and carrying one vote. In the year under review, the number of shares in circulation developed as follows:

Development of shares in circulation

Number of shares	2013	Prev. year
Status at 31 Dec. previous year	178,527,270	177,588,750
Additions		
Disposals from hedging stock appreciation rights under long-term incentive plans	816,883	1,020,083
Reductions		
Acquisition of shares for retirement (share buy-back programme)	1,905,838	–
Acquisition of shares to hedge stock appreciation rights under long-term incentive plans	16,415	81,563
Status at 31 Dec. financial year	**177,421,900**	**178,527,270**

On 31 December 2013, a total of 1,919,312 Munich Reinsurance Company shares with a calculated nominal value of around €6.3m were held by Group companies. This represents around 1.1% of the share capital.

On 7 November 2013, Munich Reinsurance Company's Board of Management decided on a share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 20 April 2011, in accordance with Section 71 para. 1 (8) of the German Stock Corporation Act (AktG). From 14 November 2013 to 31 December 2013, a total of 1,905,838 shares in Munich Reinsurance Company were purchased via the stock exchange at an average price of €157.41.

In the financial year 2013, the complete portfolio of 712,000 Munich Re shares held by the Company at the beginning of the year to hedge stock appreciation rights granted to the Board of Management and top Munich Reinsurance Company executives since 1999 was sold at an average price of €136.02 as part of the reduction of hedges for these obligations. The proceeds of the sale totalling €96.8m were used to strengthen liquid funds.

In the financial year 2013, companies of the ERGO Insurance Group acquired 16,415 shares at an average price of €133.35 to cover future commitments from the long-term incentive plans launched since 2002 and sold a total of 38,250 shares at a price of €142.64 each, also as part of the reduction of hedges for these obligations. The proceeds of the sale totalling €5.5m were used to strengthen liquid funds. As at 31 December 2013, no more Munich Re shares were held for these incentive plans.

MEAG MUNICH ERGO AssetManagement GmbH sold 66,633 Munich Re shares at an average price of €151.36 in the financial year 2013 in connection with the hedging of obligations from its long-term incentive plan. The sale produced proceeds of €10.1m, which were used to strengthen liquid funds. With the remaining Munich Re shares acquired in prior years to hedge the stock appreciation rights granted, MEAG had a total portfolio of 13,474 shares at 31 December 2013.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €301,688,353.67.

In the year under review, a total of €1,255m was distributed to Munich Reinsurance Company's equity holders for the financial year 2012 in the form of a dividend of €7.00 per dividend-bearing share.

Composition of the capital authorised for capital increases

€m	31.12.2013
Authorised Capital Increase 2011 (until 19 April 2016)	10
Authorised Capital Increase 2013 (until 24 April 2018)	280
Total	**290**

Composition of contingent capital

€m	31.12.2013
Contingent Capital Increase 2010 (until 27 April 2015)	117
Total	**117**

Composition of equity

€m	31.12.2013	Prev. year
Issued capital	581	585
Capital reserve	6,845	6,836
Retained earnings	12,875	10,938
Other reserves	2,369	5,650
Consolidated result attributable to Munich Reinsurance Company equity holders	3,313	3,188
Non-controlling interests	243	242
Total equity	**26,226**	**27,439**

After taking into account tax effects, externally generated costs directly connected with equity capital measures and deducted from retained earnings amount to €31m. Retained earnings of €2,512m (2,374m) are allocable to Munich Reinsurance Company.

Also included in the retained earnings are equalisation reserves of €6,084m (5,243m). 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 –€1,002m (–292m) from currency translation and €3m (–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	31.12.2013	Prev. year
Non-consolidated affiliated companies and associates not accounted for using the equity method	158	175
Associates accounted for using the equity method	100	79
Other securities available for sale		
Fixed-interest	4,661	9,980
Non-fixed-interest	1,975	1,503
Less		
Provision for deferred premium refunds recognised in equity	2,754	3,696
Deferred taxes recognised in equity	796	2,005
Non-controlling interests	8	20
Consolidation and currency translation effects	–32	70
Total	**3,368**	**5,946**

Tax effects in the income and expenses recognised directly in equity

			2013			Prev. year
€m	Before tax	Tax	After tax	Before tax	Tax	After tax
Currency translation	–714	–	–714	–67	–	–67
Unrealised gains and losses on investments	–3,821	–1,209	–2,612	3,076	729	2,347
Change resulting from valuation at equity	35	–	35	27	–	27
Change resulting from cash flow hedges	–1	–	–1	1	–	1
Actuarial gains and losses on defined benefit plans	282	98	184	–553	–171	–382
Other changes	2	–	2	16	–	16
Income and expense recognised directly in equity	**–4,217**	**–1,111**	**–3,106**	**2,500**	**558**	**1,942**

The taxes of –€1,111m (558m) recognised directly in equity comprise current taxes on unrealised gains of –€103m (–21m) on assets, with the remainder of –€1,008m (579m) being deferred tax assets.

Non-controlling interests

€m	31.12.2013	Prev. year
Unrealised gains and losses	8	20
Consolidated result	29	16
Other equity	206	206
Total	**243**	**242**

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 2013, there were no significant changes in the percentage interest held in consolidated subsidiaries.

Information on capital management and minimum capital requirements is provided in the management report under "Financial position – Capital management" and "Financial position – Group solvency" respectively.

19 Fair value hierarchy of liabilities

All financial liabilities recognised at fair value, and such financial instruments that are not recognised at fair value but for which a fair value is disclosed in the notes, are allocated to one of the fair value hierarchy levels of IFRS 13.

Regularly, at each reporting date, we assess whether the allocation of these liabilities to the levels of the fair value hierarchy is still appropriate. If changes in the basis of valuation have occurred – for instance, if a market is no longer active or the valuation was performed using inputs requiring another allocation – we make the necessary adjustments.

For information on the valuation models used for measuring derivatives, please see the table and notes under (4) Hierarchy for the fair value measurement of investments. The valuation of subordinated bonds for which no market prices are available is conducted using the present value method and taking observable market parameters into account. For the bonds in our portfolio, we use the market values provided by price quoters for the corresponding assets.

No fair values are available for the bulk of the amounts due to banks, which are accordingly not represented in the following table.

The following table shows the allocation of the financial liabilities to levels of the fair value hierarchy.

Allocation of liabilities to levels of the fair value hierarchy

				31.12.2013
€m	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Other liabilities				
Derivatives	127	681	147	955
Total	**127**	**681**	**147**	**955**
Liabilities not measured at fair value[1]				
Subordinated liabilities	4,716	112	–	4,828
Bonds and notes issued	309	–	–	309
Amounts due to banks	–	8	30	38
Total	**5,025**	**120**	**30**	**5,175**

→				Prev. year
€m	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Other liabilities				
Derivatives	29	749	191	969
Total	**29**	**749**	**191**	**969**

1 As the requirement to provide information on investments not measured at fair value through profit or loss became mandatory for the first time with respect to the financial year 2013, there are no comparative figures for the previous year.

In the financial statements, only derivatives with a negative market value are currently recognised at fair value. Of these, we allocate the derivative portions of catastrophe bonds, weather derivatives, and derivative components of variable annuities to Level 3 of the fair value hierarchy.

The following table presents the reconciliation from the opening balances to the closing balances for other liabilities allocated to Level 3.

Reconciliation for liabilities allocated to Level 3

	Other liabilities at fair value through profit or loss	
€m	31.12.2013	Prev. year
Carrying amount at 31 Dec. previous year	191	243
Gains and losses	84	51
Gains (losses) recognised in the income statement	78	51
Gains (losses) recognised in equity	6	–
Acquisitions	68	38
Disposals	29	39
Transfer to Level 3	–	–
Transfer out of Level 3	–	–
Change in the market value of derivatives	1	–
Carrying amount at 31 Dec. financial year	**147**	**191**
Gains (losses) recognised in the income statement that are attributable to liabilities shown at the end of the financial year	72	49

20 Subordinated liabilities

Breakdown of subordinated liabilities

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2013	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	893	892
Munich Reinsurance Company, Munich, 6.625% until 2022, thereafter floating, £450m, Bonds 2012/2042	WKN: A1ML15 ISIN: XS0764278288 Reuters: DE076427828= Bloomberg: MUNRE	a+	A	–	A	539	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	990	989
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	1,531	1,596
Munich Reinsurance Company, Munich, 6.75% until 2013, thereafter floating, €1,000m[1], Bonds 2003/2023	WKN: 843278 ISIN: XS0166965797 Reuters: DE016696579= Bloomberg: MUNRE	–	–	–	–	–	995
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	359	368
ERGO Versicherung Aktiengesellschaft, Vienna, 4.95%, €50m, Registered bonds 2004/2014		–	–	–	–	50	51
ERGO Versicherung Aktiengesellschaft, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €12m[2], Registered bonds 2001/perpetual		–	–	–	–	12	12
ERGO Versicherung Aktiengesellschaft, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m[3], Registered bonds 1998/perpetual		–	–	–	–	13	12
HSB Group Inc., Delaware, LIBOR +91 BP, US$ 76m, Bonds 1997/2027		–	–	–	–	37	37
Total						**4,424**	**5,504**

1 In the second quarter of 2013, the issuer redeemed bonds with a nominal value of €1,000m.
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 25 April 2013, we called our subordinated bond 2003/2023 with a nominal volume outstanding of €1bn, and fully redeemed it on 21 June 2013.

In the case of Munich Reinsurance Company's bonds, annual outflows of liquidity amounting to the respective interest payments occur until the first possible call dates in 2022, 2021, 2017 and 2018. In the financial year, these amounted to €338m. Thereafter, the liquidity outflows will vary, depending on the respective interest-rate level. In the case of the ERGO Versicherung Aktiengesellschaft, Vienna, registered bonds from 2004, the annual outflow of liquidity is €2m. For its registered bonds from

2001 and 1998, and for the HSB Group bonds, the annual outflow is 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 €4,828m (5,953m). 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.

21 Unearned premiums

Unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	28	37	5,587	5,776
Ceded share	–	–	109	124
Net	**28**	**37**	**5,478**	**5,652**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	30	15	99	99	1,766	1,755
Ceded share	1	1	10	12	82	72
Net	**29**	**14**	**89**	**87**	**1,684**	**1,683**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	484	452	7,994	8,134
Ceded share	74	95	276	304
Net	**410**	**357**	**7,718**	**7,830**

Development of gross unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Status at 31 Dec. previous year	37	45	5,776	6,070
Currency translation effects	-2	1	-282	–
Change in consolidated group	–	–	–	-23
Gross premiums written	10,829	11,130	17,013	17,052
Earned premiums	10,836	11,139	16,920	17,323
Status at 31 Dec. financial year	**28**	**37**	**5,587**	**5,776**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Status at 31 Dec. previous year	15	8	99	97	1,755	1,728
Currency translation effects	-2	–	1	-1	-14	62
Change in consolidated group	–	–	–	–	-32	-75
Gross premiums written	5,489	5,798	5,671	5,732	5,507	5,554
Earned premiums	5,472	5,791	5,672	5,729	5,450	5,514
Status at 31 Dec. financial year	**30**	**15**	**99**	**99**	**1,766**	**1,755**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Status at 31 Dec. previous year	452	443	8,134	8,391
Currency translation effects	-29	-1	-328	61
Change in consolidated group	–	–	-32	-98
Gross premiums written	6,551	6,703	51,060	51,969
Earned premiums	6,490	6,693	50,840	52,189
Status at 31 Dec. financial year	**484**	**452**	**7,994**	**8,134**

22 Provision for future policy benefits

Provision for future policy benefits

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	13,633	13,352	27	32
Ceded share	736	743	–	–
Net	**12,897**	**12,609**	**27**	**32**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	69,182	69,508	27,175	25,544	434	425
Ceded share	1,667	1,845	–	–	–	–
Net	**67,515**	**67,663**	**27,175**	**25,544**	**434**	**425**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	976	908	111,427	109,769
Ceded share	7	7	2,410	2,595
Net	**969**	**901**	**109,017**	**107,174**

Gross provision for future policy benefits according to type of insurance cover

€m	31.12.2013	Prev. year
Life	**82,815**	**82,860**
Reinsurance	13,633	13,352
Primary insurance	69,182	69,508
Term life insurance	2,975	2,937
Other life insurance	35,676	36,331
Annuity insurance	29,286	29,027
Disability insurance	1,221	1,194
Contracts with combination of more than one risk	24	19
Health	**28,151**	**26,452**
Munich Health	976	908
Primary insurance	27,175	25,544
Property-casualty	**461**	**457**
Reinsurance	27	32
Primary insurance	434	425
Total	**111,427**	**109,769**

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 approx. 88% of the provisions for future policy benefits are apportionable, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used.

