

Munich Re
Group Annual Report

2011

Key figures (IFRS)

Munich Re  » Key figures: Munich Re (XLS, 16 KB)

		2011	2010	2009	2008	2007
Gross premiums written	€bn	49.6	45.5	41.4	37.8	37.3
Operating result	€m	1,180	3,978	4,721	3,834	5,573
Taxes on income	€m	-552	692	1,264	1,372	801
Consolidated result	€m	712	2,430	2,564	1,579	3,923
Attributable to non-controlling interests	€m	10	8	43	24	83
Investments	€bn	201.7	193.1	182.2	174.9	176.2
Return on equity	%	3.3	10.4	11.8	7.0	15.3
Equity	€bn	23.3	23.0	22.3	21.1	25.3
Valuation reserves not recognised in balance sheet ¹	€bn	5.7	3.6	3.2	2.5	0.8
Net technical provisions	€bn	181.2	171.1	163.9	157.1	152.4
Staff at 31 December		47,206	46,915	47,249	44,209	38,634

Reinsurance²  » Key figures: Reinsurance (XLS, 16 KB)

		2011	2010	2009	2008	2007
Gross premiums written	€bn	26.5	23.6	21.8	21.9	21.5
Investments	€bn	88.7	83.7	76.8	78.4	81.9
Net technical provisions	€bn	64.3	56.6	53.4	55.8	55.5
Large and very large losses (net)	€m	5,126	2,228	1,157	1,507	1,126
Natural catastrophe losses	€m	4,544	1,564	196	832	634
Combined ratio property-casualty ³	%	113.6	100.5	95.3	99.4	96.4

Primary insurance²  » Key figures: Primary insurance (XLS, 16 KB)

		2011	2010	2009	2008	2007
Gross premiums written	€bn	17.6	17.5	16.6	17.0	17.3
Investments	€bn	123.9	121.8	118.4	114.0	109.3
Net technical provisions	€bn	113.5	111.2	107.7	101.4	96.9
Combined ratio property-casualty	%	97.8	96.8	93.2	90.9	93.4

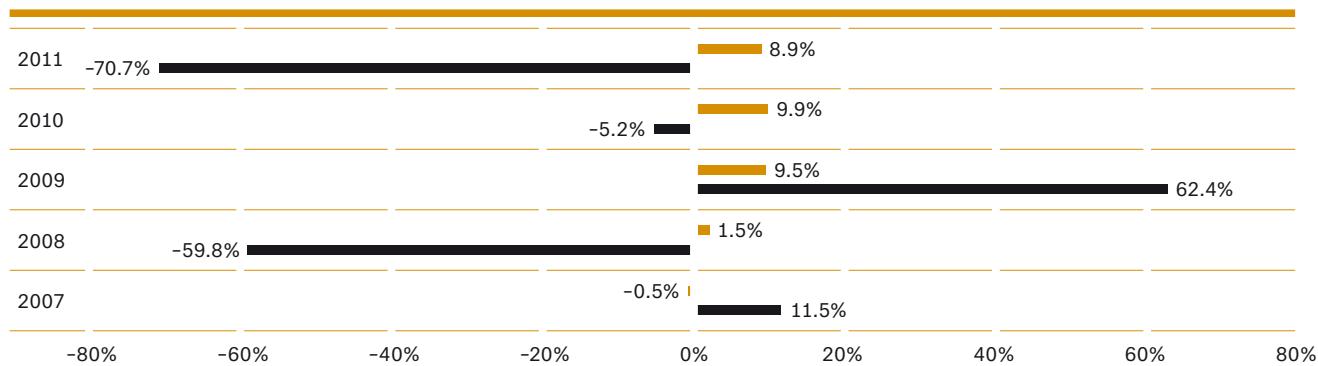
Munich Health²

		2011	2010	2009
Gross premiums written	€bn	6.1	5.1	4.0
Investments	€bn	5.9	4.1	3.1
Net technical provisions	€bn	3.4	3.3	2.9
Combined ratio ⁴	%	99.4	99.7	99.4

Our shares  » Key figures: Our shares (XLS, 16 KB)

		2011	2010	2009	2008	2007
Earnings per share	€	3.94	13.06	12.95	7.74	17.83
Dividend per share	€	6.25	6.25	5.75	5.50	5.50
Amount distributed	€m	1,110	1,110	1,072	1,073	1,124
Share price at 31 December	€	94.78	113.45	108.67	111.00	132.94
Munich Re's market capitalisation at 31 December ⁵	€bn	17.0	21.4	21.5	22.9	29.0
Book value per share	€	129.86	126.31	114.89	106.42	119.33

Premium/result development



● Premium ● Consolidated result

¹ Including amounts attributable to minority interests and policyholders.

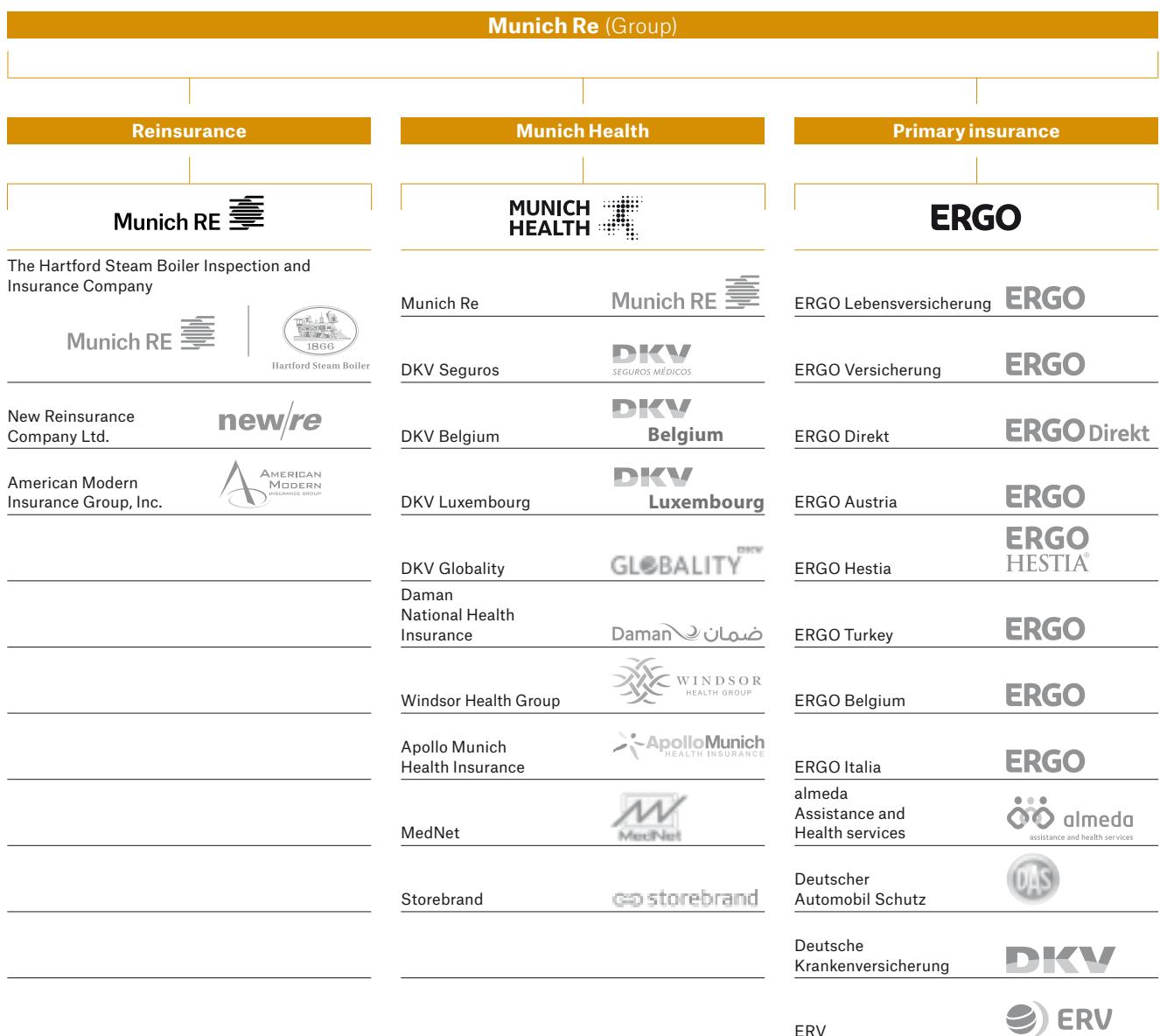
² Before elimination of intra-Group transactions across segments.

³ The figure for 2011 is not adjusted for relief of 1.3 percentage points from economic risk transfer to the capital markets.

⁴ Excluding health insurance conducted like life insurance.

⁵ This includes own shares earmarked for retirement.

Diversified structure – Diversified risk



Asset management

MEAG MUNICH ERGO AssetManagement

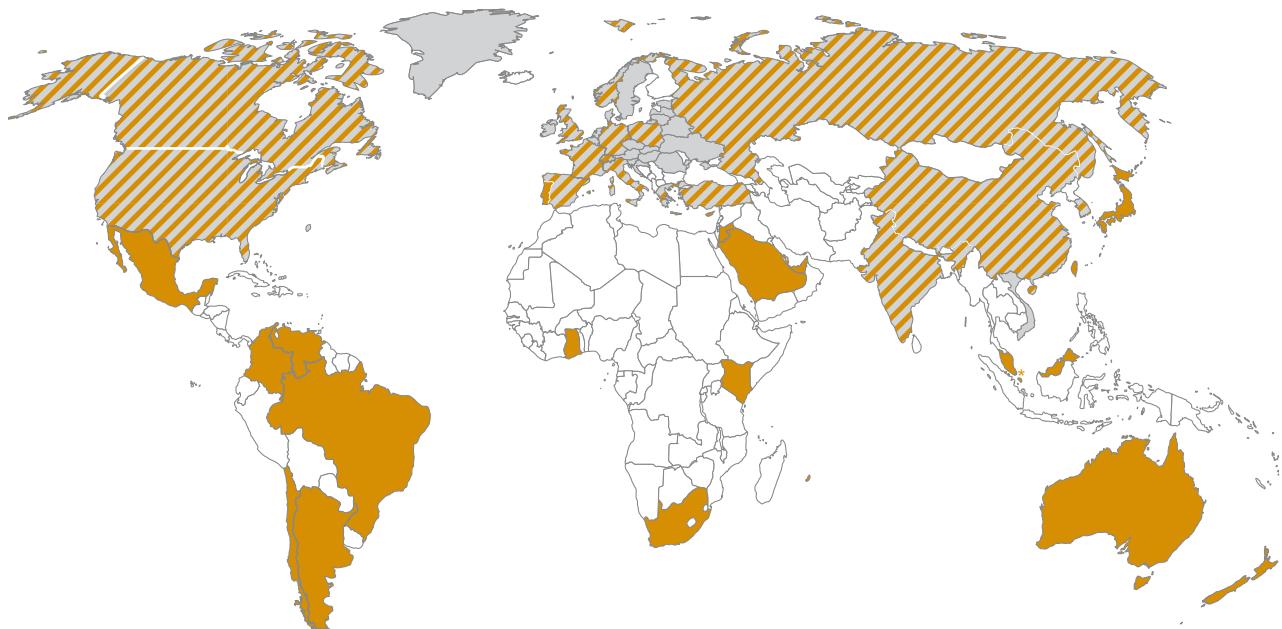
The diagram provides a general overview of our Group and makes no claim to completeness. For further details, please see the list of shareholdings on [page 277 ff.](#)

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.

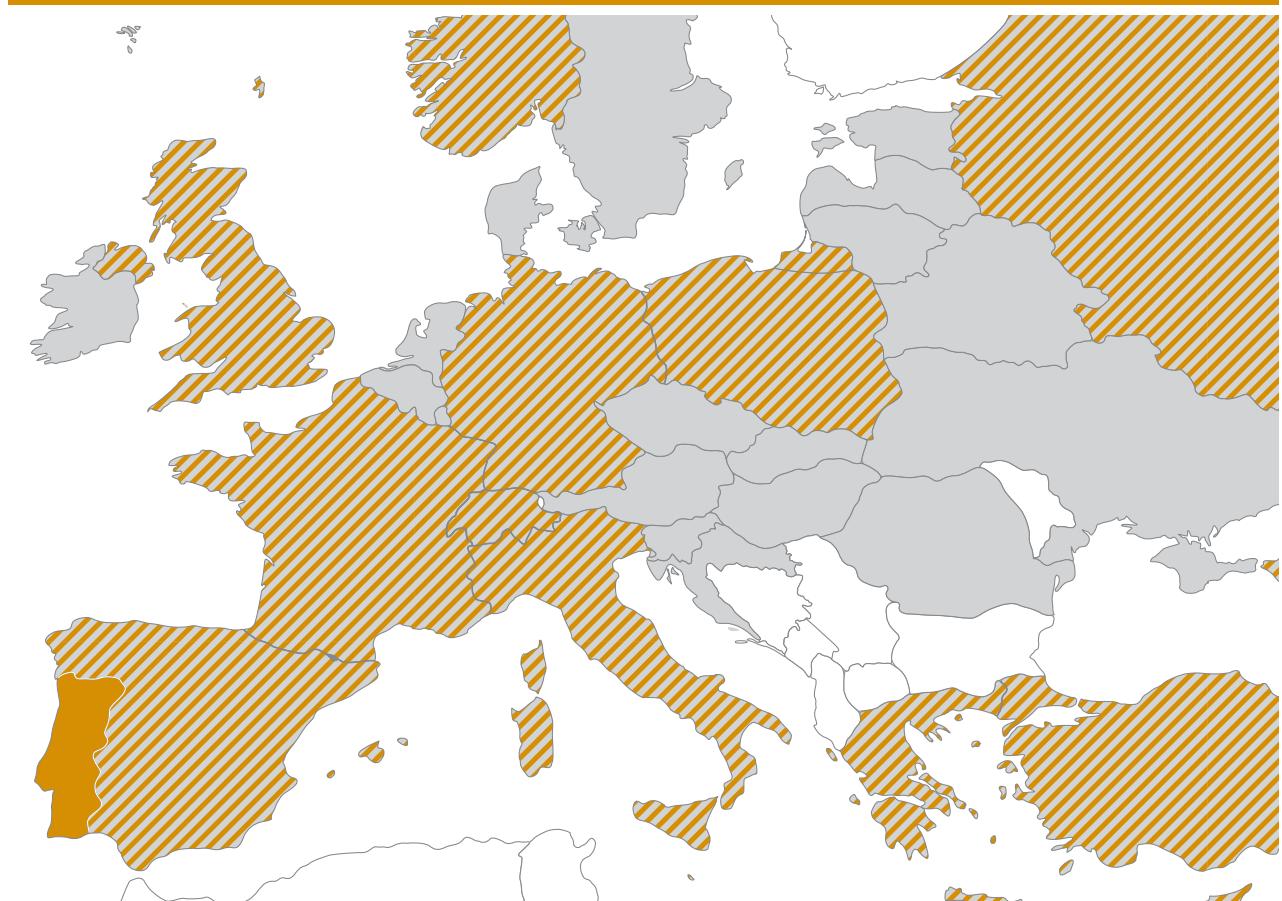
Munich Re's global presence¹

Munich Re's presence – Worldwide



* Singapore

Munich Re's presence – Europe-wide



● Reinsurance ● Primary insurance ○ Reinsurance and primary insurance

¹ Including Munich Health's primary insurance and reinsurance activities in the health market as at 31 December 2011.

Munich Re

2011

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To our shareholders

To our shareholders

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

Dear Shareholders

We look back on a year that placed great demands on us. Our industry faced an unprecedented cluster of severe natural catastrophes. On top of this, we had to contend with upheavals in government bond markets and persistently low interest-rate levels due to the continuing financial crisis. Against this backdrop, the expectations we had at the beginning of the year were not fulfilled. It became apparent after the first quarter of 2011 that the consolidated result of €2.4bn we had originally envisaged could no longer be attained.

In this exceptional situation, our integrated business strategy – combining primary insurance and reinsurance under one roof – and our management philosophy once again proved their worth. For we were able to conclude the year with a positive annual result: a notable achievement and impressive testimony to the Group's resilience.

With our still robust capitalisation and favourable earnings prospects, we will be able to propose an unchanged dividend of €6.25 a share at the Annual General Meeting, thus expressing our thanks to you, our shareholders, for your confidence in us. Altogether, we will then have

paid over €5bn in dividends since the beginning of the crisis, that is in the period from 2007 to 2011. In terms of dividend yield, this puts us at the head of the field among DAX 30 stocks.

How did the individual fields of business perform?

In primary insurance, ERGO's successful launching of its brand campaign in 2010 was followed by a setback in 2011. Severe transgressions by individual employees and agents came to light in connection with a series of disputes with intermediaries who had left HMI, an ERGO structured sales organisation. ERGO clearly acknowledged its responsibility, apologised, conducted an extensive inquiry and took the necessary corrective measures. As a consequence, with effect from 1 January 2012, the compliance function was strengthened significantly and assigned to a separate organisational unit reporting to the ERGO CEO. Furthermore, shortcomings in processing business, which emerged in the course of investigations into various allegations, were immediately and comprehensively addressed. ERGO naturally remains committed to its goal of realising its brand mission "To insure is to understand" and is pursuing it with great resolve. Likewise, ERGO is further advancing the internationalisation of its business, expanding its activities in growth markets such as Asia as well as central and eastern Europe.

In reinsurance, market development is increasingly heterogeneous. Players who want their business to be successful must therefore maintain close proximity to their clients and the markets in order to identify individual market trends early on. We are ideally positioned throughout the world and can steer our business according to the individual state of the market; we refer to this approach as cycle management. Overall, we are currently seeing largely stable price levels, although certain loss-affected segments and countries are showing significant price increases. It is also our aim to develop steadily profitable growth areas through innovation. A recent example of this strategy is the cover we provide in the field of renewable

energies, in which we see medium-term business potential for premium income in the mid three-digit billion euro range. In addition, we anticipate that demand for reinsurance will continue to rise as a consequence of the financial crisis and the introduction of Solvency II. The solutions we offer our clients in this area are flexible, customised, and provide capital relief.

Munich Health has continued its consolidation and achieved a solid result. The build-up of our companies in Saudi Arabia and Qatar provides the basis for further growth in health business in this region. A potential liberalisation of the markets in the wake of the Arab Spring may also make private-sector solutions more accessible to the population and open up further opportunities for us. One thing is certain: the international healthcare market is growing and we are prepared for a rise in demand.

How do we see the overall economic situation for the current year? Given the ongoing strong influence of political events on the financial markets, we have every reason to believe that market volatility will continue to be significant. In this regard, the resolution of the sovereign debt crisis in the eurozone remains the stiffest challenge. Politicians undoubtedly have a key role to play here. The right balance must be struck between short-term measures to secure the liquidity of governments and banks and long-term measures to cut public debt as well as reforms to strengthen competitiveness. Clearly, the latter will take time; the priority must now be to restore confidence by seriously pursuing these goals. On this basis, greater integration of economic and fiscal policy in the EU can then follow.

Munich Re broadly diversifies its investments across different asset classes and regions. With this strategy and our disciplined risk management, we are well equipped to cope with greatly varying capital market scenarios. And we will thus remain a strong and reliable partner for our clients, a safe and profitable investment for our shareholders, and an attractive employer for our staff.

On behalf of my colleagues on the Board of Management and all employees in the Group, may I take this opportunity to thank you, our shareholders, for the trust you placed in us in a turbulent year. We will continue to make every effort to fulfil the justified expectations you have of your investment in our shares.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Nikolaus von Bomhard".

Nikolaus von Bomhard

2011

Q1/2011

1 January 2011 //

Munich Re successfully concludes the acquisition of the US Medicare provider Windsor Health Group Inc., thus strengthening Munich Health's position in the US healthcare market. In 2008, Munich Re had acquired Sterling Life Insurance Company. Windsor and Sterling operate under the roof of the Windsor Health Group, providing services to more than 200,000 members in the USA.

14 January 2011 //

ERGO sets up a joint venture for life insurance with a local partner in China. In addition, ERGO acquires shares in a Vietnamese insurance company and pursues its international growth strategy.

11 March 2011 //

The strongest earthquake ever recorded in Japan triggers a massive tsunami that devastates the northeast coast of the main island Honshu, claiming the lives of some 16,000 people. The tsunami leads to severe damage at several blocks of the Fukushima 1 nuclear power plant. According to independent estimates, the economic losses caused by the quake and the tsunami (without considering the consequences of the nuclear accident) come to US\$ 210bn. It is the costliest natural catastrophe of all time. The share of insured losses may be as much as US\$ 40bn.

Q2/2011

5 April 2011 //

ERGO Direkt is the first company in the insurance industry to offer cover for dental prosthetic treatment that is imminent or already ongoing. "Zahnersatz Sofort" is one of the product initiatives launched by ERGO as part of its new brand mission "To insure is to understand".

20 April 2011 //

The Munich Re Annual General Meeting approves payment of a dividend of €6.25 per share. The overall dividend payout is €1.1bn. As successor to Thomas Wellauer, who resigned from the Supervisory Board on 30 September 2010, Annika Falkengren is elected to the Supervisory Board as a representative of the shareholders. Falkengren has been President and CEO of Skandinaviska Enskilda Banken AB (publ) since 2005.



Q3/2011



25 August 2011 //

ERGO appoints Stefanie Held as Chief Compliance Officer. Following accusations levelled at agents and individual business units, ERGO strengthens its compliance rules and adopts a code of conduct for independent agents, thus giving top priority to the prevention and avoidance of infringements.

8 September 2011 //

Munich Re and the Chinese insurer Ping An enter into a cooperation agreement in the field of renewable energy insurance.