Further information on the underwriting risks and discount rates can be found under (38) Risks from life and health insurance business and (39) Risks from property-casualty insurance business.

Development of gross provision for future policy benefits

€m	2013	Prev. year
Status at 31 Dec. previous year	109,769	108,477
Currency translation differences	-571	-194
Change in consolidated group/Other	2,220	559
Changes		
Scheduled	9	899
Unscheduled	–	28
Status at 31 Dec. financial year	**111,427**	**109,769**

The change under “Other” contains €361m (453m) in savings premiums for capitalisation products and €1,266m (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.

23 Provisions for outstanding claims

Provision for outstanding claims

			Reinsurance	
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	5,948	5,652	37,847	39,097
Ceded share	363	387	1,817	2,053
Net	**5,585**	**5,265**	**36,030**	**37,044**

→					Primary insurance	
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	1,758	1,648	941	917	5,730	5,483
Ceded share	32	16	10	10	304	264
Net	**1,726**	**1,632**	**931**	**907**	**5,426**	**5,219**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Gross	837	954	53,061	53,751
Ceded share	90	78	2,616	2,808
Net	**747**	**876**	**50,445**	**50,943**

Gross provision by type

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Annuity claims provision	3,520	3,402	260	252
Case reserve	951	958	16,970	18,783
IBNR reserve	1,477	1,292	20,617	20,062
Total	**5,948**	**5,652**	**37,847**	**39,097**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Annuity claims provision	1,231	1,172	1	1	470	413
Case reserve	340	287	884	859	4,012	3,845
IBNR reserve	187	189	56	57	1,248	1,225
Total	**1,758**	**1,648**	**941**	**917**	**5,730**	**5,483**

→	Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year
Annuity claims provision	38	34	5,520	5,274
Case reserve	352	580	23,509	25,312
IBNR reserve	447	340	24,032	23,165
Total	**837**	**954**	**53,061**	**53,751**

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 explained under (38) Risks from life and health insurance business and (39) 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	
%	31.12.2013	Prev. year	31.12.2013	Prev. year
Up to one year	29.8	30.6	37.3	36.5
Over one year and up to five years	44.7	44.2	39.4	39.6
Over five years and up to ten years	14.3	13.7	13.3	14.1
Over ten years and up to fifteen years	5.4	5.3	4.9	5.9
Over fifteen years	5.8	6.2	5.1	3.9

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

€m	2013 Gross	2013 Ceded share	2013 Net	Prev. year Gross	Prev. year Ceded share	Prev. year Net
Status at 31 Dec. previous year	44,580	2,317	42,263	45,704	2,603	43,101
Currency translation differences	–1,604	–55	–1,549	–158	–6	–152
Change in consolidated group	–25	–1	–24	–38	–11	–27
Claims expenses						
For the year under review	14,501	343	14,158	14,898	365	14,533
For previous years	–926	–12	–914	–1,019	–15	–1,004
Total claims expenses	13,575	331	13,244	13,879	350	13,529
Unwinding of discount	56	2	54	59	3	56
Less payments						
For the year under review	5,617	72	5,545	6,120	110	6,010
For previous years	7,388	401	6,987	8,746	512	8,234
Total payments	13,005	473	12,532	14,866	622	14,244
Status at 31 Dec. financial year	**43,577**	**2,121**	**41,456**	**44,580**	**2,317**	**42,263**

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. Exceptions were the latent claims complex of asbestos and individual major liability claims, for which reserves were strengthened.

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	≤ 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
2003	10,542											
2004	6,477	3,756										
2005	3,561	2,754	3,408									
2006	2,374	886	3,485	3,273								
2007	2,032	387	1,612	2,423	4,062							
2008	2,068	448	482	1,302	2,703	4,115						
2009	1,601	239	462	535	1,208	3,115	4,234					
2010	1,231	242	255	421	775	1,570	3,053	4,709				
2011	1,550	130	151	264	482	577	1,242	3,147	5,539			
2012	860	78	97	164	194	409	475	1,518	4,001	5,482		
2013	762	17	55	25	38	188	331	664	1,876	2,804	5,417	12,177

Claims reserves for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
31.12.2003	30,425											
31.12.2004	24,401	7,340										
31.12.2005	21,237	4,708	8,721									
31.12.2006	18,949	3,851	5,287	7,375								
31.12.2007	17,318	3,238	3,816	4,757	7,552							
31.12.2008	15,513	2,467	2,933	3,340	5,037	8,534						
31.12.2009	13,812	1,954	2,436	2,631	3,748	5,639	8,246					
31.12.2010	13,013	1,442	1,794	1,952	2,901	4,062	5,164	8,212				
31.12.2011	11,452	1,312	1,478	1,601	2,380	3,224	3,527	5,268	11,145			
31.12.2012	10,545	1,157	1,194	1,291	1,842	2,712	2,978	3,643	7,187	8,202		
31.12.2013	9,776	1,062	1,065	1,298	1,607	2,340	2,655	3,061	5,036	5,231	8,355	41,486

Ultimate loss for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
31.12.2003	40,967											
31.12.2004	41,420	11,096										
31.12.2005	41,817	11,218	12,129									
31.12.2006	41,903	11,247	12,180	10,648								
31.12.2007	42,304	11,021	12,321	10,453	11,614							
31.12.2008	42,567	10,698	11,920	10,338	11,802	12,649						
31.12.2009	42,467	10,424	11,885	10,164	11,721	12,869	12,480					
31.12.2010	42,899	10,154	11,498	9,906	11,649	12,862	12,451	12,921				
31.12.2011	42,888	10,154	11,333	9,819	11,610	12,601	12,056	13,124	16,684			
31.12.2012	42,841	10,077	11,146	9,673	11,266	12,498	11,982	13,017	16,727	13,684		
31.12.2013	42,834	9,999	11,072	9,705	11,069	12,314	11,990	13,099	16,452	13,517	13,772	165,823
Net run-off result	–1,867	1,097	1,057	943	545	335	490	–178	232	167	n/a	2,821
Change 2012 to 2013	7	78	74	–32	197	184	–8	–82	275	167	n/a	860

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 2013). This ensures that currency translation does not lead to run-off effects.

24 Other technical provisions

Breakdown of other technical provisions

	Reinsurance		Primary insurance		Munich Health		Total	
€m	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Provision for premium refunds based on national regulations	3	3	6,649	6,400	–	–	6,652	6,403
Provision for deferred premium refunds	–	–	6,238	6,842	5	7	6,243	6,849
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	–	–	2,736	3,687	14	15	2,750	3,702
Thereof resulting from other revaluations (recognised in profit or loss)	–	–	3,502	3,155	–9	–8	3,493	3,147
Provision for profit commission	414	483	–	–	21	13	435	496
Other	28	27	112	95	49	90	189	212
Total (gross)	**445**	**513**	**12,999**	**13,337**	**75**	**110**	**13,519**	**13,960**

Of the provision for premium refunds based on national regulations, €84m (85m) 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 €3m (23m), of which €2m (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	2013	Prev. year
Status at 31 Dec. previous year	6,403	5,711
Change in consolidated group	–33	–
Allocations/Withdrawals	282	692
Status at 31 Dec. financial year	**6,652**	**6,403**

Development of provision for deferred premium refunds

€m	2013	Prev. year
Status at 31 Dec. previous year	6,849	3,732
Change in consolidated group	–231	–
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	–952	2,826
Change resulting from other revaluations (recognised in profit or loss)	577	291
Status at 31 Dec. financial year	**6,243**	**6,849**

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 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.

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.

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

Development of gross provision

€m	2013	Prev. year
Status at 31 Dec. previous year	6,258	5,373
Change in consolidated group and other influences	107	8
Savings premiums	780	760
Unrealised gains/losses on fund assets	401	603
Withdrawal for expenses and risk	80	79
Withdrawal for benefits	423	407
Status at 31 Dec. financial year	**7,043**	**6,258**

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.

26 Other accrued liabilities

Breakdown of other accrued liabilities

€m	31.12.2013	Prev. year
Provisions for post-employment benefits	2,140	2,324
Other provisions	2,029	1,994
Total	**4,169**	**4,318**

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. Special regional economic, legal and tax features are taken into account. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. The pension commitments comprise obligations towards active beneficiaries or retired beneficiaries with vested benefits, and current pension payments. Defined benefit plans are funded internally through provisions for post-employment benefits and externally through funds and insurance contracts concluded to cover the benefit obligations.

Expenses for defined contribution plans in the year under review totalled €69m (66m). Expenses for contributions to state plans totalled €117m (122m) in the financial year.

The present value of obligations under defined benefit pension plans amounted to €3,992m (4,234m), the plan assets to be deducted totalled €2,012m (2,000m). The defined benefit obligations comprise the following main plans:

Munich Reinsurance Company's pension obligations account for €1,014m (1,135m) of the present value of obligations under defined pension plans and €1,022m (1,069m) of plan assets. The obligations include disability and old-age pensions, and pensions for surviving dependants. The amount of the pensions generally depends on salary and length of service. The defined benefits granted up to 31 December 2007 are financed through a fund. New members on or after 1 January 2008 receive pension commitments in the form of defined contribution plans financed by means of intra-Group insurance contracts securing the obligations under pension schemes. The fund and insurance contracts have been grouped in a contractual trust agreement (CTA).

The pension obligations of the ERGO Insurance Group account for €1,966m (1,959m) of the present value of obligations under defined pension plans and €194m (178m) of plan assets. The obligations include disability and old-age pensions, and pensions for surviving dependants. The amount of the pensions generally depends on salary and length of service. The commitments are generally funded through pension provisions. New members receive pension commitments in the form of defined contribution plans financed by means of intra-Group insurance contracts securing the obligations under pension schemes. There are medical-care benefit obligations.

The pension obligations of Munich Re America account for €524m (617m) of the present value of obligations under defined pension plans and €326m (298m) of plan assets. The obligations include pensions for employees and surviving dependants. The amount of the pensions generally depends on includable compensation and length of service. The plan is financed through a trust and pension provisions. The plan was closed to new members effective 1 January 2006 and to all remaining members effective 31 December 2011. With effect from 1 January 2012, all members now receive pension commitments in the form of defined contribution plans. There are also retiree medical-care benefit obligations.

Change in the present value of the defined benefit obligations

€m	2013	Prev. year
Status at 31 Dec. previous year	4,234	3,345
Currency translation differences	–60	–6
Change in consolidated group	–1	–
Current service cost	125	100
Past service cost	10	16
Gains and losses from plan settlements	–	–2
Contributions by plan participants	5	–
Interest expense	132	140
Payments	–110	–115
Payments from plan settlements	–2	–
Transfer of obligations	6	–
Actuarial gains/losses: Change in demographic assumptions	2	–
Actuarial gains/losses: Change in financial assumptions	–319	759
Actuarial gains/losses: Experience adjustments	–34	28
Other	4	–31
Status at 31 Dec. financial year	**3,992**	**4,234**

Defined benefit obligations also include medical-care benefits. The present value of defined benefit obligations for these items amounted to €207m (223m) at the balance sheet date.

The present value of the obligations under defined benefit plans breaks down as follows:

Breakdown of the present value of defined benefit obligations

%	31.12.2013	Prev. year
Active members	50	52
Deferred members	13	12
Pensioners	37	36
Total	**100**	**100**

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

Actuarial assumptions

%	2013	Prev. year
Discount rate	3.6	3.1
Future increases in entitlement/salary	2.0	2.3
Future pension increases	1.5	1.6
Medical cost trend rate	3.9	4.1

Pension obligations are measured using generally recognised biometric actuarial assumptions, adjusted as a rule to take account of company-specific circumstances.

Change in the fair value of plan assets for defined benefit plans

€m	2013	Prev. year
Status at 31 Dec. previous year	2,000	1,725
Currency translation differences	-43	1
Change in consolidated group	–	–
Interest income	67	74
Return excluding interest income	-54	174
Contributions by the employer	75	92
Contributions by plan participants	5	4
Payments	-33	-41
Payments from plan settlements	-4	–
Transfer of assets	1	–
Other	-2	-29
Status at 31 Dec. financial year	**2,012**	**2,000**

Breakdown of the fair value of plan assets for defined benefit plans

%	31.12.2013	Prev. year
Quoted market price in an active market		
Cash or cash equivalents	2	2
Equity instruments	11	11
Debt instruments	52	54
Real estate	–	–
Derivatives	–	–
Securities funds	17	15
Asset-backed securities	–	–
Structured debt	–	–
Insurance contracts	17	17
Other	1	1
Total	**100**	**100**

As in the previous year, the fair value of the plan assets does not include own shares.

For the financial year 2014, capital transfers of €63m (57m) to plan assets are expected.

Change in the reimbursement rights for defined benefit plans

€m	2013	Prev. year
Status at 31 Dec. previous year	167	143
Interest income	5	7
Return excluding interest income	-12	24
Contributions by the employer	15	13
Contributions by plan participants	–	–
Payments	-5	-4
Transfer of assets	7	–
Other	–	-16
Status at 31 Dec. financial year	**177**	**167**

The reimbursement rights derive from insurance contracts concluded to cover the benefit obligations.

No effects resulted from the asset ceiling.

Funded status of defined benefit plans

€m	31.12.2013	Prev. year
Obligations funded through provisions		
Present value of defined benefit obligations	1,968	2,032
Other	–	10
Net balance sheet liability	1,968	2,042
Obligations funded through plan assets		
Present value of defined benefit obligations	2,024	2,202
Fair value of plan assets	–2,012	–2,000
Assets from the defined benefit plan	160	78
Effect of asset ceiling	–	–
Other	–	2
Net balance sheet liability	172	282
Obligations independent of funded obligations		
Present value of defined benefit obligations	3,992	4,234
Fair value of plan assets	–2,012	–2,000
Assets from the defined benefit plan	160	78
Effect of asset ceiling	–	–
Other	–	12
Net balance sheet liability	**2,140**	**2,324**

The plan assets have the exclusive purpose of fulfilling the defined benefit obligations to which they are allocated and making provision for future outflows. This is required by law in several countries, whilst in other countries plan assets are provided on a voluntary basis.

The relationship between the fair value of the plan assets and the present value of the defined benefit obligations is referred to as the funded status. If the present value of defined benefit obligations exceeds the fair value of the plan assets, this excess of liabilities over assets is financed by means of provisions for post-employment benefits. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, an asset arises out of the defined benefit plan. As each plan is analysed individually, this may give rise to both a provision for post-employment benefits and an asset from the defined benefit plan.

Market fluctuations may give rise to changes in the fair value of the plan assets over the course of time. Adjustments to the actuarial assumptions (e.g. life expectancy, actuarial interest rate) or deviations in actual risk experience from the risk experience assumed may result in changes in the present value of the defined benefit obligations. Both factors may therefore lead to fluctuations in the funded status. To avoid these fluctuations wherever possible, care is taken, when choosing investments, that fluctuations in the fair value of the plan assets and in the present value of defined benefit obligations offset each other as far as possible whenever changes in certain influencing variables occur (asset-liability matching).

Breakdown of expenses booked in the financial year

€m	2013	Prev. year
Net interest income or expense	60	59
Service cost	140	114
Other	–11	–
Total	**189**	**173**

The expenses are distributed between the functional areas and shown mainly under "operating expenses" and "expenses for claims and benefits" in the consolidated income statement.

The actual return on plan assets amounts to €13m (248m), and the actual losses on reimbursements to €7m (actual return of €31m).

Included in the statement of recognised income and expense are actuarial gains amounting to €305m in the financial year (actuarial losses of €585m) and actuarial losses of €1,092m (1,397m) cumulatively, taking currency fluctuations into account.

Contractual period to maturity of pension obligations

€m	31.12.2013	Prev. year
Up to one year	119	112
Over one year and up to five years	537	529
Over five years and up to ten years	788	795
Over ten years and up to twenty years	2,106	2,037
Over 20 years	6,442	6,578
Total	**9,992**	**10,051**

The weighted average contractual period to maturity of our pension obligations is 18 (19) years.

An increase or decrease in the following essential actuarial assumptions has an impact on the present value of defined benefit obligations:

Sensitivity analysis

€m	31.12.2013	Prev. year
Increase in actuarial discount rate by 50 BP	–316	–
Decrease in actuarial discount rate by 50 BP	364	–
Increase in salary/entitlement trends by 10 BP	15	–
Decrease in salary/entitlement trends by 10 BP	–14	–
Increase in pension trends by 10 BP	35	–
Decrease in pension trends by 10 BP	–36	–
Increase in medical cost trend rate by 100 BP	28	–
Decrease in medical cost trend rate by 100 BP	–24	–
Increase in mortality rate by 10%	–77	–
Decrease in mortality rate by 10%	84	–

The calculations for the actuarial assumptions classified as essential were carried out individually in order to display their effects separately.

Other provisions

Other provisions

€m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2013
Restructuring	483	136	90	4	4	529
Earned commission	204	900	880	6	2	220
Outstanding invoices	148	205	120	68	2	167
Bonuses	132	83	60	12	–5	138
Early retirement benefits/semi-retirement	130	14	49	1	–1	93
Anniversary benefits	86	5	2	–	1	90
Holiday and overtime pay	65	58	48	4	–1	70
Miscellaneous	746	473	402	89	–6	722
Total	**1,994**	**1,874**	**1,651**	**184**	**–4**	**2,029**

The provisions for restructuring also included in this item mainly concern €178m (219m) for the ERGO Group's "Continuous improvement of our competitive position" project and €343m (258m) for the comprehensive restructuring of its sales organisation. The miscellaneous other provisions comprise a large number of different items, including €92m (91m) for medium- and long-term incentive plans, €94m (106m) for salary obligations, €57m (57m) for other remuneration for desk and field staff, €19m (17m) for competitions for sales staff, and €43m (46m) 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.

27 Bonds and notes issued

Breakdown of bonds and notes issued

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2013	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–	248	259
Total						**248**	**259**

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 use the prices provided by price quoters to determine the fair value of the notes issued. The fair value at the reporting date amounts to €309m (340m).

28 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.

29 Other liabilities

Breakdown of other liabilities

€m	31.12.2013	Prev. year
Amounts payable on primary insurance business	3,358	3,648
Accounts payable on reinsurance business	4,491	5,097
Amounts due to banks	462	493
Miscellaneous liabilities	4,121	4,002
Total	**12,432**	**13,240**

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.

€176m 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 €230m (415m) resulting from reinsurance contracts without significant risk transfer, derivative financial instruments with a negative fair value of €528m (508m), and negative fair values totalling €427m (461m) for insurance-linked derivatives, derivative components separated from the host insurance contract, and hedging derivatives of variable annuities. The miscellaneous liabilities also include €17m (14m) for social security and €199m (250m) 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; cf. (38) Risks from life and health insurance business and (39) 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	31.12.2013	Prev. year
Up to one year	6,633	7,739
Over one year and up to two years	126	53
Over two years and up to three years	130	47
Over three years and up to four years	179	85
Over four years and up to five years	35	60
Over five years and up to ten years	531	556
Over ten years	864	597
Total	**8,498**	**9,137**

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. €56m (42m) of the amounts owed to banks and €389m (537m) 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.

Notes to the consolidated income statement

30 Premiums

Premiums

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Total gross premiums	10,829	11,130	17,013	17,052
Gross premiums written	10,829	11,130	17,013	17,052
Change in unearned premiums – Gross	–7	–9	93	–271
Gross earned premiums	**10,836**	**11,139**	**16,920**	**17,323**
Ceded premiums written	462	450	677	650
Change in unearned premiums – Ceded share	–	–	–6	–
Earned premiums ceded	**462**	**450**	**683**	**650**
Net earned premiums	**10,374**	**10,689**	**16,237**	**16,673**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Total gross premiums	6,851	7,268	5,671	5,732	5,507	5,554
Gross premiums written	5,489	5,798	5,671	5,732	5,507	5,554
Change in unearned premiums – Gross	17	7	–1	3	57	40
Gross earned premiums	**5,472**	**5,791**	**5,672**	**5,729**	**5,450**	**5,514**
Ceded premiums written	118	135	43	58	206	222
Change in unearned premiums – Ceded share	–	–	–3	10	15	8
Earned premiums ceded	**118**	**135**	**46**	**48**	**191**	**214**
Net earned premiums	**5,354**	**5,656**	**5,626**	**5,681**	**5,259**	**5,300**

→

	Munich Health		Total	
€m	2013	Prev. year	2013	Prev. year
Total gross premiums	6,551	6,703	52,422	53,439
Gross premiums written	6,551	6,703	51,060	51,969
Change in unearned premiums – Gross	61	10	220	–220
Gross earned premiums	**6,490**	**6,693**	**50,840**	**52,189**
Ceded premiums written	150	280	1,656	1,795
Change in unearned premiums – Ceded share	–18	87	–12	105
Earned premiums ceded	**168**	**193**	**1,668**	**1,690**
Net earned premiums	**6,322**	**6,500**	**49,172**	**50,499**

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. (21) Unearned premiums. Unearned premiums are reversed in accordance with the reduction in risk, over the duration of the contracts.

31 Income from technical interest

Income from technical interest

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Income from technical interest	683	658	1,183	1,323

	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Income from technical interest	3,240	3,289	1,410	1,372	209	224

	Munich Health		Total	
€m	2013	Prev. year	2013	Prev. year
Income from technical interest	39	52	6,764	6,918

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. 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.

In the life reinsurance segment, the income from technical interest corresponds to the risk-free interest on our technical provisions. For deposited provisions, it corresponds to the agreed interest rate.

In the life primary insurance segment, the income from technical interest for German life primary insurance business 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.

32 Expenses for claims and benefits

Expenses for claims and benefits

			Reinsurance	
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Gross				
Claims and benefits paid	8,024	7,993	9,896	11,714
Change in technical provisions				
Provision for future policy benefits	–431	–45	–5	–
Provision for outstanding claims	711	581	316	–1,364
Provision for premium refunds	–	–	5	6
Other technical result	8	7	–1	37
Gross expenses for claims and benefits	**8,312**	**8,536**	**10,211**	**10,393**
Ceded share				
Claims and benefits paid	356	272	394	497
Change in technical provisions				
Provision for future policy benefits	–76	–67	–	–
Provision for outstanding claims	–20	108	–195	–304
Provision for premium refunds	–	–	–	–
Other technical result	–35	–27	–1	–
Expenses for claims and benefits – Ceded share	**225**	**286**	**198**	**193**
Net				
Claims and benefits paid	7,668	7,721	9,502	11,217
Change in technical provisions				
Provision for future policy benefits	–355	22	–5	–
Provision for outstanding claims	731	473	511	–1,060
Provision for premium refunds	–	–	5	6
Other technical result	43	34	–	37
Net expenses for claims and benefits	**8,087**	**8,250**	**10,013**	**10,200**

Continued on next page

	Life		Health		Primary insurance Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Gross						
Claims and benefits paid	6,376	6,374	4,033	3,906	3,109	3,152
Change in technical provisions						
Provision for future policy benefits	–171	327	992	1,074	8	16
Provision for outstanding claims	114	67	24	–29	310	436
Provision for premium refunds	1,114	867	932	1,072	30	27
Other technical result	122	181	–4	–2	–	22
Gross expenses for claims and benefits	**7,555**	**7,816**	**5,977**	**6,021**	**3,457**	**3,653**
Ceded share						
Claims and benefits paid	153	117	23	22	79	125
Change in technical provisions						
Provision for future policy benefits	–14	40	–	–	–	–
Provision for outstanding claims	16	7	1	1	55	35
Provision for premium refunds	–	–	–	–	1	–2
Other technical result	–72	–67	–	–	–4	–1
Expenses for claims and benefits – Ceded share	**83**	**97**	**24**	**23**	**131**	**157**
Net						
Claims and benefits paid	6,223	6,257	4,010	3,884	3,030	3,027
Change in technical provisions						
Provision for future policy benefits	–157	287	992	1,074	8	16
Provision for outstanding claims	98	60	23	–30	255	401
Provision for premium refunds	1,114	867	932	1,072	29	29
Other technical result	194	248	–4	–2	4	23
Net expenses for claims and benefits	**7,472**	**7,719**	**5,953**	**5,998**	**3,326**	**3,496**

	Munich Health		Total	
€m	2013	Prev. year	2013	Prev. year
Gross				
Claims and benefits paid	5,151	5,400	36,589	38,539
Change in technical provisions				
Provision for future policy benefits	94	72	487	1,444
Provision for outstanding claims	–2	–112	1,473	–421
Provision for premium refunds	–	–	2,081	1,972
Other technical result	–57	63	68	308
Gross expenses for claims and benefits	**5,186**	**5,423**	**40,698**	**41,842**
Ceded share				
Claims and benefits paid	98	47	1,103	1,080
Change in technical provisions				
Provision for future policy benefits	–	–	–90	–27
Provision for outstanding claims	23	43	–120	–110
Provision for premium refunds	–	–	1	–2
Other technical result	–	–	–112	–95
Expenses for claims and benefits – Ceded share	**121**	**90**	**782**	**846**
Net				
Claims and benefits paid	5,053	5,353	35,486	37,459
Change in technical provisions				
Provision for future policy benefits	94	72	577	1,471
Provision for outstanding claims	–25	–155	1,593	–311
Provision for premium refunds	–	–	2,080	1,974
Other technical result	–57	63	180	403
Net expenses for claims and benefits	**5,065**	**5,333**	**39,916**	**40,996**

The change in the provision for future policy benefits (net) contains €401m (603m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, €1,135m (966m) is for the allocation to the provision for premium refunds on the basis of national regulations, €337m (292m) for the change in the provision for deferred premium refunds recognised in the income statement, and €173m (251m) 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.