10 September 2011 //

New Munich Re software supports the qualitative and quantitative analysis of complex risk accumulations. The Complex Accumulation Risk Explorer (CARE) combines expert knowledge from many disciplines. Interdependencies between risks are revealed and can be analysed from an underwriting perspective.

Q4/2011

19 October 2011 //

ERGO's customer advisory board meets for the first time to discuss services, processes and products from the clients' perspective, and make suggestions for improvement. The 25 members of the new board are elected for a period of two years and comprise clients of all German ERGO companies. The meetings are held twice a year and chaired by the ERGO customer advocate.

25 October 2011 //

As part of Munich Re's RENT investment programme, MEAG invests in German power grids and solar plants in Italy and Spain. By the end of the year, around €500m of the €2.5bn target has thus been invested.



31 December 2011 //

Devastating earthquakes and a large number of weather-related catastrophes in 2011 made it the costliest year ever in terms of natural catastrophe losses. Global economic losses totalled around US\$ 380bn, over two-thirds higher than in 2005. Insured losses of US\$ 105bn also exceeded the 2005 record (US\$ 101bn).



From left to right

Joachim Wenning
Life

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

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

Peter Röder
Global Clients and North America

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



From left to right

Jörg Schneider

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

Torsten Jeworrek

Chairman of the Reinsurance Committee

Reinsurance Development; Corporate Underwriting; Accounting, Controlling and
Central Reserving for Reinsurance; Information Technology; Global Business Architecture;
Geo Risks Research/Corporate Climate Centre

Georg Daschner

Europe and Latin America

Ludger Arnoldussen

Germany, Asia Pacific and Africa; Services

Munich Re shares



- // Financial stocks hit by the sovereign debt crisis and upheavals on the financial markets
- // Munich Re's shares were unable to match the performance of the DAX 30 but outperformed the European insurance index DJ EURO STOXX Insurance
- // Munich Re underlines dependability and capital strength: Board of Management and Supervisory Board to propose payment of an unchanged dividend of €6.25 per share at the Annual General Meeting

Weak markets impact Munich Re's share price

The sovereign debt crisis had a major impact on the European financial sector in 2011, and hence also on the performance of insurers' share prices. Investors were further unsettled by extremely low interest rates (particularly in Germany and the USA), which are unfavourable for the insurance industry's earnings position in the long term. Over the course of the year, these factors put increasing pressure on share prices, with companies focused on life insurance suffering especially, since their results are more dependent on the performance of the capital markets. Reinsurers and primary insurers with the main emphasis on property-casualty insurance fared better. They profited from the fact that many investors saw them as comparatively defensive and crisis-resistant investments. Munich Re could only benefit from this development to a certain extent.

Total return outperforms
benchmark indices

We succeeded in clearly limiting the financial impact of the upheavals on the capital markets, thanks to the solid performance of large sections of our core operational business, our prudent risk management and our investment decisions based strictly on economic criteria. But our earnings position was substantially impaired by the record losses from an exceptional accumulation of severe natural catastrophes. Closing the year 16.5% down, Munich Re shares were outperformed in the year under review by the DAX 30 (-14.7%) but performed better than the European insurance index DJ EURO STOXX Insurance (-18.4%). However, taking into consideration the dividend paid for the financial year 2010, Munich Re shares even outperformed the benchmark indices, with a change of -11.8% in the total return.

Turbulence on capital markets
hits share price in second
half-year

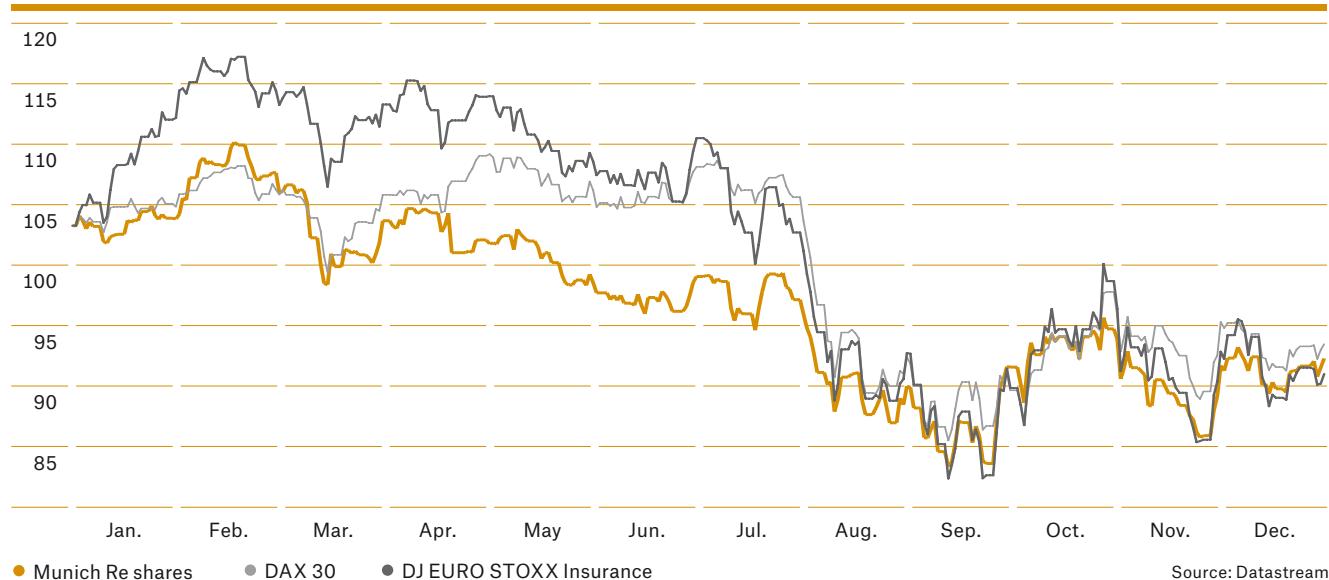
Our share price reached its year high of €125.20 on 17 February. The spring uprisings in many Arab countries then triggered a trend reversal on the financial markets. Munich Re's share price was also depressed by the grave consequences of the earthquakes in New Zealand and Japan, and a series of tornadoes in the USA. The second half of the year was dominated by turbulence on the international financial markets. A worsening of the debt crisis in the eurozone and fear of recession in the USA, with possible global impact, added to capital market uncertainty. Munich Re shares could not escape this trend, and our share price hit its year low of €79.55 on 12 September.

Particularly in the last three months of the financial year, developments on the stock markets were greatly influenced by political efforts to find a solution to the debt crisis in Europe. Neither a series of financial stabilising measures and political initiatives nor concerted action by the central banks was able to calm the situation on the capital markets for long.

**Long-term share performance
still convincing**

Munich Re's share price finished the year at €94.78. Even allowing for the difficult business environment, we are not satisfied with its overall development in 2011. Nevertheless, the medium- and long-term performance of Munich Re shares is still convincing: over the last three- and five-year periods, their price performance has bettered that of the DJ EURO STOXX Insurance.

Share price performance 1.1.2011 = 100



Despite the substantial financial burdens of the past year, Munich Re shares continued to be generally rated an attractive investment in 2011, owing to our clear and predictable opportunity and risk profile. More than 40 analysts from banks and brokerage houses regularly evaluate our shares. At the end of December 2011, some 41% of the analysts gave our shares a positive assessment, 49% a neutral one, and 10% a negative rating.

Weighting of Munich Re shares¹

	%
DAX 30	2.9
DJ EURO STOXX 50	1.1
DJ EURO STOXX Insurance	11.5
MSCI EURO	1.0
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.3

¹ Status: 31 December 2011.

Active capital management remains an integral part of Munich Re's business policy. We pursue a flexible dividend policy, with the payout essentially based not only on the result for the year but also on our capital requirements. We were one of the few German listed companies to pay a higher dividend for the financial year 2010, up 8.7% to €6.25 per share.

Dividend proposal of €6.25 at same level as last year

Even though the turmoil on the capital markets and the high losses from natural catastrophes clearly impacted our result for 2011, the Board of Management and Supervisory Board intend to propose an unchanged dividend of €6.25 for the financial year 2011 at the Annual General Meeting on 26 April 2012. Altogether, this would mean a total payout of €1.1bn – the same level as last year. Subject to approval by the Annual General Meeting, the dividend will be paid on 27 April 2012. With a stable dividend even in a difficult year, we are once again underlining the stability of our business model and the solidity of our capital position.

With a dividend yield of approximately 6.6% (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.

As announced, between May 2010 and April 2011 we bought back and retired more than nine million shares with a volume of around €1bn as part of our share buy-back programme. For the period 2005 to 2011, Munich Re thus returned nearly €12bn to its shareholders via share buy-backs and dividends.

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 listed on all the German stock exchanges, with trading nowadays taking place almost exclusively on the Xetra electronic trading platform.

Securities reference numbers

Reuters	MUVGn	ISIN	DE 000 843 002 6
Bloomberg	MUV2	WKN	843 002

The average daily turnover of Munich Re shares in Xetra and floor trading on the German stock exchanges was €121.0m in the year under review, putting our shares in 14th place among the DAX stocks at year-end 2011. In terms of market capitalisation, we ranked 13th with around €17.0bn.

Key figures for our shares

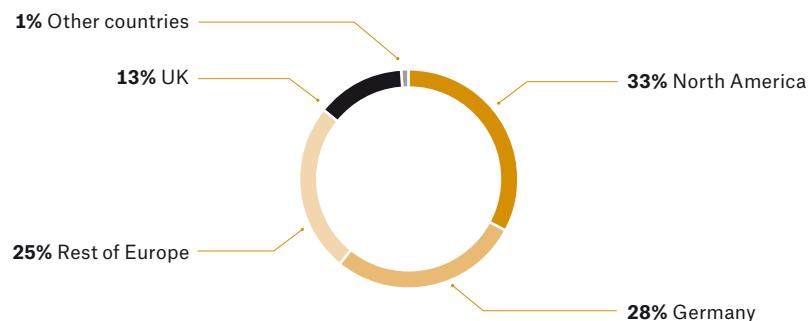
		2011	2010
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	179.3	188.5
Year high	€	125.20	123.55
Date		17.2.2011	15.4.2010
Year low	€	79.55	98.38
Date		12.9.2011	8.6.2010
Year-end closing price	€	94.78	113.45
Annual performance (excluding dividend)	%	-16.5	4.4
Beta relative to DAX (daily, raw)	%	0.9	0.7
Market capitalisation at 31 December	€bn	17.0	21.4
Market value/equity at 31 December ¹		0.7	0.9
Average trading volume	'000	1,157	1,069
Earnings per share	€	3.94	13.06
Dividend per share	€	6.25	6.25
Dividend yield at 31 December	%	6.6	5.5
Dividend payout (status at 28 Feb. 2012)	€bn	1.1	1.1

¹ Including minority interests.

At the end of December 2011, a total of 151,000 shareholders were entered in our share register. The vast majority of shares were held by institutional investors such as banks, insurers or investment companies; around 12.6% were in the hands of private investors. At around 72%, the percentage of international investors was at the same level as in the previous year.

Our largest shareholder at the end of 2011 continued to be Warren E. Buffett who, according to the voting rights notification of October 2010, holds a stake of around 10.2% in Munich Reinsurance Company via several companies in his group, Berkshire Hathaway Inc., OBH Inc., National Indemnity Co. Warren E. Buffett and the aforementioned companies in his group also informed us in October 2010 that the objective of their investment is to generate trading profits, not to implement strategic objectives. They do not seek to exercise an influence on the composition of Munich Re's management or supervisory boards or to fundamentally change the Company's capital structure. Second-largest shareholder is asset manager BlackRock with around 6.2%, followed by the People's Bank of China/SAFE, China, with around 3%.

Regional distribution¹



¹ Percentage of share capital. Status: 31 December 2011.

Source: Munich Re share register

Open communication with all capital market participants

Our corporate strategy geared to a sustained increase in value is accompanied by ongoing and open communication with all capital market participants. The main task of Investor and Rating Agency Relations at Munich Re is to cultivate contact with existing shareholders and attract new ones. We mainly use roadshows and investor conferences to initiate and intensify dialogue with institutional investors, our main focus being on financial centres in Europe and the USA. We regularly supplement our investor relations activities with special events, such as the Capital Markets Day we held in New York in July 2011 to present our US non-life business, or an event in December, when we spotlighted the expected implications of Solvency II for Munich Re and the insurance sector.

At the same time, we ensure that due account is taken of our investors' opinions and preferences in internal decision-making processes. 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 2011, 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 web-streaming. Enquiries reaching us via our shareholder hotline or by e-mail are answered promptly by our team. Additionally, the service pages of our shareholder portal on the internet provide our registered shareholders with a wide range of information and communication options.

Our 124th Annual General Meeting was held at the ICM – International Congress Center – in Munich on 20 April 2011. Some 45.4% of the voting share capital was represented in the votes. With online participation in the Annual General Meeting and (electronic) postal voting, Munich Reinsurance Company again offered its shareholders all the facilities for casting their votes on agenda items.

An overview of ratings from the leading rating agencies can be found on [page 103](#)

For many years, Munich Re has been awarded consistently excellent ratings by the leading rating agencies. Despite the exceptional strains on results in the financial year 2011, 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



- // Integrated business model covers the whole value chain in the insurance industry
- // Disciplined financial management ensures appropriate capitalisation at all times
- // New insurance solutions secure competitive edge, generate profitable growth and win clients' loyalty

Turning risk into sustainable value

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

Three-pillar strategy reduces capital requirements

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

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

Disciplined financial management as the foundation

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

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

An important success factor is the constant improvement of the value-based methods and processes we use to write, control and manage our business. Our most important performance indicator in this context is return on risk-adjusted capital (RORAC), which relates the profit earned to the required risk capital, allowing the management of all activities in the Group to be geared to economic value added (see page 61).

Tapping earnings potential through innovations

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

Primary insurance – To insure is to understand

Munich Re's primary insurance operations are concentrated in the ERGO Insurance Group. ERGO offers a comprehensive range of insurances, provision products and services, and is one of the leading insurance groups in Germany and Europe. It is represented in over 30 countries, focusing mainly on Europe and Asia. Over 40 million clients place their trust in the competence, security and assistance it provides in various fields of business.

ERGO gears itself consistently to the needs and wants of its clients and aims to constantly improve through close communication with them. The claim "To insure is to understand" is being systematically implemented in the form of needs-based, customer-centric consultancy, clear and understandable communication, innovative services and swift support when loss or damage occurs. Strong client focus is the yardstick for action in all ERGO's business units and companies, and distinguishes ERGO from its competitors. In combination with its broad range and financial strength, this makes ERGO and its specialists reliable partners for insurance and provision product needs. Beyond this, we attach great importance to complying with legal and ethical standards in all activities: in 2011, ERGO accordingly adopted a new package of measures to strengthen compliance within the group.

ERGO offers the appropriate sales channel for every client. Over 20,000 full-time self-employed agents service private clients and firms. These are supplemented by direct sales staff, brokers and strong cooperation partners in Germany and abroad. ERGO also has a range of sales partnerships with banks in Germany, various other European countries and India.

Reinsurance – Knowing risks, taking opportunities

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

We write our business directly with primary insurers and also via brokers. In addition to traditional reinsurance business, we participate in insurance pools, public-private partnerships, and business in specialist niche segments. 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 the balance-sheet and solvency position of our clients. Our reputation in the market and our client-focused set-up give us quick and direct access to all clients.

Munich Health – Pioneer in the healthcare market

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

Responsibility as an integrated insurance group

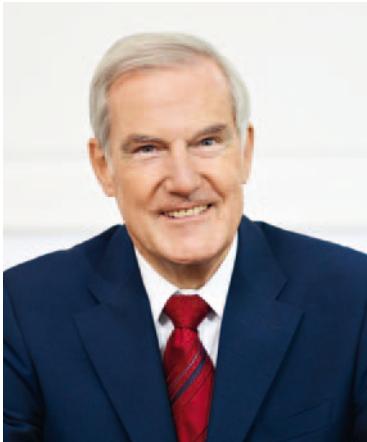
The common aim of all our activities is to create long-term value for our clients, shareholders and staff. For us, a forward-looking and responsible approach is axiomatic. As one of the world's leading insurance groups, we give our clients the promise that we will always fulfil the obligations we assume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

Corporate governance

Corporate governance

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Ladies and Gentlemen,



Dr. Hans-Jürgen Schinzler

Chairman of the
Supervisory Board

2011 was an extraordinary year in many respects: Munich Re had to absorb the highest losses from natural catastrophes in its history – and this at a time when the financial markets found themselves in an extremely difficult situation. In this challenging environment, the Supervisory Board fulfilled with due care all the tasks and duties incumbent upon it under the law, the Articles of Association and the rules of procedure. We closely monitored the work of the Board of Management, providing regular advice on its running of the Company, and subjecting its conduct of the business to critical review and supervision. Inspection measures in accordance with Section 111 para. 2 sentence 1 of the German Stock Companies Act were at no time required.

Collaboration between Supervisory Board and Board of Management

The collaboration between the Supervisory Board and the Board of Management was constructive and characterised by a spirit of mutual trust. The Board of Management met its reporting obligations towards the Supervisory Board in full. In total, six ordinary meetings of the Supervisory Board took place, with the Board of Management participating in meetings where the topics discussed did not require its absence. This afforded the Supervisory Board an intensive exchange with the Board of Management and gave us a good insight into the competitive position, strategic considerations, corporate planning and the Group's development. The Board of Management kept us constantly informed both orally and in writing about all important business transactions. The Supervisory Board was directly involved in all decisions of fundamental significance to the Company. We reviewed and – where necessary – questioned the information supplied by the Board of Management.

Between the meetings, the Board of Management reported to us on an ad-hoc basis concerning important matters in the Group – for example the effects of the earthquake in Japan on the business, the incidents at ERGO/HMI reported in the press and the necessary corrective measures, and the initial loss estimates for Hurricane Irene and the floods in Thailand.

Beyond this, as Chairman of the Supervisory Board, I was in regular contact with the Chairman of the Board of Management, particularly in connection with issues of strategy, corporate risk management and current business performance. The Chairman of the Board of Management informed me promptly of significant events and developments in the Group. Between the meetings, Jörg Schneider, member of the Board of Management responsible for Group reporting, provided timely updates on key events and developments to Henning Kagermann, Chairman of the Audit Committee. In addition, the shareholder representatives and employee representatives frequently availed themselves of opportunities prior to the Supervisory Board meetings to discuss important topics separately with the Chairman of the Board of Management.

Focal points of the meetings of the full Supervisory Board

At five of the six meetings, we obtained detailed reports on Munich Re's performance. Together with the Board of Management, we concerned ourselves with the strategic risks and opportunities of the individual fields of business and gave detailed consideration to the effects of the exceptional accumulation of very severe natural catastrophes and the continuing global financial crisis on the Group's assets and results. In addition to obtaining regular reports on the development of the Group's investments, at one of our meetings we received a presentation by MEAG's Managing Director on how asset management is organised at Munich Re, and on MEAG's tasks and role. The incidents at ERGO reported in the press, their investigation and the changes necessary in this context were also a focus of our consultations. Furthermore, we engaged in discussions with the Board of Management on economic risk capital requirements and risk-bearing capacity, on the effects of pending reforms to key parameters such as those deriving

from the new European supervisory system, Solvency II, and the IFRS accounting revisions, and on the highly specific issue of the systemic relevance of insurers.

At our first meeting in 2011, we dealt with the Company and Group financial statements for the financial year 2010 and prepared the motions for resolution by the 2011 Annual General Meeting. Besides taking the decision to extend the appointments of three members of the Board of Management, we also reached a resolution on the evaluation of individual objectives for annual performance in 2010. In addition, we established the individual objectives for the Board members' variable remuneration components for 2011, and took reports on compliance and anti-fraud management. Finally, we appointed the external auditors for the 2011 financial year.

At our meeting in April, we concerned ourselves with matters relating exclusively to the Board of Management. We assessed the extent to which the Board of Management had achieved its financial objectives, and determined the amount of bonus payments for the members of the Board of Management based on their annual performance in 2010. As usual, at another meeting immediately prior to the Annual General Meeting, the Board of Management gave us an account of business performance thus far in the year under review.

At its meeting in July, the Supervisory Board received reports on topics including the Group's prospects in German life primary insurance business. We also discussed the main focuses of human resources work in the Group. In the same session, the Board of Management gave us an account of the structure of the compensation systems in the Group, thus fulfilling its annual obligation pursuant to Section 3 para. 5 of the German regulation on the supervisory law requirements for remuneration schemes in the insurance sector (VersVergV).

In October, the agenda included issues of corporate governance, an in-depth report on the development and status of ERGO International, and discussion of the positioning of Munich Re (non-life reinsurance) in Greater China.

At its last meeting in December, routinely attended by two representatives of the German Federal Financial Supervisory Authority (BaFin) as guests, the Supervisory Board dealt with the Board of Management's remuneration from 2012 onwards. We decided on the weightings of the individual target categories and measurement bases for annual and multi-year performance for the financial objectives in connection with the variable remuneration for 2012. The Chief Risk Officer gave his assessment of the risk situation and the Group's risk-bearing capacity and discussed the Group's risk strategy in detail with us. We also concerned ourselves with the Group planning for 2012 to 2014 presented by the Board of Management, in connection with which we also considered deviations in business performance from the planning for the year under review. A presentation on Munich Health gave us an impression of the development of this business field, and we looked into the current challenges in health primary insurance in Germany.

Work of the committees

The Supervisory Board has a total of five committees in place that enable us to perform our tasks efficiently and deal with complex issues more intensively in smaller bodies. The committees' main tasks include preparing resolutions to be taken by the full Supervisory Board and topics for its agenda. Details regarding the responsibilities of the respective committees are available in the corporate governance report on page 26 f. The composition of each committee is shown on page 30 f. At all meetings of the full Supervisory Board, the committee chairmen submitted detailed reports on the topics dealt with by the committees and the results of these consultations.

The Personnel Committee met six times in 2011. It prepared the proposals to be submitted to the full Supervisory Board regarding the individual variable remuneration targets for the members of the Board of Management in the year under review. Moreover, it adopted proposals to the Supervisory Board regarding the extension of three Board members' contracts, the assessment of the individual and financial objectives of the members of the Board of Management, and the bonus payments from the 2010 annual performance. The committee obtained comprehensive reports on the fringe benefits and remuneration in kind for the Board of Management as disclosed in the 2010 Annual Report, and on the status of succession planning for the Board of Management. The Personnel Committee approved the acceptance of several seats on supervisory, advisory and similar boards by members of the Board of Management. At the end of the reporting period, the committee very closely considered the proposal submitted to the full Supervisory Board regarding the Board of Management's remuneration from 2012 onwards. It also prepared submissions to the full Board on the weightings of the individual target categories and measurement bases for the financial objectives in connection with the variable remuneration for 2012.

At its four meetings in 2011, the Standing Committee devoted itself mainly to the preparation of Supervisory Board meetings and to topics of corporate governance. The report on the share register was another regular item on the agenda.

The Audit Committee held seven meetings in the period under review. At two meetings, it discussed in detail 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 2010. At one of these two meetings, the external auditor answered questions. In addition, the Audit Committee considered the 2011 quarterly reports and the 2011 half-year financial report, which it reviewed in the presence of the auditor.

The Head of Group Audit routinely provided information on the result of the 2010 audits and the audit planning for 2011. As usual, the Compliance Officer also reported to the committee. In fact, the Audit Committee dealt regularly with compliance topics, following in particular the events at ERGO, their investigation and the measures subsequently resolved; at an extraordinary meeting, the Audit Committee received an in-depth report on these matters from the Chairman of the Board of Management and additionally – at another meeting – from the PwC representative tasked with performing the external review as well as the Chairman of ERGO's Board of Management. In this context, the committee also conferred about the Group's compliance system, ultimately specifying more precisely the tasks and monitoring functions it has to perform in respect of matters involving Group subsidiaries, in particular with regard to the delimitation of these tasks from those of the subsidiaries' own bodies, especially where ERGO is concerned. The development of the embedded values in life reinsurance business and in life and health primary insurance business was a periodic item of discussion. Furthermore, the Audit Committee obtained detailed information from Munich Re's Head of Information Technology on IT security.

The Audit Committee looked into the impact of the financial crisis on Munich Re again in the financial year ended. Asset management was thus a recurring topic of thorough debates at the meetings. The committee regularly monitored the Group's risk situation; alongside quarterly written reports, it also received verbal updates from the Chief Risk Officer, with whom the members of the Audit Committee gave detailed consideration to developments in risk management and the risk strategy.

The committee reviewed and monitored the auditor's independence. In this context, the Audit Committee took delivery of reports from the auditor on its auditing and non-audit-related services. Likewise, the Audit Committee prepared for the full Supervisory Board the appointment of the external auditor for the financial year 2011, determined the main points of the audits, and set the auditor's fees. Following a resolution by the full Supervisory Board, the Chairman of the Audit Committee commissioned the audit for the financial year 2011. Furthermore, it commissioned the external auditor with a review of the half-year financial report 2011. The good close cooperation with the external auditor was of notable benefit to the Audit Committee in its tasks and duties.

At the beginning of 2011, the Nomination Committee concluded the discussions it had begun in the previous year about a successor to Thomas Wellauer, who left the Supervisory Board as at 30 September 2010. The committee agreed to propose Annika Falkengren, President and CEO of Skandinaviska Enskilda Banken AB (publ), as a candidate to the shareholders.

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

Corporate governance and declaration of conformity

The efficiency audit of the Supervisory Board's work, this time conducted on a non-formal basis, concluded that the measures to improve efficiency implemented in the previous year, which had been identified in an extensive study, had proven successful, and that the work of the Supervisory Board is considered to be efficient and appropriate overall.

A "first" in 2011 was an internal information event offered by Munich Re for all members of the Supervisory Board. As warranted by concrete circumstances, this was devoted to various aspects of the topic "natural catastrophes", and was attended by the majority of the members of the Supervisory Board, as recommended in item 5.4.1 of the German Corporate Governance Code.

In November 2011, the Board of Management and Supervisory Board submitted their compulsory annual declaration of conformity with all the recommendations of the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and their intention to continue complying with it in future. Further information on corporate governance in general is available in the joint report of the Board of Management and Supervisory Board on [page 26 ff.](#)

Changes on the Supervisory Board

On 20 April 2011, the Annual General Meeting of Shareholders elected Annika Falkengren, President and CEO of Skandinaviska Enskilda Banken AB (publ), to the Supervisory Board to succeed Thomas Wellauer. Annika Falkengren's appointment brings another exceptionally qualified and internationally experienced figure to the Supervisory Board.

Company and Group financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft duly audited the following documents and gave them an unqualified auditor's opinion: the Company and Group management reports and financial statements as at 31 December 2011. 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 1 February 2012, the Audit Committee had already had the opportunity to confer in detail about the preliminary year-end figures as at 31 December 2011. On 11 March 2012, it prepared the Supervisory Board's resolution on the adoption of the Company financial statements and the approval of the Group financial statements. To this end,

the Audit Committee examined the Company and Group financial statements, the management reports and the Board of Management's proposal for appropriation of the net retained profits. It discussed these at length with the auditor present at the meeting and gave detailed consideration to the auditor's reports. The Chairman of the Audit Committee briefed the full Supervisory Board about the outcome of its consultations at the balance sheet meeting on 12 March 2012.

The full Supervisory Board also checked the Company and Group financial statements and management reports and the proposal of the Board of Management for appropriation of the net retained profits. On the basis of its own examination and having heard the auditor's report, the Supervisory Board had no objections and agreed to the outcome of the external audit. It approved the Company and Group financial statements on 12 March 2011. The financial statements were thus adopted. Having carefully weighed all the relevant aspects, the Supervisory Board agreed with the proposal of the Board of Management for appropriation of the net retained profits.

Words of thanks to the Board of Management and employees

The Supervisory Board wishes to thank all the members of the Board of Management and staff for their great personal commitment and excellent work in a financial year that was as eventful as it was challenging.

Munich, 12 March 2012

For the Supervisory Board



Dr. Hans-Jürgen Schinzler
Chairman

Corporate governance report and corporate governance statement¹

Corporate governance report

The following report by the Board of Management and Supervisory Board of Munich Reinsurance Company on the Group's corporate governance within the meaning of item 3.10 of the German Corporate Governance Code contains the remuneration report in accordance with item 4.2.5 of that Code and the corporate governance statement as per Section 289a of the German Commercial Code.

How we view corporate governance

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

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

What rules apply to Munich Re?

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

Also applicable to Munich Reinsurance Company is the German Act on the Co-Determination of Employees in Cross-Border Mergers (MgVG) and a co-determination agreement, which is published on our [website](#).

¹ Copy from the management report of Munich Reinsurance Company. Some of the figures in the remuneration report deviate owing to the application of International Accounting Standards.

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 publish a declaration stating how far the Code's recommendations have been and will be complied with.

It is our conviction that good corporate governance creates lasting value. We therefore apply the highest standards to our operations and activities, complying with all the recommendations and proposals of the German Corporate Governance Code. The declaration of conformity is permanently accessible on our internet website (www.munichre.com).

Corporate legal structure

Munich Reinsurance Company is a joint-stock company ("Aktiengesellschaft") within the meaning of the German Stock Companies Act. It has three governing bodies: the Board of Management, the Supervisory Board and the Annual General Meeting. Their functions and powers derive from the relevant legal provisions, the co-determination agreement and the Articles of Association, which are published on our [website](#).

The principle of parity co-determination on the Supervisory Board has been maintained in the co-determination agreement, and strengthened by taking into account staff employed in the rest of Europe.

Board of Management

Duties and responsibilities

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 must ensure compliance with statutory requirements and internal company directives, and is responsible for effecting adequate risk management and risk control in the Company.

Internal regulation and working procedure

Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. Munich Reinsurance Company's Board of Management had nine members in the 2011 financial year. An overview of its composition and distribution of responsibilities can be found on [page 63](#). Additional information on individual members of the Board of Management is available on our [website](#). Rules of procedure issued by the Supervisory Board regulate the work of the Board of Management, in particular the allocation of responsibilities between the individual Board members, matters reserved for the full Board of Management, and the required majority for resolutions. The full Board of Management decides on all matters for which the law, the Articles of Association or the rules of procedure prescribe a decision by the Board of Management. In particular, it is responsible for matters requiring the approval of the Supervisory Board, for items which have to be submitted to the Annual General Meeting, and for tasks which constitute fundamental management functions or are of exceptionally great importance, including significant personnel issues at top management level.

Meetings of the Board of Management take place as required, but at least once a month. The members of the Board of Management cooperate closely to the benefit of the Company and aim to reach unanimous decisions.

The Board of Management has two committees – one for Group matters and one for reinsurance – in order to enhance the efficiency of its work.

Group Committee

The Group Committee comprises the Chairman of the Board of Management and at least one other member of the Board of Management, i.e. Nikolaus von Bomhard and Jörg Schneider. A further member is Munich Reinsurance Company's Chief Risk Officer, Joachim Oechslin. The Chairman of the Board of Management is also Chairman of the Group Committee, which decides on all fundamental matters relating to its voting members' divisions unless the full Board of Management is mandatorily responsible. In addition, it prepares decisions that have to be taken by the full Board.

Reinsurance Committee

The Reinsurance Committee comprises those members of the Board of Management that do not sit on the Group Committee, i.e. Torsten Jeworrek, Ludger Arnoldussen, Thomas Blunck, Georg Daschner, Peter Röder, Wolfgang Strassl and Joachim Wenning. A further member is the Chief Financial Officer for Reinsurance, Hermann Pohlchristoph. The Chairman of the Committee is appointed by the Supervisory Board. This office is held by Torsten Jeworrek. The Reinsurance Committee decides on all fundamental matters relating to the business field of reinsurance except where the full Board of Management is mandatorily responsible.

The committee meetings are held as needed, and usually take place every two weeks. Only the members of the Board of Management are entitled to vote. Further details are regulated by the rules of procedure adopted by the full Board of Management.

Subcommittees

Both the Group Committee and the Reinsurance Committee have set up subcommittees, whose members include other senior executives from Munich Reinsurance Company and the Group. They comprise the Group Investment Committee, the Group Risk Committee, the Global Underwriting and Risk Committee, and the Strategy Committee. Only members of the Board of Management have voting rights on these committees, each of which – apart from the Strategy Committee – has its own written rules of procedure. The Group Investment Committee deals with all significant issues affecting the investments of the Group and of the individual fields of business. Both the Group Risk Committee and the Global Underwriting and Risk Committee deal with risk management, albeit in different contexts.

Collaboration between Board of Management and Supervisory Board

The Board of Management and Supervisory Board cooperate closely to the benefit of the Company. The Board of Management coordinates the Company's strategic approach with the Supervisory Board and discusses the current state of strategy implementation with it at regular intervals. It reports regularly to the Supervisory Board about all questions relevant to the Company. The Supervisory Board has defined the Board of Management's information and reporting requirements in detail. Specific types of transaction such as investments and divestments of substantial size and individual capital measures (e.g. according to Article 4 of the Articles of Association) generally require the Supervisory Board's consent. Beyond this, the Board of Management reports to the Audit Committee on specific topics falling within the latter's scope of responsibility.

Supervisory Board

Duties and responsibilities

The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions require its approval, 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, and half are elected representatives of the employees. Under the co-determination

agreement, employees of Group companies in the European Union (EU) and European Economic Area (EEA) may also participate in the election of employee representatives.

An overview of the members of the Supervisory Board can be found on [page 63 f](#). Additional information on the current members of the Supervisory Board is available on our [website](#).

The Supervisory Board has established its own rules of procedure, specifying responsibilities, work processes and required majorities. It has also adopted separate rules of procedure for the Audit Committee. As provided for in the German Co-Determination Act and included in the provisions of Article 12 of the Articles of Association, the Chairman of the Supervisory Board and his first deputy must be elected by a majority of two-thirds of its constituent members. If a second vote is needed, the shareholder representatives elect the Chairman of the Supervisory Board, and the employee representatives his first deputy, by a simple majority of the votes cast in each case.

The Supervisory Board is quorate if all its members have been invited to the meeting or called upon to vote and if ten members including the Chairman or alternatively 15 members participate in the vote. If the Chairman of the Supervisory Board so determines, meetings of the Supervisory Board may be conducted using telecommunications.

The Chairman of the Supervisory Board is authorised to make declarations on the Supervisory Board's behalf based on prior resolutions.

Objectives for composition of Supervisory Board

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

- // The main criteria for selecting future members of the Supervisory Board continue to be sustained corporate profitability, personal abilities, talents, experience (especially of an international nature), independence, professional knowledge and enterprise of the nominated persons.
- // All members of the Supervisory Board should be free of relevant conflicts of interest.
- // In selecting candidates for membership, the Supervisory Board should pay due regard to diversity, especially in terms of age, nationality and gender. By the beginning of the next term of office (scheduled for 2014), at least 20% of the members should be female, with this figure increasing to at least 30% by the start of the following term of office (scheduled for 2019).

Currently, four members of the Supervisory Board are women: two representatives of the employees and two shareholder representatives.

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

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

The five Supervisory Board committees

Munich Reinsurance Company's Supervisory Board has set up five committees: the Standing Committee, the Personnel Committee, the Audit Committee, the Nomination Committee, and the Conference Committee. The full Supervisory Board is regularly informed about the work of the committees by their respective chairmen.

Their main responsibilities are as follows:

Standing Committee

The Standing Committee prepares Supervisory Board meetings insofar as no other committee is responsible for doing so. It decides on matters of Company business requiring the Supervisory Board's approval unless the full Supervisory Board or another committee is responsible. It makes amendments to the Articles of Association that only affect the wording, and decides on whether and when guests may attend Supervisory Board meetings. Besides this, it prepares the annual declaration of conformity with the German Corporate Governance Code, in accordance with Section 161 of the German Stock Companies Act, and the Supervisory Board's report on the Company's corporate governance in the annual report. Every year, it reviews the efficiency of the Supervisory Board's work and submits appropriate proposals to the full Supervisory Board where necessary. It also approves loan transactions of the Company with senior managers and Supervisory Board members or parties related to them, as well as Company contracts with members of the Supervisory Board. Members of the Standing Committee are Hans-Jürgen Schinzler (Chairman), Herbert Bach, Hans Peter Claußen, Wolfgang Mayrhuber and Bernd Pischetsrieder.

Personnel Committee

The Personnel Committee prepares the appointment of members of the Board of Management and, together with the Board of Management, concerns itself with long-term succession planning. It also prepares the Supervisory Board's resolution on the remuneration system for the Board of Management, including the total remuneration of the individual members of the Board of Management. The Personnel Committee represents the Company vis-à-vis the members of the Board of Management and is responsible for personnel matters involving members of that Board unless these are issues that have been allocated to the full Supervisory Board. It approves loan transactions between the Company and members of the Board of Management or parties related to them, as well as any material transactions between the Company or its associated companies and members of the Board of Management or parties related to them. It also decides on secondary occupations that members of the Board of Management may pursue and seats they hold on the boards of other companies. Members of the Personnel Committee are Hans-Jürgen Schinzler (Chairman), Herbert Bach and Bernd Pischetsrieder.

Audit Committee

The Audit Committee prepares Supervisory Board resolutions on the adoption of the annual Company financial statements and approval of the Group financial statements, reviews the financial reporting, discusses the quarterly reports, and takes delivery of the audit reports and other reports and statements by the external auditor. The committee monitors the accounting process, including the effectiveness of the Company's internal control system, the risk management system, the compliance system and internal audit system. Furthermore, it initiates the decision on the appointment of the external auditor and monitors the latter's independence and quality. It appoints the external auditor for the Company and Group financial statements, determines focal points of the audits and agrees the auditor's fee for the annual audit; the same applies to the review of the half-year financial report. In addition, together with the Board of Management, the Audit Committee prepares the annual discussion of the risk strategy held before the Supervisory Board and discusses any changes or deviations from the risk strategy with the Board of Management during the year. In this connection, the Audit Committee obtains reports not only from the Board of Management but also directly from the Compliance Officer, the Head of Group Audit, and the Chief Risk Officer, or from corporate counsel. Members of the Audit Committee are Henning Kagermann (Chairman), Christian Fuhrmann, Marco Nörenberg, Anton van Rossum and Hans-Jürgen Schinzler.

Nomination Committee

Comprising solely representatives of the shareholders, the Nomination Committee suggests suitable candidates to the Supervisory Board for the latter's election proposals to the Annual General Meeting. It has drawn up and adopted a list of criteria on which these proposals are to be based. Members of the Personnel Committee are Hans-Jürgen Schinzler (Chairman), Henning Kagermann and Bernd Pischetsrieder.

Conference Committee

The Conference Committee makes personnel proposals to the Supervisory Board if the requisite two-thirds majority is not achieved in the first vote when it comes to appointing or dismissing members of the Board of Management. Its responsibilities have remained the same after application of the co-determination agreement and are now laid down in the Articles of Association and the Supervisory Board's rules of procedure. Members of the Conference Committee are Hans-Jürgen Schinzler (Chairman), Herbert Bach, Hans Peter Claußen and Bernd Pischetsrieder.

More details of the work of the Supervisory Board committees in the financial year ended can be found in the report of the Supervisory Board to the Annual General Meeting, which is printed on page 22 ff.

Annual General Meeting

The regular responsibilities of the Annual General Meeting include reaching a resolution on the appropriation of profits and approving the actions of the Board of Management and Supervisory Board.

At the Company's Annual General Meeting, the principle of "one share, one vote" applies. Insofar as shareholders are entered under their own name as being the holders of shares which belong to a third party and exceed the upper limit of 2% of the share capital as stated in the Articles of Association, the shares entered do not carry any voting rights. The aim of this provision is greater transparency of the share register. Besides this, it is intended to facilitate direct contact with the shareholders, especially in connection with the convening of the Annual General Meeting and the exercising of voting rights.

Declaration of the Board of Management and Supervisory Board of Munich Reinsurance Company in accordance with Section 161 of the German Stock Companies Act, dated November 2011

"Since the last declaration of conformity in November 2010, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München has fulfilled all the recommendations of the German Corporate Governance Code of 26 May 2010 (published on 2 July 2010) and will continue to do so in future."

Important rules of corporate governance

Munich Re Code of Conduct

Beyond this, we have our own Munich Re Code of Conduct specifying high-level ethical and legal requirements that must be met by employees. This document is also published on our website.

In our Code of Conduct we clearly state our views on corporate integrity, i.e. legally impeccable behaviour based on ethical principles. The Code of Conduct contains regulations that are binding on all Munich Re employees including the management.

In this connection, employees also have the option of contacting an external and independent ombudsman, who reports cases of suspected fraud to the Fraud Prevention Committee, comprising the Fraud Prevention Officer and the Compliance Officer, thus

supporting Munich Re's anti-fraud management. In the ERGO Group, as from 1 January 2012, the Board of Management has transferred responsibility for overseeing adherence to corporate rules of conduct to a separate compliance unit, which reports directly to the Chairman of the Board. Through this new set-up, the prevention and avoidance of compliance violations are assigned top priority.

Global Compact

To make clear Munich Re's understanding of important values – and thus also its corporate responsibility – inside and outside our Group, Munich Re joined the United Nations Global Compact in 2007. The ten principles of this declaration form the benchmark for our actions throughout the Group and thus provide the fundamental framework for our corporate responsibility. Our annual Communication on Progress for the UN Global Compact is integrated into the corporate responsibility portal on our [website](#).

Principles for Responsible Investment

In 2006, Munich Re became the first German company to sign the UN Principles for Responsible Investment (PRI). There is a link to the PRI via the corporate responsibility portal on our [website](#), where we also report on how we implement these principles for sustainable investment.

Remuneration report¹

Structure of the remuneration system for the Board of Management

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

In accordance with item 4 of the German Corporate Governance Code, the remuneration system for the Board of Management is determined 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 resolution for the full Supervisory Board.

The remuneration system for members of the Board of Management in place since 1 January 2010 focuses more strongly than before on long-term targets and thus creates an even greater incentive for sustainable corporate development. No changes were made with effect from 1 January 2011.

¹ This remuneration report is part of the Group management report.

Structure of the remuneration system for the Board of Management

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

¹ For the variable remuneration, the share shown presupposes 100% achievement of the objectives.

Fixed components

Basic remuneration

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

Remuneration in kind/fringe benefits

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

Variable remuneration

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

Compliance with the processes laid down for specifying objectives and assessing their achievement is critically reviewed by the external auditor, who verifies whether the envisaged financial objectives are measurable and whether their achievement is in accordance with the guidelines established by Munich Re. The outcome of this review and any potentially controversial aspects are rendered transparent for the Supervisory Board.

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

Variable remuneration based on annual performance

Annual performance targets for the variable remuneration component geared to annual performance are set on the basis of divisional results and individual objectives as well as the Company result (property-casualty reinsurance) and Group result. 30% of the target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives. The targets and scaling for Group, Company and divisional objectives are geared to particular indicators, while individual objectives form the basis for the achievement of personal targets. The key indicator used for the Group result is RORAC (return on risk-adjusted capital), which is derived from key figures in external accounting and from other important portfolio and performance data. Information on the definition of RORAC is provided on [page 61](#). The performance measures embodied in value-based management are used for the Company result and the divisional results. The objectives are weighted individually according to the responsibilities of the individual members of the Board of Management.