33 Operating expenses

Operating expenses

				Reinsurance
		Life		Property-casualty
€m	2013	Prev. year	2013	Prev. year
Gross				
Acquisition costs, profit commission and reinsurance commission paid	3,023	2,609	3,987	3,770
Administrative expenses	275	314	1,171	1,179
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	–549	–92	–149	136
Gross operating expenses	**2,749**	**2,831**	**5,009**	**5,085**
Ceded share				
Acquisition costs, profit commission and reinsurance commission paid	152	152	69	65
Change in deferred acquisition costs and contingent commissions	–3	2	1	12
Operating expenses – Ceded share	**149**	**154**	**70**	**77**
Net operating expenses	**2,600**	**2,677**	**4,939**	**5,008**

Continued on next page

€m	Life 2013	Life Prev. year	Health 2013	Health Prev. year	Primary insurance Property-casualty 2013	Primary insurance Property-casualty Prev. year
Gross						
Acquisition costs, profit commission and reinsurance commission paid	747	854	537	568	1,160	1,178
Administrative expenses	244	246	172	158	705	712
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	185	140	–5	–37	–14	–47
Gross operating expenses	**1,176**	**1,240**	**704**	**689**	**1,851**	**1,843**
Ceded share						
Acquisition costs, profit commission and reinsurance commission paid	13	16	18	21	29	43
Change in deferred acquisition costs and contingent commissions	5	3	3	–3	–1	–2
Operating expenses – Ceded share	**18**	**19**	**21**	**18**	**28**	**41**
Net operating expenses	**1,158**	**1,221**	**683**	**671**	**1,823**	**1,802**

€m	Munich Health 2013	Munich Health Prev. year	Total 2013	Total Prev. year
Gross				
Acquisition costs, profit commission and reinsurance commission paid	1,012	1,023	10,466	10,002
Administrative expenses	173	185	2,740	2,794
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	16	22	–516	122
Gross operating expenses	**1,201**	**1,230**	**12,690**	**12,918**
Ceded share				
Acquisition costs, profit commission and reinsurance commission paid	36	72	317	369
Change in deferred acquisition costs and contingent commissions	4	–25	9	–13
Operating expenses – Ceded share	**40**	**47**	**326**	**356**
Net operating expenses	**1,161**	**1,183**	**12,364**	**12,562**

34 Investment result

Investment result by type of investment and segment (before deduction of income from technical interest)

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Land and buildings, including buildings on third-party land	19	20	95	108
Investments in affiliated companies	–	4	–	6
Investments in associates	–	–	-28	16
Loans	1	–	3	-1
Other securities held to maturity	–	–	–	–
Other securities available for sale				
Fixed-interest	489	571	1,585	1,931
Non-fixed-interest	147	91	704	428
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	–	–	3	10
Non-fixed-interest	–	–	2	3
Derivatives	-20	13	-414	-219
Designated at fair value through profit or loss				
Fixed-interest	–	–	–	–
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	283	265	-34	42
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
Expenses for the management of investments, other expenses	93	51	154	176
Total	826	913	1,762	2,148

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Land and buildings, including buildings on third-party land	98	108	61	52	6	14
Investments in affiliated companies	1	3	-14	-11	12	-26
Investments in associates	8	-5	14	11	22	46
Loans	1,561	1,539	723	663	85	98
Other securities held to maturity	–	–	–	–	–	–
Other securities available for sale						
Fixed-interest	1,478	1,214	598	520	224	227
Non-fixed-interest	155	104	88	10	102	52
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	-6	10	–	–	–	–
Non-fixed-interest	–	–	–	–	–	–
Derivatives	-261	191	-78	53	-42	-17
Designated at fair value through profit or loss						
Fixed-interest	3	22	–	–	–	–
Non-fixed-interest	–	–	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	11	9	–	1	9	7
Investments for the benefit of life insurance policyholders who bear the investment risk	400	603	–	–	–	–
Expenses for the management of investments, other expenses	173	172	71	54	29	25
Total	3,275	3,626	1,321	1,245	389	376

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	Munich Health		Asset management		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Land and buildings, including buildings on third-party land	1	2	4	5	284	309
Investments in affiliated companies	-44	–	3	3	-42	-21
Investments in associates	6	14	-20	5	2	87
Loans	1	1	–	–	2,374	2,300
Other securities held to maturity	–	–	–	–	–	–
Other securities available for sale						
Fixed-interest	118	107	3	5	4,495	4,575
Non-fixed-interest	9	–	-2	–	1,203	685
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	–	–	-3	20
Non-fixed-interest	–	–	–	–	2	3
Derivatives	7	-4	–	–	-808	17
Designated at fair value through profit or loss						
Fixed-interest	–	–	–	–	3	22
Non-fixed-interest	–	–	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	1	1	1	1	271	326
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–	400	603
Expenses for the management of investments, other expenses	4	6	–	–	524	484
Total	95	115	-11	19	7,657	8,442

The result for land and buildings includes rental income of €339m (334m). The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling €74m (57m). We earned interest income of €2,250m (2,242m) on loans. Other securities available for sale produced regular income of €4,160m (4,425m). In addition, derivatives gave rise to regular income of €194m (232m).

Investment income by segment (before deduction of income from technical interest)

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Regular income	893	910	1,783	1,933
Thereof: Interest income	738	728	1,326	1,520
Income from write-ups	552	616	932	1,041
Gains on the disposal of investments	398	440	1,960	2,103
Other income	–	–	–	–
Total	**1,843**	**1,966**	**4,675**	**5,077**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Regular income	2,914	2,994	1,503	1,418	304	368
Thereof: Interest income	2,696	2,792	1,284	1,277	248	291
Income from write-ups	125	404	62	81	37	33
Gains on the disposal of investments	559	564	160	94	223	162
Other income	621	651	–	–	1	1
Total	**4,219**	**4,613**	**1,725**	**1,593**	**565**	**564**

→	Munich Health		Asset management		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Regular income	89	123	12	15	7,498	7,761
Thereof: Interest income	80	101	3	5	6,375	6,714
Income from write-ups	11	19	–	2	1,719	2,196
Gains on the disposal of investments	52	54	3	2	3,355	3,419
Other income	–	–	2	2	624	654
Total	**152**	**196**	**17**	**21**	**13,196**	**14,030**

Investment expenses by segment (before deduction of income from technical interest)

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Write-downs of investments	558	636	1,231	1,107
Losses on the disposal of investments	314	325	1,486	1,599
Management expenses, interest charges and other expenses	145	92	196	223
Thereof:				
Interest charges	4	3	16	13
Total	**1,017**	**1,053**	**2,913**	**2,929**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Write-downs of investments	394	260	110	74	65	77
Losses on the disposal of investments	155	504	210	209	82	88
Management expenses, interest charges and other expenses	395	223	84	65	29	23
Thereof:						
Interest charges	1	3	3	2	–	1
Total	**944**	**987**	**404**	**348**	**176**	**188**

→

	Munich Health		Asset management		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Write-downs of investments	3	32	28	2	2,389	2,188
Losses on the disposal of investments	49	42	–	–	2,296	2,767
Management expenses, interest charges and other expenses	5	7	–	–	854	633
Thereof:						
Interest charges	–	–	–	–	24	22
Total	**57**	**81**	**28**	**2**	**5,539**	**5,588**

Write-downs of investments

€m	2013	Prev. year
Land and buildings, including buildings on third-party land	94	117
Investments in affiliated companies	4	33
Investments in associates	101	52
Loans	4	9
Other securities available for sale	110	205
Other securities at fair value through profit or loss	1,929	1,747
Other investments	147	25
Total	**2,389**	**2,188**

35 Other operating result

Other operating result

	Reinsurance			
	Life		Property-casualty	
€m	2013	Prev. year	2013	Prev. year
Other operating income	108	121	264	246
Other operating expenses	70	75	318	262

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Other operating income	103	127	37	55	146	147
Other operating expenses	120	109	64	72	218	235

→	Munich Health		Asset management		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Other operating income	70	93	54	50	782	839
Other operating expenses	94	83	38	37	922	873

Other operating income mainly comprises income of €470m (491m) from services rendered, interest and similar income of €124m (143m), income of €120m (135m) from the release/reduction of miscellaneous provisions and provisions for bad and doubtful debts, and income of €42m (49m) from owner-occupied property, some of which is also leased out.

In addition to expenses of €370m (356m) for services rendered, other operating expenses chiefly include interest charges and similar expenses of €162m (157m), other write-downs of €44m (60m), and other tax of €89m (43m). They also contain expenses of €18m (17m) for owner-occupied property, some of which is also leased out.

36 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	2013	Prev. year	2013	Prev. year
Other non-operating income	593	826	1,225	1,056
Other non-operating expenses	643	882	1,558	1,242
Impairment losses of goodwill	–	4	1	20
Net finance costs	-61	-66	-118	-138

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Other non-operating income	143	141	480	434	249	254
Other non-operating expenses	187	306	560	541	410	475
Impairment losses of goodwill	28	–	–	–	–	–
Net finance costs	41	42	4	6	-115	-122

→	Munich Health		Asset management		Total	
€m	2013	Prev. year	2013	Prev. year	2013	Prev. year
Other non-operating income	39	467	6	6	2,735	3,184
Other non-operating expenses	38	559	12	9	3,408	4,014
Impairment losses of goodwill	–	116	–	–	29	140
Net finance costs	-3	-14	-5	-5	-257	-297

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 €2,558m (3,040m), the other non-operating income contains other non-technical income of €177m (144m).

The other non-operating expenses comprise foreign-currency exchange losses of €2,868m (3,229m), write-downs of €87m (154m) on other intangible assets, and other non-technical expenses of €453m (631m), such as 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	2013	Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich	–232	–266
Senior notes of Munich Re America Corporation, Wilmington	–19	–20
Subordinated bonds of ERGO Versicherung Aktiengesellschaft, Vienna	–3	–6
Other	–3	–5
Total	**–257**	**–297**

Information on the Group's strategic debt can be found in the management report on page 93 and under (20) Subordinated liabilities and (27) Bonds and notes issued.

37 Taxes on income

This item shows the corporation tax and municipal trade earnings tax paid by the German consolidated companies (including solidarity surcharge and interest on back tax) 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	2013	Prev. year
Current tax	527	1,240
Germany	59	751
Other countries	468	489
Deferred tax	–419	–362
Germany	–319	–214
Other countries	–100	–148
Taxes on income	**108**	**878**

Main components of tax expenses/income

€m	2013	Prev. year
Current tax for financial year	1,440	1,159
Current tax for other periods	–913	81
Deferred tax resulting from the occurrence or reversal of temporary differences	–389	–373
Deferred tax resulting from the occurrence or utilisation of loss carry-forwards	211	127
Valuation allowances for deferred taxes/loss carry-forwards	–229	–111
Effects of changes in tax rates on deferred tax	–12	–5
Taxes on income	**108**	**878**

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	2013	Prev. year
Result before taxes on income (after "other tax")	3,450	4,082
Group tax rate in %	33	33
Derived taxes on income	1,138	1,347
Tax effect of:		
Tax rate differences	–143	–188
Tax-free income	–254	–466
Non-deductible expenses	494	324
Valuation allowances for deferred taxes/loss carry-forwards	–229	–111
Change in tax rates and tax legislation	–12	–5
Tax for prior years	–946	–98
Trade tax adjustments	11	28
Other	49	47
Taxes on income shown	**108**	**878**

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 3.1% (previous year: 21.5%).