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

Variable remuneration based on multi-year performance

For the multi-year performance remuneration component, three-year targets based on the performance of the reinsurance, Munich Health and primary insurance segments and on individual objectives are fixed every year. 70% of the overall target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives. The targets and scaling for the business field targets are geared to VBM performance indicators, and the individual targets are based on individual objectives. The objectives are weighted individually according to the responsibilities of the individual members of the Board of Management.

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

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

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

Share-based remuneration agreements in force during the reporting period Mid-Term Incentive Plan 2009–2011

This plan is based on performance over a three-year period. It promotes the medium- and long-term increase in Munich Re’s value in terms of internal value creation (value-based success factors) and improvement in the total shareholder return (TSR) of Munich Re shares. The plan provides for the granting of performance share units, free of charge, to members of the Board of Management for the first and last time for 2009. Plan participants have the opportunity to share in the development of Munich Re’s value if they achieve their performance targets and increase the TSR.

For the value-based performance objectives, three-year average targets are set for each of the business fields reinsurance, primary insurance and Munich Health. Achievement of objectives is measured at the end of the plan’s term, there being no adjustment of the targets during the course of the plan.

The TSR represents the total return on shares, comprising both the rise in the share price and the dividends paid over a period of three years. Further information on the Mid-Term Incentive Plan can be found in the notes to the financial statements under (45) Mid-Term Incentive Plan.

Long-Term Incentive Plan

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

Whether the stock appreciation rights can be exercised and, if so, when, is not certain. The exercising and proceeds depend on the development of the share price and on fulfilment of the exercise conditions. Future obligations arising from the long-term incentive plans are safeguarded in such a way that the expenses resulting from a growth in value of the stock appreciation rights are neutralised as far as possible by an increase in the value of the share portfolio. The amount of income is limited. Up to now, it has only been possible to exercise stock appreciation rights under the plans set up in 1999 and 2003 to 2005. Further information on the Long-Term Incentive Plan can be found in the notes to the financial statements under (44) Long-Term Incentive Plan.

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 2011 were as follows: basic remuneration around 30% and variable remuneration around 70%, of which 30% was based on annual performance and 70% on multi-year performance. Annual objectives, multi-year objectives and investment in shares together form a well-balanced and economic, i.e. strongly risk-based, incentive system, designed to ensure that the targets set for the members of the Board of Management do not have undesirable effects. No guaranteed variable salary components are granted.

All in all, the remuneration system for members of the Board of Management was in conformity with the recommendations of the German Corporate Governance Code for 2011. In particular, it also complies with the German regulation of 6 October 2010 concerning the supervisory law requirements for remuneration schemes in the insurance sector (Insurance Compensation Regulation – VersVergV).

Beyond the actual remuneration system, the level of total remuneration is set and regularly monitored by the full Supervisory Board, acting on recommendations from the Supervisory Board's Personnel Committee. The consideration of what is appropriate remuneration takes into account data from peer-group companies and the relation to remuneration of other Munich Reinsurance Company employees. Criteria also include the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re. New Board members are generally placed at a level which allows sufficient potential for development in the first three years.

Continued payment of remuneration in the case of incapacity to work

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

Other remuneration

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

The members of the Board of Management have no contractual entitlement to severance payments. If the Board member's activities on the Board are terminated prematurely without good cause within the meaning of Section 626 of the German Civil Code, payments due may not surpass the equivalent of two years' total remuneration (three years' total remuneration in the event of acquisition of a controlling interest or change of control within the meaning of Section 29 para. 2 of the German Securities Acquisition and Takeover Act) and may not cover more than the remaining period of the employment contract. 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 (under which stock appreciation rights were granted to members of the Board of Management for the last time in 2009) provide for special exercise options. Details of this are available in the notes to the financial statements under (44) Long-Term Incentive Plan.

Pensions

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

Beginning in 2009, pension plans for Board members were changed to a defined contribution system. The main aim of this change was the fullest possible outsourcing of all pension-specific risks from the Company's balance sheet. This major risk transfer was achieved by financing increases in entitlements exclusively by paying premiums

into insurance policies concluded to cover these benefit obligations. This means the Company is no longer liable for the pension benefits, as these are covered by the aforementioned insurance policies. The longevity risk, the biometric risks of premature occurrence of a pensionable event (e.g. disability or death of a member of the Board during active service), and the capital market risk were thus transferred to the insurer and the individual Board members.

As of 2009, newly appointed members of the Board hence become members of a defined contribution plan. For this plan, the Company provides the Board members with a pension contribution, which in 2009 was related to basic remuneration, for each calendar year (contribution year) during the term of their contract. The pension contribution is paid over to an external pension insurer. This insurer's guaranteed interest rate is 2.25%. 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 newly appointed as from 1 January 2009, a uniform pension contribution rate has been set; the annual basic remuneration is multiplied by this rate to arrive at the pension contribution payable.

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

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

Owing to the increase from 25% to 30% in the share of basic remuneration in overall remuneration as at 1 January 2010, there was a change in the assessment basis for the Board members' pensions. An unintended rise in the pensions would otherwise have been the consequence. From 1 January 2010 onwards, the defined benefits are fixed on the basis of "pensionable basic remuneration", which corresponds to 25% of the target overall direct remuneration (= basic remuneration + variable remuneration on the basis of 100% achievement of objectives). In the case of the defined contribution plan, the rate is fixed on the basis of the target overall direct remuneration.

Benefits on termination of employment

Occupational pension

Board members are entitled to an occupational pension on retiring from active service with the Company after reaching the age of 60 or, at the latest, 65.

Benefit amount:

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

Disability pension

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

Benefit amount:

- // For a period of six months, previous monthly basic remuneration (only for Board members appointed prior to 2006)
- // Under the defined contribution plan for new members as from 2009: 80% of the insured occupational pension up to the age of 59, with subsequent occupational pension
- // For Board members transferred from the old system to the new: Vested pension from the defined benefit plan up to 2008 and 80% of the insured occupational pension benefit up to age 59 with subsequent occupational pension based on the defined contribution plan
- // In the case of defined benefit plans: Defined benefit of between 30% and 60% of pensionable basic remuneration

Reduced occupational pension on early retirement

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

Benefit amount:

- // For a period of six months, previous monthly basic remuneration (only for Board members appointed prior to 2006)
- // Under the defined contribution plan for new members as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum at the date the pension benefit is claimed
- // For Board members transferred from the old system to the new: Entitlement of between 30% and 60% of pensionable 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. The policy reserve available at the date the pension benefit is claimed can be paid out as an annuity or as a lump sum.
- // In the case of defined benefit plans: Defined benefit of between 30% and 60% of the pensionable basic remuneration, reduced by 2% for each year or part thereof short of the Board member's 65th birthday

Vested benefits for occupational pension, disability pension and surviving dependants

Vested benefits are paid upon the Board member reaching the age of 60, in the case of incapacity to work, or in the event of the Board member's death.

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

Benefit amount:

- // Under the defined contribution plan for new members as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum at the date the insured event occurs
- // For members of the Board of Management transferred from the old system to the new: The entitlement under the vested pension is a proportion of the vested pension based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether up to the fixed retirement age (Section 2 para. 1 of the German Employers' Retirement Benefits Act). The entitlement from the incremental pension comprises the pension benefits fully financed under the insurance contract up to the occurrence of the insured event based on the pension contributions made up to the date of leaving the Company (Section 2 para. 5a of the German Employers' Retirement Benefits Act). This entitlement is paid out as an annuity or a lump sum.
- // In the case of defined benefit plans: Defined benefit of between 30% and 60% of pensionable basic remuneration. The vested benefits are a proportion of the occupational pension, based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether until his 65th birthday (Section 2 para. 1 of the German Employers' Retirement Benefits Act).

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

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

Benefit amount:

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

Provision for surviving dependants

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

Subsequently, surviving dependants of a Board member who dies during active service or after retirement receive the following benefits:

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

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

Pension adjustment

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

Total remuneration of the Board of Management

The basis for reporting the remuneration of Board members is German Accounting Standard No. 17 – DRS 17 (revised 2010), according to which the amount shown as remuneration for annual performance is the provision established for that remuneration, since the performance on which the remuneration is based has been completed by the balance sheet date and the requisite Board resolution is already foreseeable. Under the above-mentioned standard, remuneration for multi-year performance is not recognised until the year of payment. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €9.8m (11.7m) for fulfilment of their duties in respect of the parent company and its subsidiaries in the financial year. Total remuneration thus shows a reduction of €1.9m compared with the previous year. The main reason for this is that, according to current estimates, the overall achievement of objectives for the annual performance in 2011 was lower than in the previous year.

Remuneration of individual Board members as per DRS 17 (revised 2010)

(in accordance with Section 285 sentence 1 item 9a sentences 5–8 of the German Commercial Code and Section 314 para. 1 item 6a sentences 5–8 of the German Commercial Code)

Name	Financial year	Remuner-ation in kind/fringe benefits		Annual performance ¹	Total
		Basic remuneration	€		
Dr. Nikolaus von Bomhard²	2011	1,140,000	34,205	525,294	1,699,499
	2010	1,092,000	214,809	1,030,666	2,337,475
Dr. Ludger Arnoldussen	2011	519,000	37,527	280,521	837,048
	2010	519,000	37,136	685,040	1,241,176
Dr. Thomas Blunck	2011	540,000	27,832	450,222	1,018,054
	2010	519,000	27,829	640,923	1,187,752
Georg Daschner	2011	585,000	32,296	507,762	1,125,058
	2010	570,000	31,536	582,541	1,184,077
Dr. Torsten Jeworrek	2011	780,000	33,682	532,658	1,346,340
	2010	750,000	31,744	754,583	1,536,327
Dr. Peter Röder	2011	519,000	33,308	274,137	826,445
	2010	480,000	31,983	524,160	1,036,143
Dr. Jörg Schneider	2011	810,000	36,426	369,180	1,215,606
	2010	780,000	35,730	685,230	1,500,960
Dr. Wolfgang Strassl	2011	540,000	30,276	289,341	859,617
	2010	519,000	28,747	258,383	806,130
Dr. Joachim Wenning	2011	480,000	26,083	325,382	831,465
	2010	420,000	23,517	389,004	832,521
Total	2011	5,913,000	291,635	3,554,497	9,759,132
	2010	5,649,000	463,031	5,550,530	11,662,561

¹ At the time of preparation of this report, no Board resolution had yet been passed on the amounts to be paid for 2011. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted. For the 2010 annual performance, a total of €485,172 more was paid out than had been reserved. The additional expenditure breaks down as follows: von Bomhard €122,304, Arnoldussen €40,144, Blunck €56,856, Daschner €73,016, Jeworrek €42,787, Röder €29,400, Schneider €57,330, Strassl €36,875, Wenning €26,460. The amounts for the 2011 annual performance remuneration have been increased accordingly.

² Remuneration in kind/fringe benefits for 2010 including anniversary payment.

The total expenditure recognised in 2011 (reserve allocations/releases due to the development in value of performance share units from the 2009–2011 plan) for the Mid-Term Incentive Plan 2009–2011 breaks down as follows: von Bomhard –€177,955, Arnoldussen –€13,870, Blunck –€14,846, Daschner –€16,317, Jeworrek –€20,787, Röder –€12,089, Schneider –€127,180, Strassl –€37,468, Wenning €10,273.

The total expenditure recognised in 2011 (reserve allocations/releases due to the development in value of performance share units from the 2004–2009 plans) for the Long-Term Incentive Plans breaks down as follows: von Bomhard –€1,123,077, Arnoldussen –€243,011, Blunck –€327,611, Daschner –€521,826, Jeworrek –€650,760, Röder –€226,877, Schneider –€991,056, Strassl –€391,806, Wenning –€157,439.

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

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

Name	Annual performance ^{1, 3}			Multi-year performance ^{2, 3}			Total amounts payable
	Set	for	€	Set	for	€	
Dr. Nikolaus von Bomhard	2011	2012	840,000	2011	2012	1,960,000	2,800,000
	2010	2011	798,000	2010	2011	1,862,000	2,660,000
Dr. Ludger Arnoldussen	2011	2012	399,000	2011	2012	931,000	1,330,000
	2010	2011	363,300	2010	2011	847,700	1,211,000
Dr. Thomas Blunck	2011	2012	399,000	2011	2012	931,000	1,330,000
	2010	2011	378,000	2010	2011	882,000	1,260,000
Georg Daschner	2011	2012	409,500	2011	2012	955,500	1,365,000
	2010	2011	409,500	2010	2011	955,500	1,365,000
Dr. Torsten Jeworrek	2011	2012	598,500	2011	2012	1,396,500	1,995,000
	2010	2011	546,000	2010	2011	1,274,000	1,820,000
Dr. Peter Röder	2011	2012	399,000	2011	2012	931,000	1,330,000
	2010	2011	363,300	2010	2011	847,700	1,211,000
Dr. Jörg Schneider	2011	2012	598,500	2011	2012	1,396,500	1,995,000
	2010	2011	567,000	2010	2011	1,323,000	1,890,000
Dr. Wolfgang Strassl	2011	2012	399,000	2011	2012	931,000	1,330,000
	2010	2011	378,000	2010	2011	882,000	1,260,000
Dr. Joachim Wenning	2011	2012	378,000	2011	2012	882,000	1,260,000
	2010	2011	336,000	2010	2011	784,000	1,120,000
Total	2011	2012	4,420,500	2011	2012	10,314,500	14,735,000
	2010	2011	4,139,100	2010	2011	9,657,900	13,797,000

¹ At the time of preparation of this report, no Board resolution had yet been passed on the amounts to be paid for 2011. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted in the table on page 41.

² The remuneration set for multi-year performance for 2011 is payable in 2014, that for 2012 in 2015.

³ The information on the calculation bases and parameters on page 34 f. for the amounts set for 2011 also apply to the amounts set for 2012.

Pension entitlements

Personnel expenses of €4.5m (4.1m) were incurred in the financial year 2011 to finance the pension entitlements for active members of the Board of Management. Of these, €1.2m was apportionable to defined benefit plans and €3.3m 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

Name	Financial year	Defined benefit plan		
		Defined benefit ¹	Present value of defined benefit as at 31 December	Personnel expenses for provisions ²
			€/year	€
Dr. Nikolaus von Bomhard^{3, 8}	2011	407,100	10,412,551	319,688
	2010	407,100	7,983,206	274,756
Dr. Ludger Arnoldussen^{4, 8}	2011	157,500	1,502,957	226,720
	2010	157,500	961,497	194,733
Dr. Thomas Blunck^{5, 8}	2011	120,000	1,630,021	100,102
	2010	120,000	1,172,379	82,711
Georg Daschner^{7, 8}	2011	214,500	6,756,852	0
	2010	199,500	5,544,535	0
Dr. Torsten Jeworrek^{3, 8}	2011	171,000	3,356,026	122,991
	2010	171,000	2,518,857	102,438
Dr. Peter Röder^{3, 8}	2011	90,000	1,827,576	64,825
	2010	90,000	1,370,292	55,272
Dr. Jörg Schneider^{3, 8}	2011	275,000	6,215,238	210,611
	2010	275,000	4,712,708	179,163
Dr. Wolfgang Strassl^{3, 8}	2011	120,000	3,117,191	108,982
	2010	120,000	2,390,968	93,559
Dr. Joachim Wenning^{6, 8}	2011	-	-	16,169
	2010	-	-	11,411
Total	2011	1,555,100	34,818,412	1,170,088
	2010	1,540,100	26,654,442	994,043

See table on next page for footnotes.

Pension entitlements

Name	Financial year	Defined contribution plan			
		Pension contribution rate for target total direct remuneration	Entitlement as at 31 December	Present value of entitlement as at 31 December	Personnel expenses for provisions
		%	€/year	€	€
Dr. Nikolaus von Bomhard^{3,8}	2011	17.00	77,665	1,561,179	646,000
	2010	17.00	51,480	1,014,781	618,800
Dr. Ludger Arnoldussen^{4,8}	2011	14.75	33,315	601,565	255,175
	2010	14.75	22,144	403,689	255,175
Dr. Thomas Blunck^{5,8}	2011	16.25	39,903	664,197	292,500
	2010	16.25	26,504	449,741	281,125
Georg Daschner^{7,8}	2011	-	-	-	-
	2010	-	-	-	-
Dr. Torsten Jeworrek^{3,8}	2011	19.50	64,975	1,161,020	507,000
	2010	19.50	42,890	774,611	487,500
Dr. Peter Röder^{3,8}	2011	20.25	41,499	793,720	350,325
	2010	20.25	26,606	511,122	324,000
Dr. Jörg Schneider^{3,8}	2011	16.50	55,273	1,580,633	445,500
	2010	16.50	36,759	695,493	429,000
Dr. Wolfgang Strassl^{3,8}	2011	21.00	45,544	915,466	378,000
	2010	21.00	30,221	595,730	363,300
Dr. Joachim Wenning^{6,8}	2011	25.50	41,712	- ⁹	408,000
	2010	25.50	26,089	-	357,000
Total			399,886	7,277,780	3,282,500
			262,693	4,445,167	3,115,900

¹ In the case of Board members transferred from the old system to the new, the amount corresponds to the value of the vested pension at 31 December 2008; in the case of Mr. Daschner, it corresponds to the defined benefit at 31 December.

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 in the event of premature or regular termination of employment.

⁴ Entitled to vested benefits under the German Company Pensions Act in the event of premature or regular termination of employment.

⁵ Entitled to vested benefits under the German Company Pensions Act in the event of premature termination of employment, and to improved vested benefits in the event of regular termination of employment.

⁶ Entitled to vested benefits under the German Company Pensions 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.

⁷ 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.

⁸ Entitled to occupational pension in the event of termination of employment owing to incapacity to work.

⁹ 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.

Company result bonus determined on the basis of RORAC

The key indicator used for the Company result bonus is RORAC (see [page 61](#)). The targets correspond to the Group objective for the variable remuneration of members of the Board of Management. The Company result bonus basically takes the form of a "bonus pool" model. Depending on corporate performance, an aggregate amount is calculated that can be distributed between all staff as a bonus. The higher the management level, the higher the target range under 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 medium-term 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, the most important executives in Munich Reinsurance Company's international organisation also participate in the Mid-Term Incentive Plan.

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

Total remuneration of the Supervisory Board

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

The variable result-related remuneration is based on the undiluted earnings per share from continuing operations, as shown in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs): each Supervisory Board member receives €4,000 for each full euro by which earnings per share exceed €12, but a maximum of €40,000. Based on earnings per share of €3.94, no variable result-related remuneration is payable for the financial year 2011. The performance-related remuneration component with long-term incentivisation was introduced in accordance with the German Corporate Governance Code. This 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%. No long-term remuneration component is payable for the remuneration year 2011.

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

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

Remuneration of Supervisory Board members in accordance with Article 15 of the Articles of Association¹

Name	Financial year	Fixed remuneration		Result-related remuneration	
		Annual	For committee work ²	Annual	Result-related remuneration
			€		€
Dr. Hans-Jürgen Schinzler	2011	125,000.00	137,000.00	0.00	262,000.00
Chairman	2010	125,000.00	139,000.00	10,000.00	274,000.00
Hans Peter Claußen	2011	75,000.00	25,000.00	0.00	100,000.00
Deputy Chairman	2010	75,000.00	25,000.00	6,000.00	106,000.00
Herbert Bach	2011	50,000.00	50,000.00	0.00	100,000.00
	2010	50,000.00	50,000.00	4,000.00	104,000.00
Dina Bösch	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Annika Falkengren (from 20.4.2011)	2011	35,068.49	-	0.00	35,068.49
	2010	-	-	-	-
Frank Fassin	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Dr. Benita Ferrero-Waldner	2011	50,000.00	-	0.00	50,000.00
	2010	44,246.57	-	3,539.73	47,786.30
Christian Fuhrmann	2011	50,000.00	37,000.00	0.00	87,000.00
	2010	50,000.00	35,000.00	4,000.00	89,000.00
Prof. Dr. Peter Gruss	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Prof. Dr. Henning Kagermann	2011	50,000.00	62,000.00	0.00	112,000.00
	2010	50,000.00	64,000.00	4,000.00	118,000.00
Peter Löscher	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Wolfgang Mayrhuber	2011	50,000.00	25,000.00	0.00	75,000.00
	2010	50,000.00	25,000.00	4,000.00	79,000.00
Silvia Müller	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Marco Nörenberg	2011	50,000.00	37,000.00	0.00	87,000.00
	2010	50,000.00	35,000.00	4,000.00	89,000.00
Reinhard Pasch	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Dr. Bernd Pischetsrieder	2011	50,000.00	50,000.00	0.00	100,000.00
	2010	50,000.00	56,000.00	4,000.00	110,000.00
Anton van Rossum	2011	50,000.00	37,000.00	0.00	87,000.00
	2010	50,000.00	35,000.00	4,000.00	89,000.00
Andrés Ruiz Feger	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Richard Sommer	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Dr. Ron Sommer	2011	50,000.00	-	0.00	50,000.00
	2010	50,000.00	-	4,000.00	54,000.00
Total	2011	1,085,068.49	460,000.00	0.00	1,545,068.49
	2010	1,044,246.57	464,000.00	83,539.73	1,591,786.30

¹ Plus turnover tax in each case, in accordance with Article 15 para. 6 of the Articles of Association.