"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 non-tax-deductible currency losses, expenses in connection with tax-free income and interest on back tax payments.

The tax effect of –€229m (–111m) from changes in valuation allowances for deferred taxes/loss carry-forwards mainly involves an amount of –€38m (–7m) in income from the subsequent recognition of deferred tax assets for loss carry-forwards and an amount of –€211m (–105m) 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 and Sweden.

"Tax for prior years" is for actual and expected changes to tax assessments for previous years and includes deferred tax for other periods totalling –€33m (–179m) as well as current tax for other periods amounting to –€913m (81m). Deferred taxes result from adjustments to tax accounts after the tax returns have been filed or tax audits have been concluded. Current tax results in particular from adjustments made to the tax provisions for all years not yet finally assessed to take account of recent developments in legislation, changes in administrative opinion and ongoing tax audits. In the past year, all regions and fields of business were affected.

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 (2) of the German Commercial Code (HGB) 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 German Accounting Standard No. 20 (DRS 20) for management reports.

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.

38 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 (22) 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 258 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	31.12.2013	Prev. year
Without discount rate	2,663	2,616
Discount rate ≤ 1.5%	38	184
1.5% < discount rate ≤ 2.5%	199	210
2.5% < discount rate ≤ 3.5%	2,026	1,758
3.5% < discount rate ≤ 4.5%	2,319	1,551
4.5% < discount rate ≤ 5.5%	3,310	4,119
5.5% < discount rate ≤ 6.5%	1,095	1,176
6.5% < discount rate ≤ 7.5%	438	473
Discount rate > 7.5%	176	128
Covered by deposits retained on assumed reinsurance	7,875	7,351
Total	**20,139**	**19,566**

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 €1,035m (1,078m), 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	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Without discount rate	3,599	4,205	1,364	1,456	4,963	5,661
Discount rate ≤ 2.0%	3,211	2,302	17	18	3,228	2,320
2.0% < discount rate ≤ 2.5%	8,981	7,154	34	33	9,015	7,187
2.5% < discount rate ≤ 3.0%	15,855	16,125	251	2	16,106	16,127
3.0% < discount rate ≤ 3.5%	25,925	27,398	6,779	2,745	32,704	30,143
3.5% < discount rate ≤ 4.0%	13,319	13,915	2,964	2,903	16,283	16,818
4.0% < discount rate ≤ 4.5%	27	38	2,575	2,728	2,602	2,766
4.5% < discount rate ≤ 5.0%	11	6	15,290	17,774	15,301	17,780
Discount rate > 5.0%	12	13	97	102	109	115
Total	**70,940**	**71,156**	**29,371**	**27,761**	**100,311**	**98,917**

Besides this, in German health primary insurance, the following discount rates are applied for calculating the provision for premium loadings and the provision for future premium reductions, which are part of the provision for premium refunds: a rate of 3.5% (3.5%) for an amount of €4,066m (3,783m) and a rate of 2.75% for an amount of €86m (–). In principle, however, these discount rates 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 258 f.

Other market risks and embedded derivatives In reinsurance, other market risks are generally ruled out through suitable treaty design.

Some primary insurance and reinsurance contracts contain derivative components of variable annuities. These are measured separately from the underlying contract 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 258 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	31.12.2013	Prev. year
Up to one year	–2,738	–2,088
Over one year and up to five years	–11,208	–11,264
Over five years and up to ten years	–17,518	–18,094
Over ten years and up to 20 years	–40,326	–41,988
Over 20 years	–95,349	–96,065

1 Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).

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 117.

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 96% (97%) of the amounts shown under (22) 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; cf. (24) 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 109–115.

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 38 f. This covers 100% (100%) of the long-term business in reinsurance and 97% (97%) 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 and currently refrains from applying high interest margins, e.g. illiquidity premiums, until the definitive stipulations for Solvency II are available. The low interest-rate level and high volatility at the reporting date of 31 December 2013 result in distortions in life primary insurance in particular, owing to the long-term interest-rate guarantees and high capital market sensitivities.

Compared with 2012, a large share of the sensitivities in life primary insurance reduced appreciably, as client behaviour for the life insurance models in Germany was adjusted on the basis of current analyses of our portfolio clients' behaviour.

Embedded value sensitivities

€m	Reinsurance 2013	Reinsurance Prev. year	Primary insurance 2013	Primary insurance Prev. year
Embedded value at 31 Dec.	**9,382**	**10,616**	**5,949**	**2,728**
Change in the event of a sustained increase in interest rates of 100 BP	–421	–503	1,229	2,298
Change in the event of a sustained decrease in interest rates of 100 BP	435	388	–1,727	–3,769
Change in the event of a 10% decrease in the value of equities and real estate	–8	–9	–205	–176
Change in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk	–1,449	–1,515	–26	–42
Change in the event of a decrease in mortality by 5% in the case of contracts mainly covering the longevity risk	–80	–70	–93	–180
Change in the event of an increase in morbidity by 5%	–286	–292	–41	–73
Change in the event of an increase in the lapse rate by 10%	–252	–319	37	140

39 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]

	2013	2012	2011	2010	2009
Gross premiums written in €m					
Reinsurance					
Liability	2,348	2,326	2,061	2,112	2,162
Accident	275	246	226	278	353
Motor	3,377	3,190	3,544	2,793	2,218
Marine, aviation, space	1,639	1,915	1,787	1,838	1,900
Fire	4,560	4,816	4,501	4,350	4,339
Engineering	1,490	1,573	1,536	1,658	1,536
Credit and surety	709	705	696	744	632
Other classes of business	2,615	2,281	2,206	1,928	1,847
Primary insurance	5,507	5,554	5,595	5,498	5,131
Loss ratio in %					
Reinsurance					
Liability	91.8	85.8	84.3	101.1	108.7
Accident	65.2	37.6	159.4	114.4	102.7
Motor	75.0	70.2	70.2	74.6	66.7
Marine, aviation, space	45.3	47.1	52.5	65.2	64.6
Fire[2]	51.0	49.6	132.2	62.8	35.4
Engineering	39.4	52.0	53.6	63.2	46.6
Credit and surety	64.5	56.4	–0.7	48.1	131.1
Other classes of business	58.1	67.8	63.6	50.7	70.3
Primary insurance	62.5	64.7	65.0	63.1	60.3
Combined ratio in %					
Reinsurance					
Liability	122.3	115.6	113.9	133.1	139.3
Accident	102.2	74.8	197.5	144.3	144.7
Motor	105.1	101.7	100.1	102.0	92.2
Marine, aviation, space	75.1	75.7	82.4	94.1	90.8
Fire[2]	76.0	73.7	157.3	89.8	61.0
Engineering	82.2	93.2	93.9	104.0	83.2
Credit and surety	101.7	94.9	41.4	82.4	173.4
Other classes of business	89.0	98.0	95.1	89.8	102.3
Primary insurance	97.2	98.7	99.1	96.8	93.2

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 up to and including 2010 is thus limited.
2 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 catastrophe losses.

Combined ratio for the last ten years[1]

%	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Including natural catastrophes[2]	92.1	91.0	113.8	100.5	95.3	99.4	96.4	92.6	111.7	98.9
Excluding natural catastrophes	87.4	83.3	84.4	89.5	93.9	93.2	91.7	91.6	92.5	93.9

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 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	2013	2012	2011	2010	2009
Large losses	1,689	1,799	5,048	2,228	1,158
Thereof losses from natural catastrophes	764	1,284	4,538	1,564	196
Thereof other accumulation losses[2]	925	515	510	664	962

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 section on business performance on pages 71–75 and 79 f., and in the risk report, pages 120–122.

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 (23) 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

	31.12.2013		Prev. year	
€m[1]	Gross	Net	Gross	Net
Asbestos	1,839	1,523	1,818	1,479
Environmental	370	278	389	295

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 (30) 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 109–113.

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	31.12.2013	Prev. year	31.12.2013	Prev. year	31.12.2013	Prev. year
Discount rate ≤ 2.5%	30	15	304	244	334	259
2.5% < discount rate ≤ 3.5%	175	172	545	535	720	707
3.5% < discount rate ≤ 4.5%	1,260	1,418	54	58	1,314	1,476
Discount rate > 4.5%	–	–	–	–	–	–
Total	**1,465**	**1,605**	**903**	**837**	**2,368**	**2,442**

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 the level of market interest rates is taken into account through appropriate 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 €157m (170m), 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 14.6% (14.2%) 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 minimised by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation has always been positive in underwriting. Besides this, we also have extensive, sufficiently liquid investments available to fulfil our liquidity obligations. 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. In addition, we regularly simulate the impact of major shock scenarios on our liquidity situation; details of our risk-bearing capacity with regard to large losses and accumulation situations are provided in the risk report on page 117.

Payment flows and liquid funds in the individual calendar years (gross)

€m	2013	2012	2011	2010	2009
Premiums received	22,520	22,606	22,152	20,834	19,759
Claims payments for financial year	5,617	5,968	5,930	5,213	4,378
Claims payments for previous years	7,388	8,898	8,096	8,613	7,589
Costs	7,024	6,839	6,808	6,517	5,956
Balance	**2,491**	**901**	**1,318**	**491**	**1,836**

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.

40 Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is of relevance. For our reinsurance and retrocessions 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 123 of the risk report, which also includes further information on credit risks on page 116.

52% (51%) 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 (39) Risks from property-casualty insurance business. We do not conduct active credit insurance business to any material extent in our primary insurance.

41 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:

To analyse equities and equity derivatives, a change in market value of ±10% and ±30% is calculated on the basis of the portfolio's delta. Non-linear effects of equity options or other asymmetrical strategies are not taken into account in this presentation. 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 here 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 countermeasures 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 on the market value of investments sensitive to share prices and on equity increased in the year under review. This is due to the good development of the stock markets in the reporting period. A change in the stock market by 10% has an impact of 10.4% (10.8%) on the market value of investments sensitive to share prices.

Change in market value of investments sensitive to share prices

Change in share prices		31.12.2013			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%	0.255	2.851	3.839	0.284	2.128	3.002
Increase of 10%	0.054	0.950	1.249	0.084	0.709	0.990
Decrease of 10%	–0.391	–0.641	–1.248	–0.381	–0.410	–0.988
Decrease of 30%	–1.728	–1.370	–3.743	–1.543	–0.827	–2.960
Market values			12.021			9.159

1 Gross before tax and policyholder participation in surplus.

Market risk – Interest rates The change in the market value 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 and other derivatives are not included in the calculation.

The interest-rate sensitivity of Munich Re's investments declined in the year under review. Restructurings of the interest-rate derivatives used for hedging result in the impact on the income statement shown as at the reporting date.

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			31.12.2013			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	0.089	–6.218	–11.050	–0.578	–7.285	–13.539
Increase of 50 BP	0.037	–3.210	–5.830	–0.317	–3.772	–7.056
Decrease of 25 BP	–0.012	1.682	3.144	0.179	1.983	3.743
Decrease of 50 BP	–0.020	3.414	6.440	0.373	4.032	7.629
Market values			179.492			190.024

1 Gross before tax and policyholder participation in surplus.

Other information

42 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.

43 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 (47) 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. (26) Other accrued liabilities. For transactions of related parties with Munich Reinsurance Company shares, please refer to (18) Equity.

44 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	2013	Prev. year
Wages and salaries	2,733	2,727
Social security contributions and employee assistance	487	490
Expenses for employees' pensions	215	217
Total	**3,435**	**3,434**

45 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 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 in full. In the year under review, provisions of €10.9m (20.7m) 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 2013, this resulted in expenses of €18.6m (35.0m). The weighted average share price for the stock appreciation rights exercised in 2013 was €139.72 for plan year 2006, €161.00 for plan year 2007, €147.84 for plan year 2008, €145.44 for plan year 2009 and €144.67 for plan year 2010. The intrinsic value of the exercisable stock appreciation rights amounted to €11.0m at the balance sheet date.