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

**Remuneration of Supervisory Board members for membership of supervisory boards
at Munich Reinsurance Company subsidiaries, in accordance with the companies' respective articles of association¹**

Name	Financial year	Fixed remuneration		Annual ² €	Result-based remuneration	Total €			
		For committee work ²							
		Annual ² €	Annual ² €						
Hans Peter Claußen, Deputy Chairman	2011	49,777.00	6,750.00	0.00	56,527.00				
	2010	57,500.00	6,750.00	0.00	64,250.00				
Frank Fassin	2011	27,000.00	-	0.00	27,000.00				
	2010	31,441.78	-	0.00	31,441.78				
Silvia Müller	2011	27,000.00	-	0.00	27,000.00				
	2010	33,019.86	-	0.00	33,019.86				
Marco Nörenberg	2011	27,000.00	6,750.00	0.00	33,750.00				
	2010	33,389.73	13,691.10	0.00	47,080.83				
Richard Sommer	2011	27,000.00	-	0.00	27,000.00				
	2010	31,343.15	-	0.00	31,343.15				
Total	2011	157,777.00	13,500.00	0.00	171,277.00				
	2010	186,694.52	20,441.10	0.00	207,135.62				

¹ Plus turnover tax in each case, in accordance with the relevant provisions of the respective Group companies' articles of association.

² Including attendance fees in each case insofar as provided for under the relevant provisions of the articles of association.

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

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

Under Section 10 para. 1 of the German Securities Prospectus Act, Munich Reinsurance Company is obliged to publish information of this kind on its website without delay as well as in an annual document.

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

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Munich Re



// Reinsurance offers innovative insurance solutions
// ERGO continues to expand in Asia

Structure

In order to make the spectrum of their business model and solution-oriented approach clearer, all our reinsurance units throughout the world generally operate under the uniform brand of Munich Re. Our primary insurance activities are for the most part combined in the ERGO Insurance Group (ERGO). Our international health reinsurance business and health primary insurance outside Germany are organised separately under the Munich Health brand.

Group structure

Advantages from integrated business model

With its integrated business model consisting of insurance and reinsurance, Munich Re can cover the whole value chain in the risk market. This enables the Group to leverage synergies in revenue and costs, whilst reducing the risk-based capital required through better diversification. 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, increasingly using our extensive risk knowledge to develop customised solutions to meet the diverse needs of our clients. Our companies conduct their business from their respective headquarters and also via a large number of branches, subsidiaries and affiliated companies. The reinsurance group also includes specialty primary insurers in niche segments, whose business requires special competence in finding appropriate solutions.

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

All Munich Re's primary insurance business is combined in ERGO with the exception of health primary insurance business outside Germany, which is handled by Munich Health. ERGO is active in nearly all lines of life, health and property-casualty insurance. Approximately 76% of its gross premium income derives from Germany, the remaining 24% stemming from international business, in particular from eastern Europe. ERGO has increasingly been looking to extend its activities to Asian markets such as India, China and Vietnam.

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

Munich Reinsurance Company and ERGO's holding company, ERGO Versicherungsgruppe AG, are under unified control within the meaning of the German Stock Companies Act. The relevant statutory regulations and a Group directive 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

Munich Re offers reinsurance solutions worldwide

In reinsurance, we operate in life and property-casualty business, the latter being subdivided into liability, accident, motor, marine, aviation, space, fire, engineering, credit and bonding, and other classes of business. The last heading comprises the remaining lines of property business, i.e. burglary, plate glass, hail (including agricultural reinsurance), water damage, contingency, windstorm, livestock, householders' and homeowners' comprehensive cover as well as fidelity guarantee business. Under reinsurance, we include specialised primary insurance activities that are handled by the various divisions of the reinsurance organisation and business from managing general agencies (MGAs).

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

Reinsurance divisions

Our international life business is written in the Life Division.

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

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

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

Global Clients and North America handles our accounts with major international insurance groups (hence "Global Clients") and globally operating Lloyd's syndicates as well as Bermuda companies. It also pools our know-how in the North American market. It is responsible for our property-casualty subsidiaries there and for international special lines business such as workers' compensation, marine and the Watkins Syndicate, which is a part of Munich Re and operates within Lloyd's of London.

The reinsurance units at a glance¹

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

American Western Home Insurance Company, Oklahoma City, Oklahoma
Beaufort Underwriting Agency Ltd., London
First Marine Insurance Company, Amelia, Ohio
Global Standards, LLC, Wilmington, Delaware
Groves, John & Westrup Limited, London
HSB Engineering Insurance Limited, London
HSB Group, Inc., Hartford, Connecticut
HSB Solomon Associates LLC, Wilmington, Delaware
HSB Professional Loss Control, Inc., Tennessee
MSP Underwriting Ltd., London
Munich Re Capital Limited, London
Munich Re Holding Company (UK) Ltd., London
Munich Reinsurance America, Inc., Wilmington, Delaware³
Munich Reinsurance Company of Canada, Toronto
N.M.U. Group Limited, London
The Roanoke Companies Inc., Schaumburg, Illinois
Temple Insurance Company, Toronto
The Boiler Inspection and Insurance Company of Canada, Toronto
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut,
Hartford, Connecticut
The Hartford Steam Boiler Inspection and Insurance Company,
Hartford, Connecticut
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware
The Midland Company, Cincinnati, Ohio
Watkins Syndicate Hong Kong Limited, Hong Kong
Watkins Syndicate Middle East Limited, Dubai
Watkins Syndicate Singapore Pte. Limited, Singapore

¹ A detailed list of shareholdings can be found on page 277 ff. in the notes to the consolidated financial statements.

² Only subsidiaries and branches outside Germany with equity capital generally exceeding €5m are listed by name.

³ Units that also transact business in Munich Health and are therefore allocated proportionately to reinsurance.

Primary insurance

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 the exception of credit insurance). These products, in combination with the provision of assistance and other services and individual consultancy, cover the needs of private and corporate clients. ERGO's many different sales channels include not only its companies' own successful intermediary organisations and direct selling but also a wide variety of broker relationships, marketing cooperations and extensive collaboration with the UniCredit Group.

ERGO manages its business on the basis of the business fields German life insurance, health insurance, German property-casualty business, direct insurance, travel insurance and international business. ERGO's international health primary insurance companies, which were already managed by the Munich Health business field, were sold by the DKV Group to Munich Health Holding in the fourth quarter of the year.

In international business, ERGO has been pursuing its expansionary path in the growth region of Asia. In January 2011, ERGO launched a joint venture for selling life insurance products with a local partner in the Chinese province of Shandong. In Vietnam, ERGO entered the market for the first time by acquiring a 25% stake in Global Insurance Company, a property-casualty insurer. Because the primary insurance group is increasingly focusing its international business on other markets, ERGO has sold its Portuguese subsidiaries VICTORIA-Seguros S.A. and VICTORIA-Seguros de Vida S.A.

The primary insurance group at a glance¹

Segment	Selected subsidiaries ²
Life	Bank Austria Creditanstalt Versicherung AG, Vienna ERGO Direkt Lebensversicherung AG, Fürth ERGO Lebensversicherung AG, Hamburg ERGO Insurance N.V., Brussels ERGO Previdenza S.p.A., Milan Hamburg-Mannheimer Pensionskasse AG, Hamburg San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf ERGO Pensionskasse AG, Düsseldorf VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna 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 Europeiske Rejseforsikring A/S, Copenhagen Europeiska Försäkringsaktiebolaget, Stockholm
Property-casualty	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels DAS Legal Expenses Insurance Company Limited, Bristol DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam ERGO Assicurazioni S.p.A., Milan ERGO Daum Direct General Insurance Co. Ltd., Seoul ERGO Direkt Versicherung AG, Fürth ERGO SIGORTA A.S., Istanbul ERGO Versicherung AG, Düsseldorf MTU Moje Towarzystwo Ubezpieczeniowe S. A., Sopot Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot ERGO General Insurance Company S.A., Athens

¹ A detailed list of shareholdings can be found on page 277 ff. in the notes to the consolidated financial statements.

² Only subsidiaries with premium volume exceeding €50m are listed.

Munich Health

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. It covers large stretches of the healthcare-sector value chain and has been shown as a separate segment since 2010.

To benefit from the growth dynamics of the healthcare market, a flexible response to changing market conditions is called for. In 2011, Munich Health reacted to the impact of the health reform in the US market, enhancing its competitiveness in the senior segment by acquiring the Windsor Health Group (Windsor) with effect from 1 January 2011. Following the successful integration of Sterling Life Insurance Company (Sterling), acquired in 2008, both companies now operate under the Windsor Health Group brand.

Overview of Munich Health¹

Companies fully allocated to Munich Health

Apollo Munich Health Insurance Co. Ltd., Hyderabad
DAMAN – National Health Insurance Company, Abu Dhabi
DKV Belgium S.A., Brussels
DKV Globality S.A., Luxembourg
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
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
Sterling Life Insurance Company, Bellingham, Washington
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa
Windsor Health Group, Inc., Brentwood, Tennessee

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

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

¹ Only Group companies with equity capital generally exceeding €5m are listed. A detailed list of shareholdings can be found on page 277 ff. in the notes to the consolidated financial statements.

Asset management

MEAG combines the investment activities of our Group. 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 centrally all important asset classes such as bonds, equities and real estate. Our investment experts adopt a stringent, risk-based approach with the aim of achieving above-average performance over the long term. Key factors in this regard are the close cooperation and trust they enjoy with clients in the Group and with other institutional investors, the good service they provide to private investors, and MEAG's long-standing experience in handling investment risks.

Overview of asset management

MEAG Cash Management GmbH, Munich
MEAG Hong Kong Ltd., Hong Kong
MEAG Luxembourg S.à r.l., Luxembourg
MEAG MUNICH ERGO AssetManagement GmbH, Munich
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich
MEAG New York Corporation, New York
MEAG Property Management GmbH, Munich



Important tools of corporate management

Munich Re's value-based management philosophy

Munich Re's objective is to analyse risks from every conceivable angle and to assess and diversify them, thereby creating lasting value for shareholders, clients, and staff. A guiding principle of our entrepreneurial thinking and activity is to increase Munich Re's share price on a sustained basis. This is also the aim of our active capital management, on which we report on [page 105 f.](#) The main features of our shareholder value approach in practice are the consistent application within the Group of value-based management systems, which we constantly review and refine where appropriate.

The framework for any business activity is our risk strategy (see [page 121 ff.](#)), from which we derive a detailed network of limitations and reporting thresholds. Besides value-based parameters, we observe a range of important additional conditions in managing our business. These conditions may be reflected in supplementary targets or may even determine a unit's short-term orientation in a particular situation. They include rules of local accounting systems, tax aspects, liquidity requirements, supervisory parameters, and rating agency requirements.

Aspects of our value-based management

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

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

All initiatives are ultimately geared to the overriding financial objective of enhancing our corporate value on a sustained basis.

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

Combined ratio and added value

The combined ratio is regularly reported for treaties that are of a short-term nature. This mainly applies to property-casualty business and health reinsurance. The combined ratio, which is calculated as the percentage ratio of the sum of net expenses for claims and benefits plus net operating expenses to net earned premiums, corresponds to the sum of the loss ratio and the expense ratio. Put simply, a combined ratio of 100% means that premium income was exactly sufficient to cover claims and costs. Net

expenses for claims and benefits mainly include paid claims, the change in claims provisions, and the bulk of other underwriting expenses. Not included in the expenses are insignificant portions of other underwriting expenses such as German fire brigade tax. Net operating expenses chiefly comprise the costs arising in the acquisition of new business (e.g. commission) and for the ongoing administration of insurance contracts.

Interpreting the combined ratio

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

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

Therefore, while we aim to keep our combined ratio as low as possible, it is not our only target. Since there are different ways of calculating this figure, it is also only of limited suitability for comparing our financial performance with that of our competitors.

Determining value added

Rather, the key factor we consider is economic value added, which cannot be properly reflected by the combined ratio. We pursue this target internally through the performance indicator of value added, which measures value creation not only on the basis of current and forecast profits but also taking into account the size of the risks assumed.

$$\boxed{\text{Adjusted result}} - \boxed{\text{Cost of equity}} = \boxed{\text{Value added}}$$

The adjusted result consists of the technical result (derived from the income statement), the investment result, and the remaining non-technical result. In each case, value-based adjustments are made, including the smoothing of expenditure for major losses, the normalisation of investment income, and the recognition of future claims expenses at present value.

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

Market Consistent Embedded Value

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

Composition of MCEV

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

MCEV relates to the portfolio existing at the valuation date. It encompasses 100% of our life reinsurance business and more than 94% of our life primary insurance and German health primary insurance business. By contrast, MCEV does not include the value of future new business. However, the valuation is made under the assumption of continued operations. Options and guarantees – especially for the policyholders – are explicitly valued using stochastic simulations. MCEV reflects the present value of all cash flows for all important currency regions on the basis of the swap rates and the implicit volatilities at the valuation date of 31 December 2011. Assets that are traded on the capital markets are valued on the basis of the market values observed at the valuation date. We refrain from applying high interest margins, e.g. illiquidity premiums and adjustments in the value of assets, even after the occurrence of capital market upheavals, thus opting for a deliberately conservative methodology for valuing our primary insurance portfolio.

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

The change in MCEV within one year, adjusted for effects of exchange rate fluctuations, acquisition or sale of companies, dividends and capital injections, is shown by us as the total embedded value earnings. Additional adjustments to eliminate the influences of changes in fiscal and capital market parameters result in the operating embedded value earnings, which are a measure of the operative business performance for one year. A detailed presentation of MCEV is provided on Munich Re's [website](#).

¹ © Stichting CFO Forum Foundation 2008.

Asset-liability management

Our steering of Munich Re's investments is strongly geared to the structure of the liabilities on our balance sheet, i.e. to our underwriting liabilities. As part of our asset-liability management, we determine the economic neutral position using a synthetic investment portfolio that best reflects the characteristics of our liabilities and takes into consideration significant parameters in the investment of capital. A benchmark portfolio is developed that reflects our own risk-bearing capacity and other investor preferences on the basis of long-term expectations of capital market yields. Our asset manager MEAG implements this strategic benchmark portfolio in the form of concrete investments, from which it deviates only within a carefully defined framework and taking into account its own market view. The target return, i.e. the expected income from the benchmark portfolio, is compared with the return from the actual portfolio. MEAG's performance is measured in terms of the excess return it achieves, taking into consideration the risks incurred.

Return on risk-adjusted capital

In order to also give more emphasis in external communication to Munich Re's value orientation – as implemented through our internal management tools – we take as our Group target return on risk-adjusted capital (RORAC) after tax. We derive this risk-based performance measure by placing the profit achieved or aimed at, expressed in euros, in relation to the necessary risk capital, the amount of which we determine using our internal risk model and publish once a year. Information on the internal risk model is provided on [page 129 ff](#). We thus take into account the economic standards currently underlying (at least to some extent) the requirements of supervisory authorities and rating agencies – standards that are set to play a decisive role in future.

RORAC is defined as follows:

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

The numerator in the formula comprises the published IFRS net income adjusted for post-tax income (interest rate $\times [1 - \text{tax rate}]$) 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. Its determination is described in detail on [page 135](#). It is also necessary for rating and solvency purposes, as well as for profitable growth. The additional available economic equity in the system presented here only earns a risk-free interest rate. This is due to the fact that all the risk components of the investments and underwriting are covered with risk-based capital by the internal risk model, and thus assigned return requirements. If, in addition to economic equity, portions of our hybrid capital are also used for assuming risks, the "additional available economic equity" may be negative. In this case, the adjustment item in the preceding RORAC formula is set at zero.

Even though we take a risk-adjusted return as our target, we aspire to meet the high, but fair, expectations of our investors with regard to the return on total capital placed at our disposal.

Non-financial performance measures

Increase in value owing to qualitative factors

In addition to these purely financial performance factors, non-financial performance measures like innovation, speed of processes, staff-training level and client satisfaction play a part. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented qualitative factors as well. We closely link strategy and operative planning by defining our strategies in structured overviews or "scorecards", from which we derive initiatives, performance measures and responsibilities. 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 how much the individual, unit or field of business contributes to increasing value. Our incentive systems for staff, executives and Board support the clear orientation towards value creation. The higher a staff member or executive is positioned in the management hierarchy, the more strongly their remuneration is based on performance.

**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 Audit

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

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

Georg Daschner
Europe and Latin America

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

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

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

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

Dr. oec. publ. Joachim Wenning
Life

Supervisory Board

Dr. jur. Hans-Jürgen Schinzler
(Chairman)

Member since 2 January 2004,
last re-elected 22 April 2009
Former Chairman of the Board of
Management of Munich Reinsurance
Company

Hans Peter Claußen
(Deputy Chairman)

Member since 22 April 2009
Employee of D.A.S. Allgemeine Rechts-
schutz Versicherungs-AG

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
Former member of the European
Commission

Christian Fuhrmann

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

Prof. Dr. rer. nat. Peter Gruss

Member since 22 April 2009
President of the Max Planck Society for
the Advancement of Science

**Prof. Dr. rer. nat. Dr.-Ing. e. h.
Henning Kagermann**

Member since 22 July 1999,
last re-elected 22 April 2009
President of acatech - German Academy
of Science and Engineering

Peter Löscher

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

Wolfgang Mayrhuber

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

Silvia Müller

Member since 22 April 2009
Employee of ERGO Versicherungsgruppe
AG

Marco Nörenberg

Member since 22 April 2009
Employee of ERGO Versicherungsgruppe
AG

Reinhard Pasch

Member since 22 April 2009
Employee of ERGO Versicherungsgruppe
AG

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder

Member since 17 April 2002,
last re-elected 22 April 2009
Consultant to the Board of Management
of Volkswagen 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 Münchener Rückver-
sicherungs-Gesellschaft Sucursal de
España y Portugal

Richard Sommer

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

Dr. phil. Ron Sommer

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

**Membership of the Supervisory Board
Committees**

Standing Committee

Dr. jur. Hans-Jürgen Schinzler
(Chairman)
Herbert Bach
Hans Peter Claußen
Wolfgang Mayrhuber
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder

Personnel Committee

Dr. jur. Hans-Jürgen Schinzler
(Chairman)
Herbert Bach
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder

Audit Committee

Prof. Dr. rer. nat. Dr.-Ing. e. h.
Henning Kagermann
(Chairman)
Christian Fuhrmann
Marco Nörenberg
Anton van Rossum
Dr. jur. Hans-Jürgen Schinzler

Nomination Committee

Dr. jur. Hans-Jürgen Schinzler
(Chairman)
Prof. Dr. rer. nat. Dr.-Ing. e. h.
Henning Kagermann
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder

Conference Committee

Dr. jur. Hans-Jürgen Schinzler
(Chairman)
Herbert Bach
Hans Peter Claußen
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder

A report on the remuneration of the Board
of Management and the Supervisory
Board is provided on page 32 ff.

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), London (Chairman) New Reinsurance Company Ltd., Zurich ² (Chairman)
Georg Daschner	-	-
Dr. rer. nat. Torsten Jeworrek	-	-
Dr. rer. pol. Peter Röder	EXTREMUS Versicherungs-AG	Munich Re America Corp., Wilmington ² (Chairman) Munich Reinsurance America, Inc., Wilmington ² (Chairman)
Dr. jur. Jörg Schneider	MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH ² (Chairman)	-
Dr. oec. publ. Wolfgang Strassl	-	Apollo Munich Health Insurance Company Ltd., Hyderabad, India
Dr. oec. publ. Joachim Wenning	-	-

¹ Status: 31 December 2011.

² Own group company within the meaning of Section 18 of the German Stock Companies Act.

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

¹ Status: 31 December 2011.² Own group company within the meaning of Section 18 of the German Stock Companies Act.

Business environment



- // Recovery of global economy falters
- // Financial markets and real economy unsettled by sovereign debt crisis in Europe
- // Market conditions for insurance and reinsurance slightly improved

General parameters

Globalisation increases complexity of world economy

Our business environment is being shaped by a number of global trends with a long-term impact. Demographic shifts are leading to fundamental changes in many parts of the world, posing enormous challenges for social security and healthcare systems, particularly in industrialised countries. In developing and emerging countries, we are witnessing not only rapid population growth but also a swift rise in prosperity among large sections of the population. As a result, the emerging economies in Asia especially are gaining in global importance. Conversely, the economic and also geopolitical weight of western industrial nations is decreasing in relative terms. Technological progress and digitalisation are accelerating the globalisation of capital flows and supply chains, and increasing the complexity of the world economy. In this environment, we are seeing a growing number of insurance-relevant major events, with a disproportionate rise in insured losses in relation to economic activity. We see climate change as partly responsible for this, in addition to urbanisation and concentration of values in exposed regions. This is producing new risk potentials and accumulation risks that make it imperative to constantly refine our underwriting.

Munich Re is a leader in integrated risk management and can take advantage of the opportunities resulting from these global trends in both insurance and reinsurance. With our pronounced risk awareness, we continue to number among the leading risk carriers in a complex and volatile environment.

Economic parameters

The year 2011 was dominated by the worsening of the sovereign debt crisis in the eurozone, the debate about the creditworthiness of the USA, and the natural and nuclear disaster in Japan. Growth in the global economy slowed, and great uncertainty prevailed on the capital markets. Fears of defaults on government bonds from the periphery of the eurozone and concerns about a recession in the USA and Europe led to a worldwide slump on the stock markets in summer. There was a flight by investors to the perceived safe havens of German and US government bonds, whose yields remained low.

Real gross domestic product (GDP)

Growth in %	2011 (Estimate)	2010	2009	2008	2007
World ¹	3.8	5.2	-0.7	2.8	5.4
Industrialised countries ¹	1.6	3.2	-3.7	0.1	2.8
Emerging and developing countries ¹	6.2	7.3	2.8	6.0	8.9
USA	1.8	3.0	-3.5	-0.3	1.9
Eurozone	1.6	1.9	-4.3	0.4	3.0
Germany	3.0	3.6	-5.1	0.8	3.4
China	9.2	10.4	9.2	9.6	14.2
Japan	-0.9	4.4	-6.3	-1.2	2.4

¹ National economic output weighted for aggregation with purchasing power parities.

Source: International Monetary Fund

Faltering recovery of global economy

Having developed considerable momentum in 2010, also in some industrialised countries, the recovery of the global economy slowed down in 2011, as expected. The divide in growth between economies increased: while economic growth stagnated in the USA at the beginning of the year and in the eurozone in the second half of the year especially, most emerging and developing countries posted high growth rates, albeit somewhat lower than in the previous year. Among the emerging countries, China again recorded particularly strong economic expansion.

The sovereign debt crisis in the peripheral countries of the eurozone worsened again, threatening to develop into a banking crisis as well, and unsettling companies and consumers. Economic momentum in the eurozone was restrained: the Italian and Spanish economies hardly grew at all, while growth in the French economy was moderate and even the economy in Germany lost impetus towards the end of the year, owing to the deterioration in the international business environment. The annual average unemployment rate in Germany nevertheless fell to 7.1%.

In the USA, the economy had already begun to cool in the course of 2010 and remained subdued in 2011, with the unemployment rate staying stubbornly high at around 9% for most of the year and only falling to 8.5% towards the end of the year.

The natural and nuclear disaster in Japan intensified the reduction in economic activity in the first half-year, but government assistance measures and interventions by the central bank aided the recovery, so that Japanese industrial production had nearly returned to its pre-earthquake level by July.

Inflation rates driven by oil price worldwide

There was a surprisingly marked increase in inflation rates worldwide in 2011, mainly due to the rise in the oil price. Against the background of political unrest in North Africa and the Middle East, the price per Brent barrel rose from US\$ 95 at the beginning of January to US\$ 127 in April, subsequently remaining at over US\$ 100 for the rest of the year.

Change in consumer price index

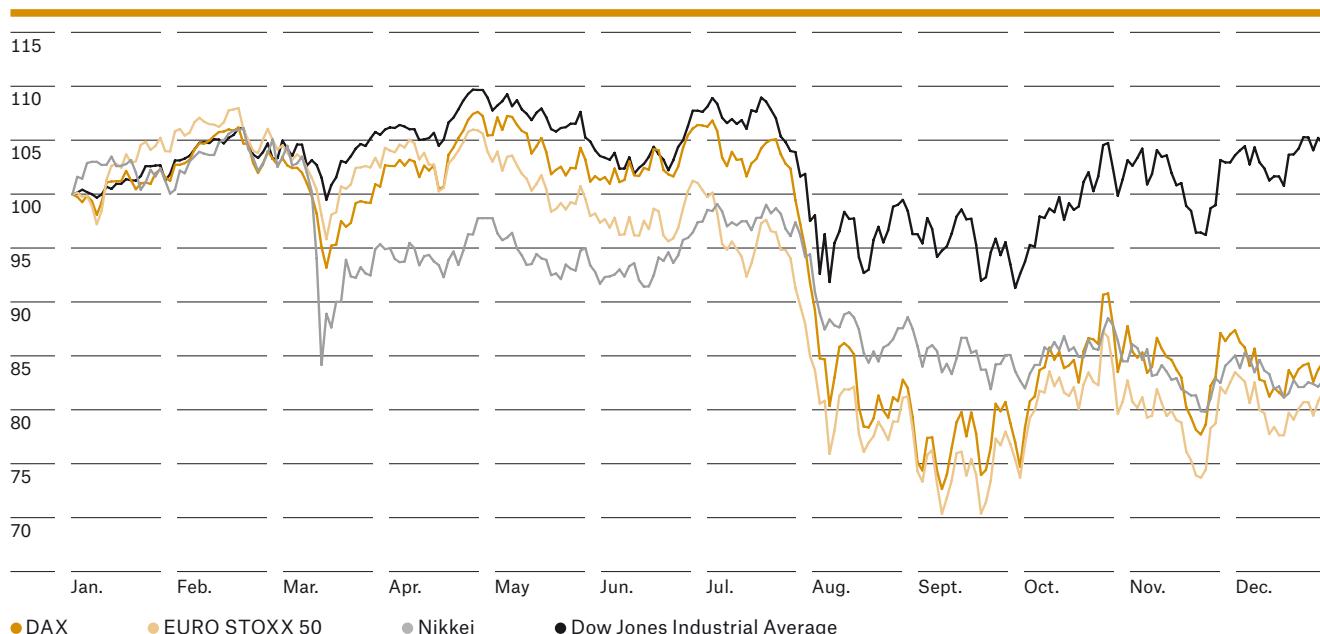
%	2011 (Estimate)	2010	2009	2008	2007
World	4.9	3.7	2.5	6.0	4.0
Industrialised countries	2.7	1.6	0.1	3.4	2.2
Emerging and developing countries	7.2	6.1	5.2	9.2	6.5
USA	3.2	1.6	-0.4	3.8	2.8
Eurozone	2.7	1.6	0.3	3.3	2.1
Germany	2.3	1.1	0.4	2.6	2.3
China	5.4	3.3	-0.7	5.9	4.8
Japan	-0.3	-0.7	-1.4	1.4	-

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

Capital markets

Volatility in the international capital markets increased markedly in the second half of the year, mainly due to the escalation of the debt crisis in the eurozone and fears of a downturn in the growth of the global economy. In August, the European Central Bank (ECB) intervened in the market for Italian and Spanish government bonds in order to prevent the crisis from spreading. Neither the expansion of the European rescue fund EFSF and its successor, the ESM, nor the EU summit resolution on more stringent deficit rules and better coordination of economic policy succeeded in calming the markets for long. On the other side of the Atlantic, political disputes over austerity measures and a lifting of the debt limit, followed by a downgrading of the US credit rating by Standard & Poor's, fuelled uncertainty and fears of a recession.

Share price performance 1.1.2011 = 100



As expected, currency developments remained volatile in view of the debate concerning sovereign debt. The value of the euro fluctuated strongly against the US dollar over the course of the year. At the beginning of the year, strong economic growth in Germany had been accompanied by an appreciation in the euro against other currencies. In the second half-year, however, many investors lost confidence in the euro again,

partly taking refuge in the Japanese yen as a comparatively safe haven. The euro fell considerably against the Japanese yen, moving down from over ¥120 in the second quarter to ¥100 at the end of the year. There was a similar development in the value of the euro against the pound sterling.

Development of the US\$/€ exchange rate



As anticipated, monetary policy in the industrial nations remained expansive. Owing to the weak state of the economy, the US Federal Reserve kept the range of its key interest rate between 0% and 0.25%. The Japanese central bank also maintained interest rates within a range of 0% to 0.1%. While the ECB initially heralded a cycle of rising inflation rates, raising its key interest rate both in April and in June, it reversed this trend in November and lowered the rate again in December to 1%. Our expectation of a slight rise in the yield level of long-term government bonds was not fulfilled, however. Given the uncertainty on the financial markets, yields on US and German government bonds fell strongly in the third quarter and closed the year at well below their beginning-of-the-year level.

Development of yields on ten-year government bonds



Insurance industry

Reinsurers achieve slight price increase

The effects of the financial market turbulence on the development of global premium in insurance and reinsurance were comparatively moderate. In a number of mature markets, demand for insurance was curbed by the weakness of the economy, but a slight increase in prices sustained premium growth in property-casualty insurance. As in the previous year, global non-life premium income showed a moderate inflation-adjusted rise overall, bolstered by the again very dynamic increase in demand for insurance cover in many emerging countries. However, a clear fall-off in the growth of life insurance premiums was observable in some of these markets in 2011.

The capital base of insurers and reinsurers decreased in 2011, owing to the high losses in the first half-year. Compared with the capital losses in the 2008 financial crisis, however, the reduction was only slight. Losses from natural catastrophes and the decline in share prices were partially compensated for by the effects of the low interest rates for low-risk fixed-interest securities.

Especially in the first half-year, reinsurers had to absorb an exceptional accumulation of major losses. On the other hand, market terms and conditions for reinsurers improved in 2011, particularly for natural catastrophe covers. Prices rose slightly on average in the renewals at the beginning of the year, at 1 April and at 1 July.

According to preliminary estimates, premium income written by the primary insurance industry in Germany decreased by 1.2% in 2011. This was due to the decline in single-premium business in life insurance, which had enjoyed exceptionally strong growth in 2009 and 2010. Thus whereas regular-premium life insurance business grew by around 3%, overall premium in life insurance showed a reduction of 5.7%. Premium growth in private health insurance was again very high at 4.9%, while property-casualty insurance recorded its highest growth rate since 2003, a solid 2.5%.

Business performance



Overview and key figures

- // Very high major-loss burden
- // Investment result impacted by sovereign debt crisis
- // Return on risk-adjusted capital (RORAC) of 3.2% after tax
- // Dividend of €6.25 per share planned

Return on risk-adjusted capital (RORAC)

%	2011	2010	2009
RORAC	3.2	13.5	15.1
Long-term target	15.0	15.0	15.0

Dividend

	2011	2010	2009
Total dividend payout	€bn	1.1	1.1
Dividend amount	€	6.25	5.75

The past year was marked by very high claims expenditure, in particular for natural catastrophes, and by capital market turmoil triggered by the sovereign debt crisis. We report on our investment performance on [page 94 ff.](#)

Our return on risk-adjusted capital (RORAC) totalled 3.2% for the 2011 financial year, compared with 13.5% in the previous year. The figure was thus far below our long-term target of 15%, mainly due to very high major-loss expenditure and significant write-downs of investments. Because the deterioration in the result was attributable to the difficult environment rather than a sustained impairment of our profitability, we aim to maintain our dividend unchanged, at €6.25 per share. Our profit distribution thus remains at a high level.

Key figures

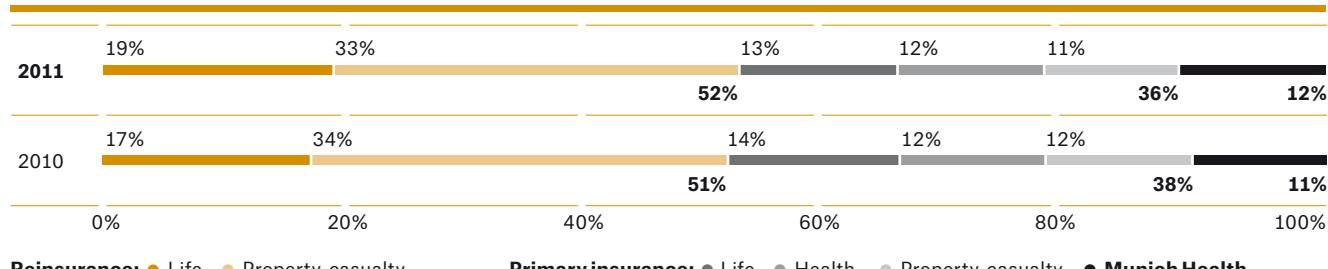
		2011	2010	2009	2008	2007
Gross premiums written	€bn	49.6	45.5	41.4	37.8	37.3
Combined ratio						
Reinsurance property-casualty ¹	%	113.6	100.5	95.3	99.4	96.4
Primary insurance property-casualty	%	97.8	96.8	93.2	90.9	93.4
Munich Health ²	%	99.4	99.7	99.4		
Technical result	€m	286	1,965	2,747	2,756	
Investment result	€m	6,756	8,642	7,883	5,916	9,253
Non-technical result	€m	894	2,013	1,974	1,078	
Operating result	€m	1,180	3,978	4,721	3,834	5,573
Consolidated result	€m	712	2,430	2,564	1,579	3,923
Investments	€bn	201.7	193.1	182.2	174.9	176.2
Net technical provisions	€bn	181.2	171.1	163.9	157.1	152.4
Equity	€bn	23.3	23.0	22.3	21.1	25.3

¹ The figure for 2011 is not adjusted for relief of 1.3 percentage points from economic risk transfer to the capital markets.

² Excluding health insurance conducted like life insurance.

The rise in gross premiums is attributable to strong organic growth, especially in the life and property-casualty reinsurance segments and Munich Health. Given the heavy burden from natural catastrophes, the combined ratio in property-casualty reinsurance was significantly above the previous year's level. In property-casualty primary insurance, the slight increase in the combined ratio is attributable to numerous weather events involving heavy rainfall and severe storms in Germany.

Group premium income¹



Reinsurance: ● Life ● Property-casualty

Primary insurance: ● Life ● Health ● Property-casualty ● Munich Health

¹ After elimination of intra-Group transactions across segments.

For the reporting on individual fields of business, the following principle applies: volumes and results that derive from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included.

Consolidated result

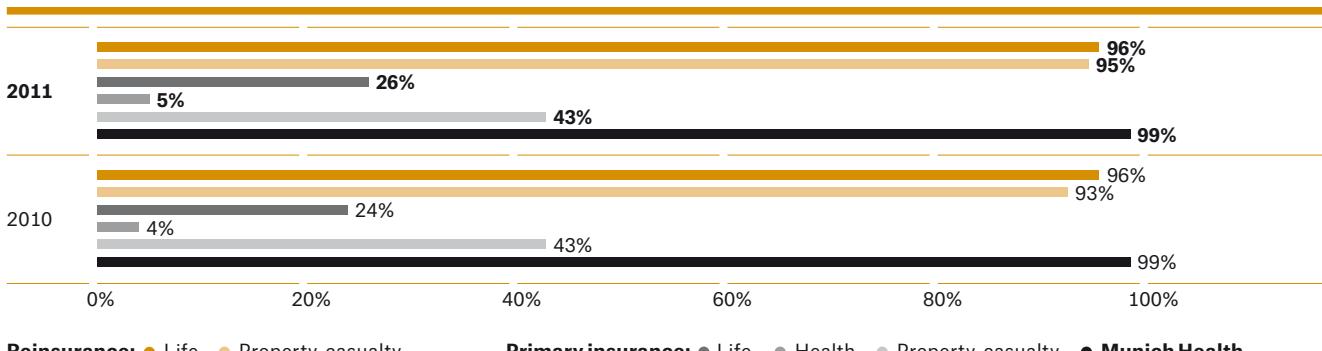
	2011 €m	Prev. year €m	Change %
Reinsurance life	403	293	37.5
Reinsurance property-casualty	371	1,806	-79.5
Primary insurance life	113	172	-34.3
Primary insurance health	244	165	47.9
Primary insurance property-casualty	405	319	27.0
Munich Health	45	63	-28.6
Asset management	59	37	59.5
Consolidation	-928	-425	-118.4

The life reinsurance segment developed pleasingly. Property-casualty business, by contrast, was affected by high costs for natural catastrophes. In addition, the results of life reinsurance and property-casualty reinsurance suffered from currency translation effects. Detailed information on business performance in the life and property-casualty segments can be found on [page 76 ff.](#)

The development of profits in the primary insurance segments was heavily influenced by the investment result. We report on primary insurance on [page 86 ff.](#)

Currency translation losses were responsible for the low consolidated result posted by Munich Health. Further details of Munich Health's business performance are available on [page 92 f.](#)

Percentage of premium from foreign business¹



¹ After elimination of intra-Group transactions across segments.

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.

Despite the positive pre-tax result of €160m (3,122m), we posted tax income (previous year: tax expenditure) of €552m (692m) in the year under review, mainly owing to the differences between results achieved in the USA and in the rest of the world. The severe natural catastrophe losses occurred primarily outside the USA and led to tax relief there. Our subsidiaries in the USA, by contrast, achieved profits, which could be offset against tax loss carry-forwards from prior years, so that no current tax burden

arose. Given that no deferred tax assets had been posted for these loss carry-forwards in the past, these profits were realised without a tax burden.

Owing to the improved earnings prospects in the USA, we posted deferred tax assets of €300m for the first time in 2011 for loss carry-forwards from prior years. This non-results-related tax effect also contributed to the tax income.

ERGO takes measures to improve the quality of its sales advice and to strengthen compliance

In May, the media reported extensively on a sales event organised by the structured sales section of HMI in Budapest in 2007, where very serious breaches of existing corporate guidelines and values had been committed, in particular against ERGO's code of conduct applicable to all employees, managers and Board members of all entities of the ERGO Group in and outside Germany. To ensure that an incident of this kind is not repeated, ERGO has adopted a package of measures to strengthen compliance in the group. These also include committing ERGO's independent agents to adhere to a code of conduct that stipulates clear rules governing dealings with companies, sales partners and clients. Further measures are aimed at achieving greater transparency in product materials and documentation and ensuring a consistently high level of quality in consultancy. In addition, a package of measures was presented for a quality offensive at HMI. As a visible sign that the sales organisation HMI is subject to the same high quality standards as the other sales organisations, HMI was renamed ERGO Pro in January 2012.

In addition, ERGO published the findings of inquiries into various accusations levelled at the company in the year under review. These mainly concerned a flawed Riester proposal form in 2005, allegedly and faulty advice in company pension business, and the conversion of life policies into personal accident policies in 2009/2010.

The allegations, mistakes made and negative reports in the German media have tarnished ERGO's reputation. However, as at the end of December, the media reports had not had any significant negative impact in terms of cancellations or new business. ERGO will continue to closely monitor developments, remedy any damage done and strive to convince clients and the general public of its outstanding products and services.

Events after the balance sheet date

The accident involving cruise ship Costa Concordia is likely to result in a claims burden for us in the mid double-digit million euro range. Besides costs for the vessel under hull insurance, further losses may arise due to liability claims from passengers, salvage of the wreck, and potential environmental liability claims. Therefore, it is not possible at this stage to put a final figure on the exact loss amount for Munich Re.

Reinsurance - Life

- // Rise in premium income of 21.5% to €9.6bn, primarily owing to large-volume transactions
- // Investment result of €980m
- // Consolidated result of €403m
- // Market Consistent Embedded Value (MCEV) at €9,992m

Key figures

		2011	2010	2009
Gross premiums written	€m	9,602	7,901	6,796
Share of gross premiums written in reinsurance	%	36.2	33.5	31.2
Operating result	€m	712	434	718
Consolidated result	€m	403	293	465
MCEV	€m	9,992	8,284	6,773

Result

Pleasing technical result of €367m despite reserve strengthening in Australia

The performance of our life reinsurance business in 2011 was pleasing, as evidenced by the consolidated result of €403m (293m). The operating result rose accordingly to €712m (434m), and the investment result totalled €980m (873m), also an increase compared with the previous year. Our technical result of €367m (79m) fell slightly short of our target of around €400m, but adjusted to eliminate reserve strengthening for our Australian business, the figure is positive overall. Claims experience was good in many core markets, and primary insurers' demand for reinsurance solutions providing capital relief through risk transfer remained brisk.

The Market Consistent Embedded Value (MCEV) of life reinsurance business increased to €9,992m (8,284m) in the past financial year. In addition to the generally positive effects of the capital markets, especially the fall in interest rates, total MCEV earnings of €1,513m (1,018m) again benefited from strong operating MCEV earnings of €1,109m (751m). Total MCEV earnings also reflect high value added by new business of €643m (475m) based on sustainable new regular business from various markets and on a series of large individual transactions. Further information on MCEV is provided on [page 60](#).

Premium

Growth of 21.5% in premium

With a gross volume of €9,602m (7,901m), premium income in life reinsurance was up 21.5% on the previous year. The main driver of this gratifying development was a number of large-volume treaties where reinsurance primarily serves as a capital substitute. Since the beginning of the capital market crisis in 2008, the demand for these solutions has increased dramatically and remains at a high level. Especially business generated in North America, Asia and Continental Europe led to further premium growth in 2011. On the other hand, growth was curbed by the consequences of the global recession, which partially impacted our clients' business development and thus also reduced the volume of business available in reinsurance.

If exchange rates had remained unchanged, our premium income would even have climbed by 22.8%. Approximately €8.2bn or 85% of premium was written in foreign currency, of which 39% was in Canadian dollars and 18% in US dollars.

An important growth driver for our business is the dynamic development of life insurance in Asia, in which we participate in all key markets. We expect further growth impulses for our future new business to come from the continuing privatisation trends in provision for old age, long term care and disability. Additional demand should be generated by the new regulatory solvency capital requirements in the EU (Solvency II). Under Solvency II, capital requirements for risks, including risks from investment, will become more extensive and demanding. This is a challenge, particularly for small, medium-sized and less diversified primary insurers. We see increasing demand for the management of investment risks in life insurance products, and have therefore created the infrastructure necessary to provide our clients with comprehensive solutions for covering options and guarantees dependent on the capital markets, thus protecting them against the corresponding exposure in the capital markets. Besides this, we are successively expanding the spectrum of services we offer our clients with the aim of thus obtaining access to profitable reinsurance. Of particular significance in this regard are consulting services and products to enhance the efficiency of our clients' core processes. In this area, our subsidiary Allfinanz Limited provides modern internet-based software solutions for automated underwriting in life insurance. In addition to sharing our underwriting expertise, we can thus also help our clients achieve leaner application and underwriting processes.

Development in individual key markets

In Germany, demand for mortality risk coverage has been stagnating in recent years. We anticipate that the discussion revolving around the introduction of unisex pricing will generate new impulses. An important part of our business in Germany is occupational disability reinsurance, and we assist our clients in underwriting, managing claims and, above all, developing future-oriented product concepts in this area.

In the USA, the gross premium posted by our subsidiary Munich American Reassurance Company remained stable at €1.7bn (1.7bn), enabling it to retain its position among the leading life reinsurance companies in this important market for us. Despite the intense competition, we see good opportunities for moderate growth arising in the area of pure mortality covers from the provision of reinsurance capacity tailored to our clients' requirements. The result developed well.