Munich Reinsurance Company's Long-Term Incentive Plans 2006–2010

	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	108.87 €	134.07 €	121.84 €	97.57 €	109.11 €
Intrinsic value 2013 for one right	48.03 €	22.83 €	35.06 €	59.33 €	47.79 €
Fair value 2013 for one right	–	22.83 €	35.06 €	59.33 €	47.79 €
Number of rights on 31 Dec. 2006	442,590	–	–	–	–
Additions	6,123	341,737	–	–	–
Forfeited	8,514	503	–	–	–
Number of rights on 31 Dec. 2007	440,199	341,234	–	–	–
Additions	–	4,013	444,104	–	–
Exercised	–	–	–	–	–
Forfeited	5,388	5,848	3,063	–	–
Number of rights on 31 Dec. 2008	434,811	339,399	441,041	–	–
Additions	–	–	463	459,271	–
Exercised	–	–	–	–	–
Forfeited	2,904	2,804	4,194	–	–
Number of rights on 31 Dec. 2009	431,907	336,595	437,310	459,271	–
Additions	–	–	–	–	675,029
Exercised	–	–	–	–	–
Forfeited	1,653	1,379	1,462	1,287	–
Number of rights on 31 Dec. 2010	430,254	335,216	435,848	457,984	675,029
Additions	–	–	–	–	6,546
Exercised	–	–	–	–	–
Forfeited	4,631	5,333	7,623	7,338	16,266
Number of rights on 31 Dec. 2011	425,623	329,883	428,225	450,646	665,309
Additions	–	–	–	–	–
Exercised	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
Exercised	22,005	269,776	385,298	90,862	168,961
Forfeited	–	7,842	–	–	–
Number of rights on 31 Dec. 2013	**–**	**51,482**	**41,505**	**37,822**	**127,164**
Exercisable at year-end	**–**	**51,482**	**41,505**	**37,822**	**127,164**

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 options on Munich Re shares. In the year under review, provisions of €1.2m (4.3m) 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 2013, this resulted in income of €0.5m (-2.5m). The weighted average share price for the stock appreciation rights exercised in 2013 was €147.82 for plan year 2006, €161.01 for plan year 2007, €148.22 for plan year 2008, €145.90 for plan year 2009 and €149.39 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 2006–2010 of ERGO and MEAG companies

	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	108.87 €	134.07 €	121.84 €	97.57 €	109.11 €
Intrinsic value 2013 for one right	48.03 €	22.83 €	35.06 €	59.33 €	47.79 €
Fair value 2013 for one right	–	22.83 €	35.06 €	59.33 €	47.79 €
Number of rights on 31 Dec. 2006	173,682	–	–	–	–
Additions	–	121,821	–	–	–
Forfeited	7,483	10,422	–	–	–
Number of rights on 31 Dec. 2007	166,199	111,399	–	–	–
Additions	–	–	173,153	–	–
Exercised	–	–	–	–	–
Forfeited	3,966	1,597	601	–	–
Number of rights on 31 Dec. 2008	162,233	109,802	172,552	–	–
Additions	–	–	–	148,834	–
Exercised	–	–	–	–	–
Forfeited	2,046	1,578	1,803	–	–
Number of rights on 31 Dec. 2009	160,187	108,224	170,749	148,834	–
Additions	–	–	–	–	39,046
Exercised	–	–	–	–	–
Forfeited	241	1,856	2,506	–	–
Number of rights on 31 Dec. 2010	159,946	106,368	168,243	148,834	39,046
Additions	–	–	–	–	–
Exercised	–	–	–	–	–
Forfeited	281	176	275	255	–
Number of rights on 31 Dec. 2011	159,665	106,192	167,968	148,579	39,046
Additions	–	–	–	–	–
Exercised	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
Exercised	6,671	83,046	160,030	16,913	12,024
Forfeited	–	198	296	–	–
Number of rights on 31 Dec. 2013	**–**	**17,963**	**5,844**	**3,386**	**7,088**
Exercisable at year-end	**–**	**17,963**	**5,844**	**3,386**	**7,088**

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.

46 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 was limited to 150% of the target amount for members of the Board of Management and company management, and is limited 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 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 2010–2013

	Incentive Plan 2010	Incentive Plan 2011	Incentive Plan 2012	Incentive Plan 2013
Plan commencement	1.1.2010	1.1.2011	1.1.2012	1.1.2013
Plan end	31.12.2012	31.12.2013	31.12.2014	31.12.2015
Fair value 2013 for one right	–	320.78 €	334.57 €	348.89 €
Number of rights (for 100% achievement of objectives) on 1 January 2010	38,284	–	–	–
Additions	–	–	–	–
Forfeited	–	–	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2010	38,284	–	–	–
Number of rights (for 100% achievement of objectives) on 1 January 2011	38,284	63,769	–	–
Additions	–	–	–	–
Forfeited	843	–	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2011	37,441	63,769	–	–
Number of rights (for 100% achievement of objectives) on 1 January 2012	37,441	63,769	78,568	–
Additions	–	185	–	–
Forfeited	184	424	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2012	37,257	63,530	78,568	–
Number of rights (for 100% achievement of objectives) on 1 January 2013	37,257	63,530	78,568	51,168
Additions	–	761	977	–
Exercised	37,257	–	–	–
Forfeited	–	2,147	2,891	–
Number of rights (for 100% achievement of objectives) on 31 December 2013	–	62,144	76,654	51,168

In the financial year 2013, expenses of €26.6m (43.8m) were recognised for the Mid-Term Incentive Plan. The provision at the reporting date amounted to €79.5m (65.9m).

47 Remuneration report

The members of Munich Reinsurance Company's Board of Management received remuneration totalling €24.7m (13.3m). The total remuneration of Munich Reinsurance Company's Supervisory Board amounted to €2.3m (2.2m); not included in this figure is €0.1m (0.2m) for membership of supervisory boards at other Group companies, so that the overall amount came to €2.4m (2.4m).

Payments to retired members of the Board of Management or their surviving dependants totalled €5.7m (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. For their service as employees of the Group, Supervisory Board members received remuneration in the amount of €1.3m (1.2m). There were no significant notifiable transactions between Board members and Munich Re.

All other disclosures on the remuneration and structure of the remuneration system for the Board of Management can be found in the remuneration report on page 46 ff. Information on share trading and shares held by the members of the Board of Management and the Supervisory Board is provided in the corporate governance report on page 27.

48 Number of staff

The number of staff employed by the Group at year-end totalled 23,131 (23,700) in Germany and 21,534 (21,737) in other countries.

Breakdown of number of staff

	31.12.2013	Prev. year
Reinsurance	11,315	11,094
Primary insurance	29,595	29,768
Munich Health	2,913	3,766
Asset management	842	809
Total	**44,665**	**45,437**

This reduction is mainly due to the sale of Windsor Health Group.

49 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	2013	Prev. year
Audits of financial statements[1]	7,858	8,343
Other assurance and appraisal services[1]	2,497	2,477
Tax consultancy services	1,250	1,324
Other services	1,431	1,599
Total	**13,036**	**13,743**

1 Thereof fees totalling €7,520k (7,549k) 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 Netherlands, KPMG Luxembourg, KPMG Turkey, KPMG Russia, KPMG Georgia, KPMG Ukraine, KPMG Armenia, KPMG Azerbaijan, KPMG Kazakhstan, KPMG Kyrgyzstan, KPMG Norway, KPMG Jordan, and KPMG Saudi Arabia.

50 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 €50m (68m), those from legal disputes €3m (1m) and those from letters of support €5m (4m). Additionally, Munich Re has entered into a payment commitment of £20m 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 page 127 f. in the risk report.

ERGO companies have assumed unlimited liability for the sale of insurance products by insurance intermediaries acting exclusively on their behalf. In this respect, there is a risk of a claim being made by customers. In case of a claim, there is a general possibility of recourse against the insurance intermediary or the latter's fidelity guarantee insurance carrier.

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 Supervision 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 €129m (114m) 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 €192m (220m) for work and service contracts and €831m (1,082m) for investment obligations. At the reporting date, there were loan commitments totalling €385m (1m). These figures represent undiscounted nominal amounts. There are other financial commitments amounting to – (€5m).

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.

51 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 2013 (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.

52 Leasing

Munich Re as lessee At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €446m (414m).

Due dates

€m	31.12.2013	Prev. year
Not later than one year	90	92
Later than one year and not later than five years	222	204
Later than five years	134	118
Total	**446**	**414**

The contracts concern in particular offices and business premises of the Group, IT infrastructure, and 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 €89m (86m) and contingent lease payments of €9m (6m) were recognised as an expense. The total of future minimum sublease payments expected to be received under non-cancellable subleases was €16m (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 at 31 December 2013.

Due dates

	31.12.2013			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	1	6	7	–	7
Later than one year and not later than five years	20	2	18	26	2	24
Later than five years	–	–	–	1	-1	2
Total	**27**	**3**	**24**	**34**	**1**	**33**

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 €911m (957m).

Due dates

€m	31.12.2013	Prev. year
Not later than one year	186	177
Later than one year and not later than five years	477	501
Later than five years	248	279
Total	**911**	**957**

There were several finance leases for property at the balance sheet date:

Due dates

€m	31.12.2013 Gross investment	Interest element	Net investment	Prev. year Gross investment	Interest element	Net investment
Minimum lease payments not later than one year	–	–	–	–	–	–
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**	**76**	**57**	**19**
Unguaranteed residual values	41	37	4	41	37	4
Total	**117**	**94**	**23**	**117**	**94**	**23**

Net investments in leases correspond to the carrying amounts of the lease payments receivable at the balance sheet date.

53 Events after the balance sheet date

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management in November 2013, we repurchased a further 2.8 million Munich Re shares with a volume of €434m after the balance sheet date up to 6 March 2014.

54 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

		2013	Prev. year
Consolidated result attributable to Munich Reinsurance Company equity holders	€m	3,313	3,188
Weighted average number of outstanding shares		179,065,855	177,709,667
Earnings per share	€	18.50	17.94

The number of outstanding shares decreased by 1,105,370 in the financial year 2013 due to the share buy-back programme. In the previous year, there had been an increase of 938,520 shares. The increase in the previous year resulted from sales of own shares in connection with the Long-Term Incentive Plan. These sales outweighed the relevant buy-backs.

55 Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2013 according to its financial statements prepared on the basis of German GAAP accounting amount to €1,300,223,787.00. 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 €7.25 per dividend-bearing share, with the remaining amount being carried forward to new account.

List of shareholdings as at 31 December 2013 in accordance with Section 313 para. 2 of the German Commercial Code (HGB)

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 Corporation Act – AktG) 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
Adelfa Servicios a Instalaciones Fotovoltaicas, S.L., Santa Cruz de Tenerife	100.0000
AEVG 2004 GmbH, Frankfurt/Main [4]	0.0000
AGC Gerechtsdeurwaarders & Incasso B.V., Stadskanaal	100.0000
aktiva Vermittlung von Versicherungen und Finanz-Dienstleistungen GmbH, Cologne	100.0000
ALICE GmbH, Düsseldorf	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
ArztPartner almeda AG, Munich	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
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
Bos Incasso B.V., Groningen	89.7640
CAPITAL PLAZA Holding GmbH & Co. Singapore KG, Düsseldorf	100.0000
CJSIC "European Travel Insurance", Moscow	100.0000
Comino Beteiligungen GmbH, Grünwald	100.0000
Compagnie Européenne d'Assurances, Nanterre	100.0000
Compania 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[3]	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. Luxembourg Allgemeine Rechtsschutz-Versicherung S.A., Strassen	99.9500
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn	100.0000
D.A.S. pojišťovna právní ochrany, a.s., Prague	100.0000
D.A.S. Rechtsschutz Aktiengesellschaft, Vienna	99.9800
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	99.9900
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 Law Solicitors Limited, Bristol	100.0000
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
DB Platinum IV SICAV (Subfonds Institutional Fixed Income, Inhaber-Anteile I4D), Luxembourg[4]	100.0000
DKV BELGIUM S.A., Brussels	100.0000
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne[3]	100.0000
DKV Luxembourg S.A., Luxembourg	75.0000
DKV Pflegedienste & Residenzen GmbH, Cologne	100.0000
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	100.0000
EIG, Co., Wilmington, Delaware	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