Our branch in Canada – Munich Re, Toronto (Life) – continued to expand its premium volume and result in 2011, mainly due to the conclusion of further large-volume transactions providing solvency relief to primary insurers. The branch is the market leader in all lines in which it conducts business: life, disability, health, critical illness and long term care. Premium volume rose to €3.6bn (2.2bn). The dynamic growth in new business and favourable claims experience contributed to the outstanding result.

In Asia, the positive trend in new business continued. With premium income totalling well over €1.0bn (1.0bn), we were able to maintain our business volume overall, despite the planned termination of a number of treaties. We still consider Asia to be one of our most important and profitable growth regions.

In the United Kingdom, our branch Munich Re, London (Life) kept its premium volume stable at €0.8bn (0.8bn). Owing to an oversupply of reinsurance capacity, the pressure on the prices of pure mortality covers continued unabated. Our business policy is strictly geared to writing business at risk-commensurate prices. Despite the keen competition, we succeeded in maintaining our strong position in the market. It is our strategy to offer our clients added value by expanding our product range. One example is the assumption of longevity risks, a segment in which we cautiously started writing business in 2011 to diversify our portfolio even better.

Our subsidiary Munich Reinsurance Company of Australasia Ltd., which writes life reinsurance business in Australia and New Zealand, has recorded strong growth in recent years. In 2011, it increased its premium income by a further 26.8% to €487m (384m). While claims experience in our core business – mortality risks coverage – was favourable, cases of disability are becoming more expensive market-wide due to a significant lengthening of benefit payment periods. For strengthening the reserves of portfolios largely in run-off, we therefore incurred expenses of around €150m. The increase is largely due to the provision for annuity claims, the remainder being apportionable to the provision for future policy benefits and the IBNR reserve.

On the African continent, our subsidiary Munich Reinsurance Company of Africa Ltd. achieved an increase in premium volume of 14.4% to €175m (153m). Even if the market for life insurance is developing slowly, Africa remains interesting for us. In the medium term, we expect economic growth to accelerate and hence the demand for insurance to rise.

Reinsurance – Property-casualty

- // Growth in premium income of 7.7% to €16.9bn
- // Combined ratio of 113.6%, mainly due to severe losses from natural catastrophes
- // Investment result of €2,157m
- // Consolidated result of €371m

Key figures

		2011	2010	2009
Gross premiums written	€m	16,903	15,701	14,987
Share of gross premiums written in reinsurance	%	63.8	66.5	68.8
Loss ratio ¹	%	83.3	69.3	65.8
Thereof: natural catastrophes ¹	Percentage points	28.8	11.0	1.4
Expense ratio	%	30.3	31.2	29.5
Combined ratio ¹	%	113.6	100.5	95.3
Operating result	€m	2	2,509	3,381
Consolidated result	€m	371	1,806	2,111

¹ The figure for 2011 is not adjusted for relief of 1.3 percentage points from economic risk transfer to the capital markets.

Result

Consolidated result of €371m

In property-casualty reinsurance, we posted a consolidated result of €371m (1,806m) in 2011, owing to the exceptionally heavy burdens from major losses. The investment result was good at €2,157m (2,563m), while the operating result, which includes the investment result, decreased to €2m (2,509m). The technical result amounted to -€841m (1,223m). It contains an amount of €634m mainly from the release of provisions in the segments fire, credit and engineering, which we were able to make following a review of our very solid reserving position. Net earned premiums totalled €15,769m (14,193m), compared with net expenses for claims and benefits of €13,216m (9,904m) and net operating expenses of €4,779m (4,437m).

At €5,126m (2,228m), the total burden from major losses was significantly higher than the projected amount and the multi-year average. Aggregate losses from natural catastrophes came to €4,544m (1,564m), representing 28.8 (11.0) percentage points of net earned premiums and thus well above the expectation basis. 2011 produced the highest bill for natural catastrophe losses ever for the reinsurance industry. The March earthquake in Japan was the largest individual loss in 2011 at around €1.5bn. In terms of Munich Re's loss burden, the earthquake was one of the largest losses in our history, alongside the attack on the World Trade Center in 2001 and Hurricane Katrina in 2005. There were other major natural catastrophes as well, the most notable being the two earthquakes in New Zealand in February (€1,307m) and June (€161m). These figures include the reserve strengthening of €386m we undertook in the fourth quarter. We were also affected by the widespread flooding in Thailand (€547m), which reached its peak in October and November. In Australia, we incurred high claims expenditure from the January floods in Brisbane (€204m) and Cyclone Yasi in the northeast of the country in February (€91m). In the USA, we were hit by losses from Hurricane Irene on the East Coast in August (€144m) and from tornadoes in April (€133m) and May (€69m). Also significant was the storm-induced shipping accident involving an oil production and storage vessel in the North Sea.

At €582m (664m), major man-made losses were again down on the previous year. Sizeable losses included fires in two production facilities in Germany and a mine in Australia, explosions in a Canadian oil plant, the destruction of a power plant on Cyprus, and the failure of a satellite's power supply. We were also substantially affected by a large claim involving the liability of pharmaceutical manufacturers and an incident in a power plant in the USA.

Combined ratio by property-casualty division

%	2011	2010	2009	2008	2007
Germany, Asia Pacific and Africa	195.3	102.5	100.1	106.5	106.0
Europe and Latin America	90.2	110.8	87.2	91.7	95.0
Global Clients and North America	95.9	99.6	88.8	101.4	95.8
Special and Financial Risks ¹	77.4	89.2	112.6	99.0	83.8

¹ The figure for 2011 is not adjusted for relief of 6.6 percentage points from economic risk transfer to the capital markets.

The combined ratios of the individual divisions developed differently. In the Germany, Asia Pacific and Africa Division, it increased owing to the major losses in Japan, Australia, New Zealand and Thailand. The Europe and Latin America Division improved its combined ratio, which had been badly hit by the Chilean earthquake in 2010. In the Global Clients and North America Division, the combined ratio fell. A whole range of natural catastrophes, which mainly impacted treaties providing worldwide cover, were more than offset by the positive run-off of prior underwriting years. The marked improvement in the Special and Financial Risks Division was attributable to two causes. After the financial crisis, there was a fall in the number of insolvencies and hence in the combined ratio of our credit and bonding reinsurance to 41.3% (82.4%), which included reserve releases with a volume of €289m, or 41% of the net earned premiums in this class of business. In addition, relief of 6.4 (-0.9) percentage points in relation to the net earned premiums of the Special and Financial Risks Division derived from the fact that income and expenses for retrocession cover for the whole of our reinsurance business are fully accounted for in the division, and this included high income in 2011.

Premium

Premium growth of 7.7%

At €16.9bn (15.7bn), we posted higher premium income in property-casualty reinsurance in 2011 than in the previous year, representing growth of 7.7%. If exchange rates had remained the same, premium would have risen by 10.2%. Approximately €14.1bn or 84% of premium was written in foreign currency, of which 42% was in US dollars and 13% in pounds sterling. 16% of our premium volume was generated in euros. In contrast to the previous year, the development of the euro against other currencies had a negative effect of €395m on our premium income.

The renewal negotiations for reinsurance treaties in 2011 produced satisfactory outcomes in a difficult market environment. Thanks to our capital strength and our risk expertise, we succeeded in achieving good terms and conditions, slightly increasing the profitability of our portfolio. Capacity continues to be available in sufficient quantities in most lines and regions. Overall, pressure on prices persisted, but the slight downward trend was not maintained and a stabilisation of prices was evident. Particularly in loss-affected classes and regions, considerable price increases were possible. The events in Australia and the earthquake in Japan, for instance, meant that prices for natural hazard covers there rose by up to 50%. Besides this, prices in US natural catastrophe business showed improvements of around 10% in the July renewals. Marked rate increases were also implemented in the offshore energy sector, which had been hit by the Deepwater Horizon loss in 2010.

We adhered to our focused and disciplined underwriting policy, reducing certain blocks of business for profitability reasons, e.g. in selected casualty segments in the USA. The profitable growth we achieved is attributable to Munich Re's capacity to devise complex and customised solutions for its clients. We were able to write new business especially in strongly growing markets, with treaties providing capital relief through risk transfer – mainly in Asia – contributing a substantial portion. In addition, we increased our premium income through the expansion of existing profitable client accounts.

A portion of our treaty business was written at differential terms, i.e. at better terms and conditions than those obtained by other reinsurers, or in the form of exclusive treaties where we were the sole reinsurer.

Gross premiums written in property-casualty

€m	2011	2010	2009	2008	2007
Germany, Asia Pacific and Africa	4,231	3,268	2,836	3,152	2,917
Europe and Latin America	3,767	3,472	3,378	3,868	3,861
Global Clients and North America	5,756	6,140	6,058	5,086	5,751
Special and Financial Risks	3,143	2,812	2,713	2,573	1,608

Gross premiums by class of business

€m	2011	2010	2009	2008	2007
Liability	2,127	2,112	2,162	2,118	2,227
Accident	241	278	353	503	547
Motor	3,623	2,793	2,218	2,441	2,643
Marine, aviation, space	1,837	1,838	1,900	1,836	1,730
Fire	4,553	4,350	4,339	3,998	3,932
Engineering	1,566	1,658	1,536	1,457	1,286
Credit insurance	696	744	632	825	710
Other classes of business	2,260	1,928	1,847	1,561	1,149
Total	16,903	15,701	14,987	14,739	14,224

Trends and growth in selected markets and at our subsidiaries

Premium income in Germany fell, totalling €1,030m (1,303m) in 2011. With declines in original rates persisting and resulting in inadequate prices in reinsurance, we withdrew from business where we could not obtain risk-commensurate terms of trade.

In motor insurance, the class of business with the largest premium volume, initial trends towards rate increases are apparent, but these are not sufficient to reverse the negative market result. Margins are still at a very low level and under further pressure from the persistently low interest rates and the claims frequency, which has not fallen further. As a consequence, we reduced our motor business again in 2011, above all in the non-proportional liability segment.

In Greater China, we expanded our premium volume to €1,494m (735m), participating in strong original growth in China and also acquiring new large-volume treaties.

Our premium volume in Japan grew slightly to €371m (363m). Notwithstanding the difficult economic situation, we kept the capacity we provided in Japan constant even after the severe earthquake, especially for coverage of the natural hazards earthquake and typhoon. As a result of the losses, rates for natural catastrophe covers were raised significantly in some cases. At the same time, we improved our portfolio further by foregoing business that failed to offer risk-commensurate prices, terms and conditions.

Regulatory developments in India continue to give cause for hope that the market will be opened to international reinsurers. Given the medium- and long-term growth potential – also in the reinsurance sector – Munich Re is continuing to keep all its strategic options open.

In Australia and New Zealand, we extended our market leadership somewhat, increasing premium growth to €900m (788m) through profitable new business and substantial rate improvements for natural hazards covers, and optimising our portfolio further. The result was impacted by the earthquake losses in New Zealand and the floods and windstorm losses in Australia.

The reinsurance market in the United Kingdom is characterised by persistently strong competition. We were nonetheless able to increase our premium volume again by 5.8% to €3,159m (2,985m). This growth was mainly due to a rise in original rates and organic growth in motor insurance business in cooperation with a strategic partner.

In Spain, our premium income fell to €368m (403m), owing to the continuing economic crisis and our profit-focused underwriting policy. We nevertheless succeeded in maintaining our leading market position.

In Latin America, we remain the market leader, with premium income climbing to €838m (691m). This positive development was due in particular to natural catastrophe covers, where we were able to achieve organic growth and another increase in rates. Beyond this, we succeeded in expanding our profitable motor own damage business. As in the previous years, the result benefited from our profit-oriented underwriting policy and, in particular, a low claims burden in the Caribbean.

Our subsidiary Munich Re do Brasil Resseguradora S.A. increased its premium volume again to €273m (163m), thus maintaining a leading position among the international reinsurers in the market. At 93.8%, the combined ratio was higher than in the previous year (83.2%).

Munich Re do Brasil Resseguradora S.A.

		2011	Prev. year	Change %
Gross premiums written	R\$ m	644	378	70.4
Thereof property-casualty	R\$ m	447	335	33.4
Net earned premiums	R\$ m	277	169	63.9
Thereof property-casualty	R\$ m	238	146	63.0
Loss ratio property-casualty	%	54.4	49.7	
Expense ratio property-casualty	%	39.4	33.5	
Combined ratio property-casualty	%	93.8	83.2	
Result for the year	R\$ m	31.2	25.0	24.0
Investments	R\$ m	453	363	24.8

In our Global Clients and North America Division, we registered an overall reduction in premium. We took advantage of growth opportunities in existing client accounts and selected products, but terminated treaties that no longer met our pricing requirements.

Results in US business were influenced by natural catastrophes in 2011, especially tornadoes in spring and Hurricane Irene in August. Despite these loss events, both Munich Reinsurance America, Inc. and the American Modern Insurance Group (AMIG) posted a positive result. The extensive measures to improve efficiency launched two years ago are having a favourable effect on the companies' expense ratio. At €117m, the HSB Group's result for the year was again very pleasing. Besides this, A.M. Best also raised the HSB Group's rating from A+ (Superior) to A++ (Superior) in autumn. Our strategy of combining insurance and reinsurance activities in the USA again proved successful, and we intend to continue along this path in future. Thanks to good results in the previous years, our US operations were able to pay a dividend of US\$ 700m to Munich Reinsurance Company in 2011.

Munich Reinsurance America

		2011	Prev. year	Change
				%
Gross premiums written	US\$ m	4,055	3,621	12.0
Thereof property-casualty	US\$ m	3,591	3,111	15.4
Net earned premiums	US\$ m	3,032	2,881	5.2
Thereof property-casualty	US\$ m	2,567	2,364	8.6
Loss ratio property-casualty	%	61.8	71.0	
Expense ratio property-casualty	%	31.1	33.2	
Combined ratio property-casualty	%	92.8	104.2	
Result for the year	US\$ m	1,135.3	276.5	310.7
Investments	US\$ m	14,589	15,611	-6.5

The Munich Reinsurance Canada Non-Life Group – Munich Reinsurance Company of Canada and Temple Insurance Company – again made a positive contribution to the result, despite a large loss at Slave Lake in Alberta, involving the destruction of several hundred houses in the town by a wildfire. Our primary insurance subsidiary Temple Insurance Company currently has a premium income of Can\$ 158m (182m), thus contributing 44.6% to the premium volume of our Canadian non-life group.

Munich Reinsurance Canada Non-Life Group

		2011	Prev. year	Change
				%
Gross premiums written	Can\$ m	354	399	-11.3
Property-casualty	Can\$ m	354	399	-11.3
Net earned premiums	Can\$ m	282	298	-5.4
Property-casualty	Can\$ m	282	298	-5.4
Loss ratio property-casualty	%	62.8	60.7	
Expense ratio property-casualty	%	32.6	34.6	
Combined ratio property-casualty	%	95.4	95.3	
Result for the year	Can\$ m	66.1	59.6	10.9
Investments	Can\$ m	1,592	1,550	2.7

Our Swiss subsidiary New Reinsurance Company Ltd. (NewRe) grew its premium volume by 8.8% to Sfr 1,402m (1,289m) in the financial year 2011. NewRe benefited from its specialisation in the area of structured, made-to-measure reinsurance solutions, whereas its premium volume in traditional business (with the focus on non-proportional covers for natural catastrophes in Europe) remained stable, owing to consistent cycle

management. NewRe's result for 2011 was once more very satisfactory. The combined ratio increased compared with the exceptionally good figure for the previous year.

New Reinsurance Company Ltd.¹

		2011	Prev. year	Change
				%
Gross premiums written	Sfr m	1,402	1,289	8.8
Thereof property-casualty	Sfr m	772	702	10.0
Net earned premiums	Sfr m	1,148	1,162	-1.2
Thereof property-casualty	Sfr m	641	590	8.6
Loss ratio property-casualty	%	75.9	57.2	
Expense ratio property-casualty	%	21.9	26.9	
Combined ratio property-casualty	%	97.8	84.1	
Result for the year	Sfr m	108.9	136.3	-20.1
Investments	Sfr m	4,292	3,858	11.2

¹ Financial statements in accordance with national accounting law.

In marine reinsurance, premium income was higher than in 2010. Premium development in reinsurance was negative due to our consistent focus on profitability in a competitive market with a generally inadequate price level. By contrast, we are expanding our profitable business in primary insurance, especially via our Lloyd's Watkins Syndicate in London. Some €475m (392m) of the total premium income of €1.3bn was earned by Watkins. The numerous natural catastrophes and additional losses from single risks particularly affected the results of traditional marine reinsurance business and should lead to appreciable rate increases for 2012.

Special and financial risks business

We continued to extend our leading position in agricultural reinsurance, our premium development in 2011 being additionally supported by rising commodity prices for agricultural goods. The business we wrote mainly comprised state-supported crop insurance programmes, with a large portion stemming from the USA. We are transferring our great experience and competence in this business to other regions with high earnings and growth potential, such as Latin America and Southeast Asia, with the focus on China.

In the market for aviation and space risks, pressure on rates increased further. Given falling prices, especially in aviation business, we withdrew from selected segments, causing our premium volume to decrease by 13.2% to €551m (635m). In space business, our position as market leader enabled us to write profitable new business and, through long-term treaties in our existing business, partially avoid the consequences of the pressure on rates. Despite the difficult market environment, we achieved a pleasing result of €206m (67m) thanks to our selective underwriting, reserve releases from prior underwriting years, and below-average expenditure for major losses. The combined ratio fell to 59.7% (87.7%).

In our financial risks segment, credit and bonding reinsurance is the most important class of business. Here we reinsure financial risks primarily related to transactions of goods and services worldwide or emanating from bonds and guarantees. This segment is closely linked to global economic development but also to regional economic trends. Particularly in an uncertain economic environment, credit insurance is a much sought-after risk management instrument that gives companies security for the settlement of amounts owed by customers for deliveries or services.

The significantly reduced number of insolvencies after the financial crisis enabled us to release reserves, especially from underwriting years 2009 and 2010. As a consequence,

the combined ratio for 2011 in credit and bonding business fell to 41.3% (82.4%). Our premium volume decreased slightly to €696m (744m).

Tailored solutions for industrial firms and corporate clients

In our unit Corporate Insurance Partner, we offer our clients in industrial and major project business a wide range of insurance products, customised solutions and services based on our recognised industry- and risk-related knowledge. The combined ratio for 2011 was burdened by investments for the expansion of these activities and by natural catastrophes.

Catastrophe bonds as an efficient risk-hedging tool

Risk Trading places insurance risks on the capital and retrocession markets. We provide this unit's services primarily for our clients but we also use them for our own purposes when it is expedient to lay off insurance risks from the risk management perspective. In one client transaction in the first half of 2011, we placed US hurricane capacity of US\$ 200m with investors, while in three transactions of our own we acquired protection for the scenarios European windstorm and US hurricane (Queenstreet II–IV, with volumes of US\$ 100m, 150m and 100m). We are now one of the largest European investors in insurance-linked securities (ILS), i.e. instruments which transfer insurance risks to the capital markets. The earthquake in Japan triggered the total loss default of such a security in May – the Muteki catastrophe bond through which earthquake risks had been placed on the capital markets for a Japanese client. As a consequence of the loss event, the client received the catastrophe bond's nominal amount of around €200m. While the payout to the client is included in the technical result, relief from the capital market cover is contained in the investment result. So in this topical case, the catastrophe bond proved to be an efficient risk-hedging instrument for Munich Re and its client.

Primary insurance – Life

- // Total premium volume down 3.2% to €7.9bn, especially due to low single-premium business
- // Investment result of €2,576m
- // Consolidated result of €113m
- // Market Consistent Embedded Value (MCEV) at -€872m

Key figures

		2011	2010	2009
Total premium income ¹	€bn	7.9	8.2	7.9
Gross premiums written	€m	6,263	6,484	6,294
Share of gross premiums written in primary insurance	%	35.5	37.1	37.9
Operating result	€m	206	355	218
Consolidated result	€m	113	172	27
MCEV	€m	-872	2,375	3,155

¹ Total premium income includes not only gross premiums written but also savings premiums for unit-linked life insurance and capitalisation products in accordance with the statutory accounting guidelines applicable in the insurer's home country.

Result

Consolidated result of €113m

Persistently low market interest rates present life insurance companies with considerable challenges because insurers have to offer their clients long-term interest-rate guarantees. We began early on to make substantial provision for prolonged phases of low interest rates by purchasing derivative financial instruments ("swaptions") to hedge against the reinvestment risk. This hedging programme benefits policyholders and shareholders alike. The decline in interest rates since the beginning of the year led to write-ups of €368m in our interest-rate hedges that had an impact of €84m on the result. The low-interest-rate environment is also having an adverse impact on the profitability of conventional new business, despite the lower guarantees given to clients. Higher margins are offered by unit-linked products, but their sales have declined.

The consolidated result in life primary insurance for the past financial year amounted to €113m (172m), largely reflecting the write-downs of Greek government bonds that clearly exceeded the write-ups of our interest-rate hedges. Our operating result decreased by 42.0% to €206m (355m). The technical result was also down.

The MCEV of life primary insurance business decreased to -€872m (2,375m) in the financial year 2011, owing to the further strong fall in interest rates in combination with very high interest-rate volatility as well as the burden from losses in the value of our investments in bonds issued by peripheral countries of the eurozone. This situation is a challenge for the whole industry, given its long-duration contracts providing guarantees for policyholders. The strict rules of market-consistent valuation applied by us, as in previous years, led to significant result reductions at the reporting date of 31 December 2011, despite our hedging against prolonged phases of low interest rates. Valuation was based on swap rates without adjustments. In the current environment, especially in view of the exceptional capital market situation (euro crisis), this represents a decidedly conservative evaluation approach. Total MCEV earnings amounted to -€3,115m (-602m), but operating income, which excludes a large share of the effects from developments in the capital market, totalled €771m (317m). At -€13m (114m), the value added by new business was negative, given the rigorous application of adverse capital market data. Further explanations regarding MCEV are available on [page 60](#).