Company and registered seat	% share of capital
ERGO Beratung und Vertrieb AG, Düsseldorf	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 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.Ş., Istanbul	100.0000
ERGO Grundstücksverwaltung GbR, Düsseldorf	100.0000
ERGO Immobilien-GmbH 14. Victoria & Co. KG, Kreien[2]	100.0000
ERGO Immobilien-GmbH 5. Hamburg-Mannheimer & Co. KG, Kreien[2]	100.0000
ERGO Insurance N.V., Brussels	99.9999
ERGO Insurance SE, Tallinn	100.0000
ERGO International Aktiengesellschaft, Düsseldorf[3]	100.0000
ERGO International Services GmbH, Düsseldorf	100.0000
ERGO Invest SIA, Riga	100.0000
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 Lebensversicherung Aktiengesellschaft, Hamburg[3]	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[3]	100.0000
ERGO Pensionskasse AG, Düsseldorf	100.0000
ERGO Poisťovna, a.s., Bratislava	100.0000
ERGO pojišťovna, a.s., Prague	100.0000
ERGO Previdenza S.p.A., Milan	100.0000
ERGO Private Capital Dritte GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Gesundheit GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Komposit GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Leben GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Vierte GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Zweite GmbH & Co. KG, 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[3]	100.0000
ERGO Versicherung Aktiengesellschaft, Vienna	93.4536
ERGO Versicherungsgruppe AG, Düsseldorf	100.0000
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	100.0000
ERGO Zivljenjska zavarovalnica d.d., Ljubljana	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
Europaeiske Rejseforsikring A/S, Copenhagen	100.0000

Company and registered seat	% share of capital
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich[3]	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
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 Pvt. Ltd., Kolkata	100.0000
Hartford Steam Boiler International-GmbH, Rheine	100.0000
HMV GFKL Beteiligungs GmbH, Düsseldorf	100.0000
HSB Brasil Servicos de Engenharia e Inspecao, Ltda., São Paulo	100.0000
HSB Engineering Finance Corporation, Dover, Delaware	100.0000
HSB Engineering Insurance Limited, London	100.0000
HSB Engineering Insurance Services Limited, London	100.0000
HSB Group, Inc., Dover, Delaware	100.0000
HSB Japan KK, Minato-KU, Tokyo	100.0000
HSB Solomon Associates Canada Ltd., Saint John, Province of New Brunswick	100.0000
HSB Solomon Associates LLC, Dover, Delaware	100.0000
HSB Specialty Insurance Company, Hartford, Connecticut	100.0000
HSB Technical Consulting & Service (Shanghai) Company, Ltd, Shanghai	100.0000
Ibero Property Portugal – Investimentos Imobiliarios 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
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	63.5708
Imofloresmira – Investimentos Imobiliarios S.A., Lisbon	100.0000
InterAssistance GmbH, Munich[3]	100.0000
IRIS Capital Fund II German Investors GmbH & Co. KG, Düsseldorf	85.7143

Company and registered seat	% share of capital
ITERGO Informationstechnologie GmbH, Düsseldorf[3]	100.0000
Joint Stock Insurance Company ERGO, Minsk	92.3114
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
m:editerran POWER GmbH & Co. KG, Nuremberg	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 ATLAS, 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 ESUS 1, 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 Sach 1, Munich[4]	100.0000
MEAG HM Sach Rent 1, Munich[4]	100.0000
MEAG HM[2000], Munich[4]	100.0000
MEAG HMR[1], Munich[4]	100.0000
MEAG HMR[2], Munich[4]	100.0000
MEAG HYDRA, Munich[4]	100.0000
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

Company and registered seat	% share of capital
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 Real Estate Management Holdings, Inc., Wilmington, Delaware	100.0000
MEAG US Reserve Fund II, Munich[4]	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., Manama	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
MFI Munich Finance and Investment Holding Ltd., Ta´ Xbiex	99.9999
MFI Munich Finance and Investment Ltd., Ta´ Xbiex	99.9999
Midland-Guardian Co., Amelia, Ohio	100.0000
Midwest Enterprises, Inc., Miami, Florida	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
MR Beteiligungen USD AG & Co. KG, Grünwald[2]	100.0000
MR ERGO Beteiligungen GmbH, Grünwald	100.0000
MR Infrastructure Investment GmbH, Grünwald	100.0000
MR RENT UK Investment Limited, London	100.0000
MR RENT-Investment GmbH, Munich	100.0000

Company and registered seat	% share of capital
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]	100.0000
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[3]	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 Trading LLC, Wilmington, Delaware	100.0000
Munich Re UK Services Limited, London	100.0000
Munich Re Underwriting Limited, London	100.0000
Munich Re Weather & Commodity Risk Advisors LLC, Wilmington, Delaware	100.0000
Munich Re Weather & Commodity Risk Holding, Inc., Wilmington, Delaware	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
MunichFinancialGroup GmbH, Munich	100.0000
Munichre General Services Limited i.L., London	100.0000
Munichre New Zealand Service Ltd., Auckland	100.0000
N.M.U. (Holdings) Limited, Leeds	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
OIK Mediclin, Wiesbaden[4]	66.6672
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
Proserpina Vermögensverwaltungsges. mbH, Munich	100.0000
Queensley Holdings Limited, Singapore[4]	100.0000
Renaissance Hotel Realbesitz GmbH, Vienna	60.0000
Roanoke Group Inc., Schaumburg, Illinois	100.0000
Roanoke Insurance Group Inc., Schaumburg, Illinois	100.0000
Roanoke International Brokers Limited, London	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 Zycie Ergo Hestia Spółka Akcyjna, Sopot	100.0000
Specialty Insurance Services Corp., Amelia, Ohio	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, Ontario	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
Tir Mostyn and Foel Goch Limited, London	100.0000
UK Wind Holdings Ltd, London	100.0000
Union Beteiligungsholding GmbH, Vienna	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
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[3]	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 Biztosító Zrt., Budapest	100.0000

Company and registered seat	% share of capital
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf[3]	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 GmbH, Nuremberg	100.0000
welivit Solarfonds GmbH & Co. KG, Nuremberg	100.0000
welivit Solarfonds S.a.s. di welivit Solar Italia S.r.l., Bolzano	100.0000
WFB Stockholm Management AB, Stockholm[4]	50.0000
Wind Farms Götaland Svealand AB, Hässleholm	100.0000
Windpark MR-B GmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-D GmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-N gmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-S GmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-T GmbH & Co.KG, Bremen[2]	100.0000
Windsor Health Plan of Georgia, Inc., i.L., Atlanta, Georgia	100.0000
Windsor Health Plan of Louisiana, Inc., i.L., Lafayette Louisiana	100.0000
wse Solarpark Spanien 1 GmbH & Co. KG, Fürth	75.1243
Non-consolidated subsidiaries	
80e LIMITED, Bristol	100.0000
Aleama 150015 S.L., Madrid	100.0000
Amicus Ltd., Bristol	100.0000
Arridabra 130013 S.L., Madrid	100.0000
ARTES Assekuranzservice GmbH, Düsseldorf	100.0000
Associated Asset Management Corporation B.V., ’s-Hertogenbosch	51.0000
B&D Acquisition B.V., Amsterdam	100.0000
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
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
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

Company and registered seat	% share of capital
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
Ciborum GmbH, Munich	100.0000
Copper Leaf Research, Bingham Farms, Michigan	100.0000
Corion Pty Limited, Sydney	100.0000
Cotatrillo 100010 S.L., Madrid	100.0000
D.A.S. Prawo i Finanse Sp. z o.o., Warsaw	100.0000
D.A.S., Tomasz Niedzinski Kancelaria Prawna Spolka komandytowa, Warsaw	95.0000
DAS Consultancy & Detachering Rotterdam B.V., Rotterdam	85.0200
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, New Zealand	100.0000
DAS Legal Protection Limited, Vancouver	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 15. Victoria & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 4. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 7. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
ERGO Immobilien-Verwaltungs-GmbH, Kreien	100.0000
ERGO Leben Asien Verwaltungs GmbH, Munich	100.0000
ERGO PORTFÖY YÖNETIMI A.S., Istanbul	100.0000
ERGO Private Capital GmbH, Düsseldorf	100.0000
ERGO PRO S.r.l., Verona	100.0000
ERGO Pro Sp. z o.o., Warsaw	100.0000

Company and registered seat	% share of capital
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
ERV Seyahat Sigorta Aracilik Hizmetleri ve Danismanlik Ltd.Sti., Istanbul	99.0000
Etics, s.r.o., Prague	100.0000
Etoblete 160016 S.L., Madrid	100.0000
EUREKA GmbH, Düsseldorf	99.9999
Euro Alarm Assistance Prague, s.r.o., 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., Beijing	100.0000
Euro-Center Holding North Asia (HK) Pte. Ltd., Hong Kong	100.0000
Euro-Center Holding SE, Prague	83.3330
Euro-Center Ltda., São Paulo	100.0000
Euro-Center North Asia Consulting Services (Beijing) Co., Ltd., Beijing	100.0000
Euro-Center USA, Inc., New York City, 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	94.7826
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 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
Hands On Arnhem B.V., Arnhem	100.0000
Hartford Steam Boiler Colombia Ltda, Bogotá	100.0000
Hestia Advanced Risk Solutions Sp. z o.o., Sopot	100.0000

Company and registered seat	% share of capital
Hestia Loss Control Sp. z o.o., Sopot	100.0000
Horbach GmbH Versicherungsvermittlung und Finanzdienstleistungen, Düsseldorf	70.1000
HSB Associates, Inc., New York, New York	100.0000
HSB Inspection Quality Limited, Chelmsford	100.0000
HSB Professional Loss Control, Inc., Lenoir City, Tennessee	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 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 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 Munich Hufelandstraße GmbH, Düsseldorf	100.0000
Koole & Sennef Gerechtsdeurwaarders kantoor B.V., The Hague	100.0000
KQV Solarpark Franken 1 GmbH & Co. KG, Fürth	100.0000
Kuik & Partners Gerechtsdeurwaarders & Incassobureau B.V., Eindhoven	100.0000
Kuik & Partners Credit Management BVBA, Brussels	98.9000
Larus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
LAVG Zuid B.V., Breda	100.0000
LawAssist Limited, Bristol	100.0000
Legal Net GmbH, Munich	100.0000
m:editerran POWER FRANCE GmbH, Nuremberg	100.0000

Company and registered seat	% share of capital
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 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
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 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 i.L., Santa Fe de Bogota D.C.	100.0000
Münchener de Mexico S. A., Mexico City	100.0000
Münchener de Venezuela C.A. Intermediaria de Reaseguros, Caracas	100.0000
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, Munich	100.0000

Company and registered seat	% share of capital
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 India Services Private Limited, Mumbai	100.0000
Munich Re Japan Services K. K., Tokyo	100.0000
Munich Re Life and Health (UK) Plc. i.L., 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
MunichFinancialServices AG Holding, Munich	100.0000
Munichre Service Limited, Hong Kong	100.0000
Naretoblera 170017 S.L., Madrid	100.0000
Nerruze 120012 S.L., Madrid	100.0000
One State Street Intermediaries, Inc., Hartford, Connecticut	100.0000
Orrazipo 110011 S.L., Madrid	100.0000
P.A.N. Verwaltungs GmbH, Grünwald	99.0000
PLATINIA Verwaltungs-GmbH, Munich	100.0000
ProContact Sp. z o.o., Gdańsk	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	51.0000
ProVictor Property Fund V Management, Inc., Atlanta	51.0000
ProVictor Property Fund VI Management, Inc., Atlanta	51.0000
ProVictor US Corporation, Atlanta	100.0000
Reaseguradora de las Américas S. A., La Habana	100.0000
Roanoke Trade Insurance 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. Verwaltungs-GmbH, Düsseldorf	100.0000
Sensus Group B.V., Stadskanaal	100.0000
Solarfonds Garmisch-Partenkirchen 2011 GmbH & Co. KG, Nuremberg	100.0000
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
TGR Biztosítás Többesügynöki Zrt., Budapest	100.0000
Three Lions Underwriting Ltd., London	100.0000

Company and registered seat	% share of capital
Tillobesta 180018 S.L., Madrid	100.0000
Titus AG, Düsseldorf	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, Düsseldorf	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
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
Windpark Osterhausen-Mittelhausen Infrastruktur GbR, Bremen	60.0000
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
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	25.5800
Avantha ERGO Life Insurance Company, Mumbai	26.0000
BHS tabletop AG, Selb[1] (MC €35m)	28.9134
Bloemers Beheer B.V., Rotterdam	23.1824
Consorcio Internacional de Aseguradores de Crédito, S.A., Madrid[5]	15.4588
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
EGM Wind SAS, Paris	40.0000
ERGO China Life Insurance Co., Ltd., Jinan	50.0000
Europai Utazasi Biztosito 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	35.0000
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
Marchwood Power Limited, Marchwood	50.0000
MAYFAIR Holding GmbH & Co. Singapur KG, Düsseldorf	71.4285
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf	50.0000
MEAG Pacific Star Holdings Ltd., Hong Kong	50.0000
MEDICLIN Aktiengesellschaft, Offenburg[1] (MC €209m)	35.0042
MEGA 4 GbR, Berlin	34.2569
PICC Asset Management Company Ltd., Shanghai[5]	19.0000
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	44.7969
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 München 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 III L.P., Atlanta	20.0000
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. Singapore KG, Düsseldorf	65.0000
Associates accounted for at fair value	
"PORT ELISABETH" GmbH & Co. KG, Hamburg	31.9660
"PORT LOUIS" GmbH & Co. KG, Hamburg	25.8178
"REISEGARANT" Gesellschaft für die Vermittlung von Insolvenzversicherungen mbH, Hamburg	24.0000
Agricultural Management Services S.r.l., Verona	33.3333
Assistance Partner GmbH & Co. KG, Munich	21.6600
BF.direkt AG, Stuttgart	27.2000

Company and registered seat	% share of capital
carexpert Kfz-Sachverständigen GmbH, Walluf	25.0000
Fernkälte Geschäftsstadt Nord Gesellschaft bürgerlichen Rechts, Hamburg	39.3354
Finsure Investments (Private) Limited, Harare	24.5000
Grundeigentümer – Interessengemeinschaft City Nord GmbH, Hamburg	20.0000
Hannover Finanz-Umwelt Beteiligungsgesellschaft mbH, Hillerse	20.0000
Hartford Research, LLC, Lewes, Delaware	41.7500
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
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
Secundi CVBA, Brussels	33.0000
TERTIANUM Seniorenresidenz Betriebsgesellschaft München mbH, Munich	33.3333
TERTIANUM Seniorenresidenzen Betriebsgesellschaft mbH, Konstanz	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 KELANG" 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
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	
Capital Dynamics Champion Ventures VI, L.P., Woodside, California[11] (equity: €73,254k; result for year: €6,150k)	27.3400
FIA Timber Partners II L.P., Wilmington, Delaware[6] (equity: €82,501k; result for year: –€1,085k)	39.0800
Hines Pan-European Core Fund FCP-FIS, Luxembourg[11] (equity: €222,841k; result for year: €274k)	20.7500
HRJ Capital Global Buy-Out III (U.S.), L.P., Woodside, California[11] (equity: €85,560k; result for year: €15,467k)	44.8788
ORM Timber Fund III (Foreign) LLC, Wilmington, Delaware[8] (equity: €1,083k; result for year: –€81k)	39.1000
RMS Forest Growth International, L.P., Grand Cayman, Cayman Islands[8] (equity: €25,042k; result for year: € ---)	43.4700
Other shareholdings exceeding 5% of the voting rights in large companies as defined in the German Commercial Code	
Admiral Group plc, Cardiff	10.1033
Best Doctors, Health Resources and Technology, Inc., Boston, Massachusetts	5.6100
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, South Africa	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 2013 is €xxm.
2 This fully consolidated German subsidiary with the legal form of a partnership, as defined in Section 264a of the German Commercial Code (HGB), intends to fulfil the conditions required in Section 264b of the German Commercial Code and, in the financial year 2013, 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 2013, 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 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, 10 March 2014.

The Board of Management

Auditor's report

We have audited the consolidated financial statements prepared by 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 2013. 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, 12 March 2014

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

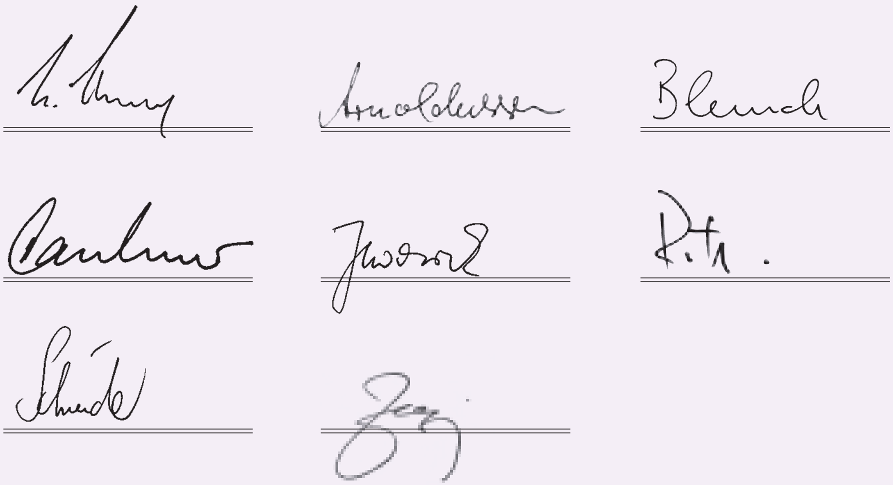
Dr. Frank Ellenbürger
Wirtschaftsprüfer
(Certified public accountant)

Roland Hansen
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, 19 March 2014



General information

Glossary

Aa

Accumulation Situation where a number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Actuary Qualified expert concerned with the modelling, evaluating and managing of risks using mathematical statistical methods. Actuaries work primarily in the areas of insurance and finance, pensions and home loans, developing long-term solutions for financial protection against future contingencies.

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 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 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 an alteration 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 opposite occurs.

Credit Risk Equivalent Exposure (CEE) 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 using an analysis to take proactive strategic measures and ensure 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 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 Amount by which the available financial resources exceed the economic risk capital.

Economic risk capital (ERC) 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 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 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.

Ll

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 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 those 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) 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 Probability that an individual in a given group will develop a certain disease or disorder.

Mortality 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 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 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. 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 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 newly determined 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. capitalisation products 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 German GAAP accounting (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 efficient 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 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)

Spread Risk premium in the form of an interest-rate margin that an issuer of a fixed-interest security pays to investors above a risk-free benchmark interest rate such as the yield on German government bonds. This premium covers the risk run by investors that the issuer may become insolvent. A high spread indicates a high default probability and thus low creditworthiness, and vice versa.

Stress test 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 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

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.

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 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 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 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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Aktiengesellschaft in München
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www.munichre.com

Reinsurance

Australia
Munich Holdings of Australasia PTY Limited
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143 Macquarie Street
Sydney, NSW 2000
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Fax: +61 2 92 51 25 16

UK
Great Lakes Reinsurance (UK) PLC
Plantation Place
30 Fenchurch Street, 3rd Floor
London EC 3M 3AJ
Tel.: +44 20 30 03 70 00
Fax: +44 20 30 03 70 10
www.greatlakes.co.uk

Canada
Munich Reinsurance Company of Canada
Munich Re Centre
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Fax: +1 416 366-43 30
www.mroc.com

Temple Insurance Company
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www.templeinsurance.ca

Switzerland
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555 College Road East
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Tel.: +1 609 243-4200
Fax: +1 609 243-4257
www.munichreamerica.com

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Tel.: +1 770 350-3200
Fax: +1 770 350-3300
www.marclife.com

Further addresses may be obtained at
www.munichre.com

Primary insurance

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40198 Düsseldorf
Germany
Tel.: 0800 3746-000
Tel.: +49 211 477-7100 (from outside Germany)
Fax: +49 211 477-1500
www.ergo.com

Germany

D.A.S. Deutscher Automobil Schutz
Allgemeine Rechtsschutz-Versicherungs AG
Thomas-Dehler-Strasse 2
81728 München
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
Tel.: 0800 3746-444
Tel.:+49 221 578-94005 (from outside Germany)
Fax: 01805/786000

ERGO Direkt Versicherungen
Karl-Martell-Strasse 60
90344 Nürnberg
Tel.: 0800 666-9000
Fax: 0800 701-1111
www.ergodirekt.de

ERGO Lebensversicherung AG
Überseering 45
22297 Hamburg
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www.ergo.de

ERGO Versicherung AG
Victoriaplatz 1
40198 Düsseldorf
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Tel.: +49 211 477-7100 (from outside Germany)
Fax: 01803/123-460
www.ergo.de

ERV Europäische Reiseversicherung AG
Rosenheimer Strasse 116
81669 München
Tel.: +49 89 4166-00
Fax: +49 89 4166-2717
contact@erv.de
www.reiseversicherung.de

Further addresses may be obtained at
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80802 München
Germany

Northern/Eastern/Central Europe

Munich Health Northern/Eastern/Central Europe
Königinstrasse 107
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Germany

Southern Europe and Latin America

Munich Health Southern Europe and Latin America
Königinstrasse 107
80802 München
Germany

North America

Munich Health North America, Inc.
555 College Road East
Princeton, NJ 08543
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www.munichhealthna.com

Middle East and Africa

Munich Health Middle East and Africa
Munich Re Underwriting Agents (DIFC) Ltd.
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Quarterly figures

		31.12.2013	30.9.2013	30.6.2013	31.3.2013
Balance sheet					
Investments	€m	209,474	210,275	209,363	216,245
Equity	€m	26,226	25,869	25,656	28,627
Net technical provisions	€m	187,739	188,546	186,486	187,944
Balance sheet total	€m	254,288	256,294	254,761	261,042
Shares					
Share price	€	160.15	144.45	141.40	145.90
Munich Reinsurance Company's market capitalisation	€bn	28.7	25.9	25.4	26.2
Other					
Combined ratio					
Reinsurance property-casualty	%	92.1	93.1	92.4	85.7
Primary insurance property-casualty	%	97.2	97.1	96.0	95.9
Munich Health	%	98.3	98.0	98.9	99.4
Number of staff		**44,665**	**45,240**	**45,119**	**45,375**

€m	Total	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Gross premiums written	**51,060**	**12,470**	**12,497**	**12,809**	**13,284**
1. Earned premiums					
Gross	50,840	12,771	12,544	13,025	12,500
Ceded	1,668	411	433	420	404
Net	49,172	12,360	12,111	12,605	12,096
2. Income from technical interest	6,764	1,720	1,735	1,468	1,841
3. Expenses for claims and benefits					
Gross	40,698	9,967	10,687	10,296	9,748
Ceded share	782	155	228	231	168
Net	39,916	9,812	10,459	10,065	9,580
4. Operating expenses					
Gross	12,690	3,322	2,731	3,486	3,151
Ceded share	326	85	83	98	60
Net	12,364	3,237	2,648	3,388	3,091
5. Technical result (1–4)	**3,656**	**1,031**	**739**	**620**	**1,266**
6. Investment result					
Investment income	13,196	3,415	3,315	3,423	3,043
Investment expenses	5,539	1,420	1,216	1,867	1,036
Total	7,657	1,995	2,099	1,556	2,007
Thereof:					
Income from associates accounted for using the equity method	7	–54	37	33	–9
7. Other operating income	782	264	165	198	155
8. Other operating expenses	922	294	211	200	217
9. Deduction of income from technical interest	–6,764	–1,720	–1,735	–1,468	–1,841
10. Non-technical result (6–9)	**753**	**245**	**318**	**86**	**104**
11. Operating result	**4,409**	**1,276**	**1,057**	**706**	**1,370**
12. Other non-operating result	–673	–235	–407	–141	110
13. Impairment losses of goodwill	29	29	–	–	–
14. Net finance costs	–257	–55	–59	–75	–68
15. Taxes on income	108	–241	–41	–52	442
16. Consolidated result	**3,342**	**1,198**	**632**	**542**	**970**
Thereof:					
Attributable to Munich Reinsurance Company equity holders	3,313	1,189	633	528	963
Attributable to non-controlling interests	29	9	–1	14	7

€	Total	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Earnings per share	**18.50**	**6.65**	**3.53**	**2.94**	**5.39**

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
	Apollo Munich Health Insurance	ERGO Belgien
	MedNet	ERGO Italia
	Storebrand	almeda Assistance and Health services
		D.A.S. Rechtsschutzversicherung
		Deutsche Krankenversicherung
		Europäische Reiseversicherung

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.

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

Important dates 2015

11 March 2015
Balance sheet press conference
for 2014 consolidated financial statements

23 April 2015
Annual General Meeting

7 May 2015
Interim report as at 31 March 2015

6 August 2015
Interim report as at 30 June 2015

6 August 2015
Half-year press conference

5 November 2015
Interim report as at 30 September 2015

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