Premium

Decline in premium income of 3.2%

Overall premium income in life insurance (including the savings premiums from unit-linked life insurance and capitalisation products) totalled €7.9bn (8.2bn) in 2011, a reduction of 3.2% compared with the previous year. Our international business showed a decline in single-premium business with unit-linked life insurance and capitalisation products, resulting in overall premium volume of €2.0bn (2.1bn). In particular in Austria, single-premium business with unit-linked insurances fell owing to changes in tax rules. In Germany, premium income totalled €5.9bn (6.0bn), also impacted by lower single-premium business, which decreased market-wide in the financial year, following an extended phase of strong growth. Gross premiums written in and outside Germany totalled €6.3bn (6.5bn). While in Germany gross premiums written were down by 5.2% to €4.6bn (4.9bn), the figure for international business increased slightly by 2.0% to €1.7bn (1.6bn), especially thanks to good growth in Belgium.

New business in life insurance

	2011 €m	Prev. year €m	Change %
Germany			
Regular premiums	352	331	6.3
Single premiums	1,454	1,609	-9.6
Total	1,806	1,940	-6.9
Annual premium equivalent ¹	497	492	1.0
International			
Regular premiums	182	180	1.1
Single premiums	753	800	-5.9
Total	935	980	-4.6
Annual premium equivalent ¹	257	260	-1.2

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

By contrast, German new regular-premium business in 2011 expanded by 6.3% to €352m (331m) year on year, mainly owing to good new company pension business. On balance, new business volume in Germany was down by 6.9% to €1.8bn (1.9bn). Measured in terms of annual premium equivalent (APE) – the customary international performance measure – new business rose by 1.0%. International new business declined by 4.6% to €935m (980m) but by less in terms of APE (1.2%), due to moderate growth in regular-premium business (+1.1%) and a higher volume of new business, particularly in Belgium and Poland.

Primary insurance – Health

- // Growth in premium income of 4.0% to €5.7bn – Substantial increase in new comprehensive health insurance business
- // Investment result of €1,301m
- // Consolidated result of €244m
- // Market Consistent Embedded Value (MCEV) at €1,747m

Key figures

		2011	2010	2009
Gross premiums written	€m	5,717	5,499	5,171
Share of gross premiums written in primary insurance	%	32.5	31.5	31.2
Operating result	€m	325	236	216
Consolidated result	€m	244	165	83
MCEV	€m	1,747	1,733	1,971

Result

Consolidated result climbs to €244m

In the health insurance segment, the consolidated result for 2011 rose to €244m (165m). A positive contribution of €116m to the result came from an intra-Group transaction. At the end of the year, ERGO sold its shares in the foreign health insurers of the DKV Group to Munich Health Holding. The operating result increased to €325m (236m), and the investment result remained at the same level as in the previous year. The technical result totalled €568m (418m).

The MCEV amounted to €1,747m (1,733m) at the end of the financial year. No interest-rate guarantees are provided in health business. Figures for interest rates included in the calculations can be changed whenever price increases become necessary, for instance because expenses for healthcare claims and benefits have risen. That is why the interest-rate environment has a different impact to that in life insurance. Total MCEV earnings grew to €137m (-122m), largely owing to operating MCEV earnings of €547m (58m). Value added by new business amounted to €50m (28m).

The 2007 health reform in Germany changed the conditions in comprehensive health insurance with effect from 1 January 2009. On the one hand, policyholders are now able to switch from one provider to another and take ageing reserves with them to some extent. On the other hand, insurers cannot cancel the policies of clients who have failed to pay their premiums and must continue to indemnify them for certain treatment. This is taken into account in the MCEV model on the basis of current, as yet very limited experience, but future client behaviour is still difficult to estimate. Discussions regarding the German healthcare system are ongoing, and future legal reforms could naturally lead to significant changes in our MCEV figures. Further explanations regarding MCEV are available on [page 60](#).

Premium

Premium growth of 4.0%

As from the beginning of 2011, premium volume in health climbed by 4.0% to €5.7bn (5.5bn). Business with supplementary benefit covers rose by 4.1%, whilst premium income in comprehensive health insurance expanded by 3.4%, reflecting the abolition as at 1 January 2011 of the three-year waiting period for switching to private health insurance, which had a stimulating effect on new business. New comprehensive insurance business increased by 18.4% year on year. By contrast, new business in supplementary health insurance was down 30.6%, the previous year's figure having been boosted by the conclusion of a major contract. In travel insurance, which is included in the health segment, we registered a rise in premium volume of 13.5% in 2011. The unrest in the Arab world and earthquake in Japan hardly had an impact on the travel insurance sector.

Owing to an adjustment of our strategic orientation in the health segment, our target in future – besides travel insurance – will be on the actual core business of private health insurance, namely high-quality comprehensive health insurance and flexible supplementary covers to complement state health insurance coverage. The main consequence in terms of product strategy in the past financial year was to discontinue specially priced reduced-benefit products for new clients.

Primary insurance – Property-casualty

- // Premium volume of €5.6bn, an increase of 2.5%
- // Combined ratio of 97.8% impacted by severe weather events
- // Investment result of €711m
- // Consolidated result of €405m

Key figures

		2011	2010	2009
Gross premiums written	€m	5,637	5,498	5,131
Share of gross premiums written in primary insurance	%	32.0	31.4	30.9
Loss ratio	%	63.7	63.1	60.3
Expense ratio	%	34.1	33.7	32.9
Combined ratio	%	97.8	96.8	93.2
Operating result	€m	658	678	474
Consolidated result	€m	405	319	257

Result

Rise in profits to €405m

The consolidated result in property-casualty insurance totalled €405m (319m). A positive effect derived from the sale of Capital Square Pte. Ltd., a consolidated company with a block of real estate in Singapore, which produced a gain of €156m. The result was burdened by €36m in write-downs for impairments of goodwill and other assets of ERGO Daum Direct General Insurance Co. Ltd. in South Korea, reflecting the persistently difficult market situation in Korean motor insurance business. Write-downs of equities and derivatives were also required, a fact that affected the consolidated result and produced a lower investment result. Overall, the investment result in property-casualty insurance came to €711m (773m).

Combined ratio of 97.8%

At 97.8% (96.8%), the combined ratio for 2011 was slightly up on the previous year. The figure for Germany amounted to 93.1%, 3.3 percentage points more than in the previous year due to numerous weather events involving heavy rainfall and severe storms that increased claims expenditure in the third quarter of 2011. In addition to this, we increased the reserves in casualty business owing to major losses and for risk provision. In international business, the combined ratio was 105.0% (107.8%). Even though the absolute level remains unsatisfactory, an improvement is beginning to emerge. In addition to a better result in Poland, which had been heavily burdened by natural catastrophe losses in the previous year, the amelioration is also attributable to our consolidation measures in other markets. In Turkey, for instance, we have significantly reduced the share of unprofitable motor business in our portfolio, whilst introducing a more differentiated rating structure and selectively raising prices. Nevertheless, the market environment in motor insurance in particular remains very difficult both in Turkey and South Korea.

Paid claims and the change in claims provisions totalled €3,149m (3,037m) and net operating expenses €1,686m (1,615m), compared with net earned premiums of €4,941m (4,806m).

Premium

Premium growth of 2.5%

In the past financial year, premium volume was up by 2.5% to €5.6bn (5.5bn). We posted growth of around the same level in German and international business. In the case of the latter, there were significant increases, above all in Poland. But the sale of ERGO's Portuguese subsidiary, whose premium income was no longer included in the income statement for the fourth quarter of 2011, and rehabilitation measures in Turkey and South Korea, had a curbing effect. In German business, our premium income in the year under review totalled €3.3bn (3.2bn), an increase of 2.4%. As in the previous year, overall growth was driven by commercial and industrial insurance, with premium volume up 8.1%. This increase was partly attributable to industrial cover in the Netherlands and Austria, which we transact from Germany. In personal accident insurance, we recorded a decline of 3.3% for the past financial year. Motor insurance, by contrast, saw a rise of 3.6% in premium from January to December, reflecting our rehabilitation measures and rate increases at the beginning of the year. In legal protection insurance, we were able to achieve slight premium growth of 0.4% in Germany.

Munich Health

- // Marked increase in premium income of 19.3% to €6.1bn in the year under review
- // Combined ratio of 99.4% from January to December
- // Investment result of €164m
- // Consolidated result of €45m in the year under review; heavy burden from foreign exchange losses

Key figures

		2011	2010	2009
Gross premiums written	€m	6,133	5,140	3,974
Loss ratio ¹	%	80.1	78.5	80.0
Expense ratio ¹	%	19.3	21.2	19.4
Combined ratio ¹	%	99.4	99.7	99.4
Operating result	€m	165	131	133
Consolidated result	€m	45	63	27

¹ Excluding health insurance conducted like life insurance.

In recent years, the global health market has become one of the fastest-growing sectors of the economy in terms of both care provision and insurance. This trend will become even more pronounced in the future due to advances in medicine, improved life expectancy and the development of healthcare markets in emerging countries. In order to maximise the opportunities this presents, Munich Re has pooled its specialists for international health business in a separate business field: Munich Health.

The cornerstones of the business field comprise Munich Re's worldwide health reinsurance business and the health primary insurers outside Germany. In the USA, this includes Windsor, acquired as at 1 January 2011, and our specialised health insurer Sterling. Both companies operate under the Windsor Health Group brand.

Result

Investment result of €164m

The consolidated result decreased to €45m (63m), mainly due to currency translation losses that adversely affected the non-operating result. We posted an investment result of €164m (142m), a rise of 15.5% compared with the previous year. The operating result amounted to €165m (131m), while the technical result – at €66m – was marginally down compared with the previous year (€69m).

The combined ratio for the Munich Health segment was 99.4% (99.7%). This ratio relates only to short-term health business, not to business conducted like life insurance, which made up 10.9% (12.5%) of gross premiums written in the year under review. In reinsurance, the lower combined ratio is attributable to an overall improvement in claims experience owing to business restructuring and new business. In primary insurance, the combined ratio was higher than in the previous year, primarily because business performance at Sterling deteriorated.

Premium

Premium growth of 19.3%

Gross premiums written were appreciably higher than in the previous year, climbing by 19.3% to €6.1bn (5.1bn). At unchanged exchange rates, premium volume would have even increased by 20.9%.

Gross premiums by market region



In reinsurance, gross premiums written were up by 29.5% to €4.2bn (3.2bn), mainly owing to the conclusion of a new large-volume quota share treaty in North America, which had already become effective in the first quarter of 2011. Conversely, our premium income in Asia declined because of the scheduled termination of a large capital relief treaty.

International health primary insurance business showed an increase of 2.2% to €1,968m (1,925m) in 2011. The acquisition of Windsor enabled us to more than offset the decline in premium income Sterling posted in the financial year due to the company's strongly limited sales opportunities following changes in the US regulatory framework. The purchase of Windsor with effect from 1 January 2011 was in line with Munich Health's strategy of strengthening its position in the US Medicare market. The two companies jointly offer health plans and specialty managed-care programmes for the senior segment, with Sterling having access to the network of service providers established by Windsor. In the case of our European primary insurance companies, premium expansion in Spain and Belgium essentially compensated for the decline in premium volume in the United Kingdom.

Investment performance

- // German and US government bonds dominate our broadly diversified portfolio; investments in government bonds from southern Europe and Ireland significantly reduced
- // Write-downs of €1,178m on portfolio of Greek government securities
- // Another good result from gains on disposals
- // Investment result of €6.8bn

Investment mix¹

€m	Reinsurance					
	Life		Property-casualty		Life	
	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Land and buildings, including buildings on third-party land	257	267	1,187	1,178	1,445	1,760
Investments in affiliated companies	14	16	62	67	31	20
Investments in associates	75	54	391	282	101	192
Loans	14	47	56	188	33,910	31,045
Other securities held to maturity	-	-	-	-	13	42
Other securities available for sale						
Fixed-interest	13,594	11,905	46,664	45,110	32,584	35,803
Non-fixed-interest	895	974	4,691	5,419	1,768	1,892
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	-	-	508	424	59	50
Non-fixed-interest	-	-	28	25	-	3
Derivatives	549	331	373	154	765	323
Designated as at fair value through profit or loss						
Fixed-interest	-	-	-	-	161	233
Non-fixed-interest	-	-	-	-	4	8
Deposits retained on assumed reinsurance	7,784	5,069	1,196	1,499	165	136
Other investments	193	330	943	787	925	623
Investments for the benefit of life insurance policyholders who bear the investment risk	-	-	-	-	5,092	4,953
Total	23,375	18,993	56,099	55,133	77,023	77,083

¹ After elimination of intra-Group transactions across segments.

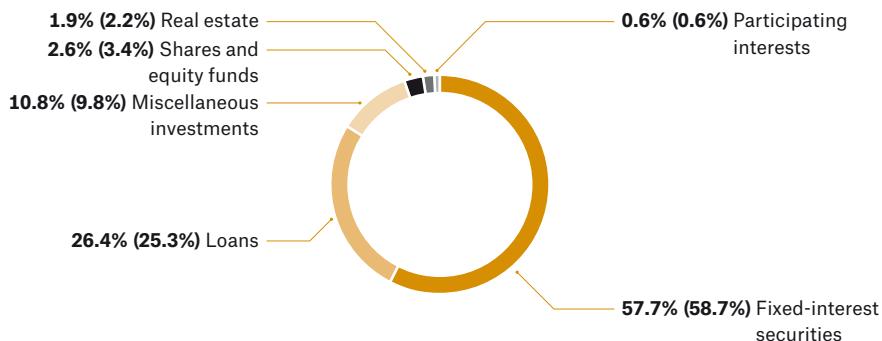
Developments on the capital markets have recently been shaped by uncertainty over the further course of the debt crisis. On the stock markets, the EURO STOXX 50 lost around 17% in the period under review. The performances of the bond markets varied greatly: whilst yields on German and US government bonds fell to historically low levels, risk spreads rose both on government bonds from countries such as Portugal, Greece and Ireland, and on corporate bonds. The carrying amount of our investments showed a rise since the beginning of the year, partly due to increases in deposits retained on assumed reinsurance business and favourable effects from the translation of our portfolios in foreign currency into euros (especially our investments in US dollars) and partly due to improved market values of our fixed-interest securities. The positive impact of the strong price gains in our large portfolio of bonds from Germany and the USA clearly outweighed the price losses on southern European government bonds. There were decreases in the value of our relatively small investment volume in equities. Our return on investment totalled 3.4%¹ (4.5%).

		Primary insurance		Munich Health		Asset management		Total	
		Health		Property-casualty					
		31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
		796	623	109	340	31	16	64	63
		12	20	76	71	11	1	8	8
		86	107	150	150	71	52	66	51
		16,934	15,319	2,323	2,312	23	24	-	-
		-	-	-	-	-	-	-	13
		12,686	11,794	5,656	5,202	3,864	2,447	171	93
		387	634	433	655	216	174	68	21
		-	-	-	-	-	1	-	-
		3	-	-	-	-	1	-	-
		67	37	9	12	9	10	-	-
		-	-	-	-	-	-	-	567
		-	-	-	-	-	-	-	475
		1	1	4	3	280	194	-	-
		76	87	139	463	114	129	265	780
		-	3	-	-	1	1	-	-
		31,048	28,625	8,899	9,208	4,621	3,050	642	1,016
									201,707
									193,108

¹ 3.3% excluding the earnings from economic risk transfer to the capital market that are posted in the investment result.

Distribution of investments by type

Total: €201.7bn (193.1bn)



We gear the selection of our investments, based on economic criteria, to the characteristics of our technical provisions and liabilities. In addition, we use derivative financial instruments for portfolio management and hedging against fluctuations on the interest-rate, equity and currency markets. The high volatilities in the markets are currently resulting in substantial changes in the values of derivatives, which under IFRS accounting we recognise in profit or loss, i.e. as income or expense in our income statement.

Valuation reserves not recognised in the balance sheet

€m	31.12.2011			Prev. year		
	Valuation reserves	Fair value	Carrying amount	Valuation reserves	Fair value	Carrying amount
Land and buildings ¹	1,739	8,013	6,274	1,695	8,353	6,658
Associates	326	1,250	924	311	1,181	870
Loans	3,633	56,893	53,260	1,553	50,488	48,935
Other securities	-	13	13	1	43	42
Tangible assets in renewable energies	7	267	260	-	46	46
Total	5,705	66,436	60,731	3,560	60,111	56,551

¹ Including owner-occupied property.

Our on-and off-balance sheet valuation reserves (without owner-occupied property), which could be turned into realised gains upon disposal of the relevant investments, climbed from €7.4bn to €11.2bn.

At the reporting date, our investment portfolio continued to be dominated by fixed-interest securities, loans and short-term fixed-interest investments. Some 48% of these are government bonds or government-guaranteed securities, of which 56% are from eurozone countries.

Pursuing our risk-conscious investment policy, we reduced our investments in southern European and Irish government bonds by €4.3bn to €5.8bn and invested in the eurozone, mainly in government bonds from Germany and the Netherlands. Bonds from Portuguese, Italian, Irish, Greek and Spanish issuers made up 3% of our portfolio of fixed-interest investments at the balance sheet date.

In the interests of optimising the structure of our portfolio, we hold a small quantity of credit default swaps, thus increasing our exposure to France and the Netherlands by around €100m in each case.

Portfolio of government bonds and state-guaranteed securities issued by eurozone countries^{1,2}

€m	Amortised cost	Carrying amounts	Fair values	Valuation reserves ³
Loans				
Germany	15,132	15,132	16,702	1,570
France	55	55	55	-
Greece	12	12	12	-
Ireland	106	106	87	-19
Italy	255	255	214	-41
Netherlands	-	-	-	-
Austria	1,127	1,127	1,233	106
Portugal	-	-	-	-
Spain	1,026	1,026	783	-243
Other eurozone countries	1,363	1,363	1,522	159
	19,076	19,076	20,608	1,532
Other securities				
Available for sale				
Germany	11,730	12,572	12,572	842
France	3,979	4,103	4,103	124
Greece	357	357	357	-
Ireland	1,515	1,304	1,304	-211
Italy	2,339	1,959	1,959	-380
Netherlands	1,984	2,092	2,092	108
Austria	1,416	1,462	1,462	46
Portugal	608	316	316	-292
Spain	849	805	805	-44
Other eurozone countries	2,518	2,441	2,441	-77
	27,295	27,411	27,411	116
At fair value through profit or loss				
Germany	51	51	51	-
France	3	3	3	-
Greece	-	-	-	-
Ireland	-	-	-	-
Italy	-	-	-	-
Netherlands	1	1	1	-
Austria	15	15	15	-
Portugal	-	-	-	-
Spain	-	-	-	-
Other eurozone countries	4	4	4	-
	74	74	74	-
Total	46,445	46,561	48,093	1,648

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

² Besides Greece, Ireland, Italy, Portugal and Spain, those eurozone countries are listed where our holdings of government bonds and state-guaranteed securities total more than €2bn in terms of carrying amounts.

³ Concerns off-balance-sheet valuation reserves in the case of "loans" and unrealised gains/losses in the case of "available for sale".

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

At the reporting date, around 89% of the eurozone government bonds and government-guaranteed securities measured at fair value are allocated to Level 1 and 11% to Level 2.

Allocation of eurozone government bonds and government-guaranteed securities measured at fair value to levels of the fair value hierarchy¹

€m	Level 1	Level 2	Level 3	Total
Other securities available for sale	24,288	3,123	-	27,411
Other securities at fair value through profit or loss	74	-	-	74
Total	24,362	3,123	-	27,485

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

Investments from the category “available for sale” allocated to Level 2 mainly involved borrower’s note loans of German “Länder”.

Further information on the criteria for allocation to the individual levels of the fair value hierarchy can be found in the notes to the financial statements in the section on asset items under B – Investments, Determining fair values.

Our overall portfolio of eurozone government bonds has a good rating structure. As at 31 December 2011, 95% were rated A to AAA.

Rating of eurozone government bonds and government-guaranteed securities according to carrying amounts¹

€m	AAA	AA	A	BBB	Lower	No rating	Total
Germany	12,710	14,647	377	-	-	21	27,755
France	4,123	35	3	-	-	-	4,161
Greece	-	-	-	-	369	-	369
Ireland	68	-	-	1,329	13	-	1,410
Italy	-	-	2,214	-	-	-	2,214
Netherlands	2,093	-	-	-	-	-	2,093
Austria	2,051	553	-	-	-	-	2,604
Portugal	-	-	-	-	316	-	316
Spain	-	804	811	100	116	-	1,831
Other eurozone countries	1,259	1,716	697	136	-	-	3,808
Total	22,304	17,755	4,102	1,565	814	21	46,561

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

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Period to maturity of eurozone government bonds and government-guaranteed securities according to carrying amounts¹

€m	Carrying amounts
Up to one year	5,075
Over one year and up to two years	2,423
Over two years and up to three years	3,070
Over three years and up to four years	3,908
Over four years and up to five years	2,581
Over five years and up to ten years	10,558
Over ten years	18,946
Total	46,561

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

Around €17.1bn or 60% of the government bonds and government-guaranteed securities with a contractual period to maturity of more than five years are German government bonds. The following table shows the contractual period to maturity of our bonds from Greek, Irish, Italian, Portuguese and Spanish issuers:

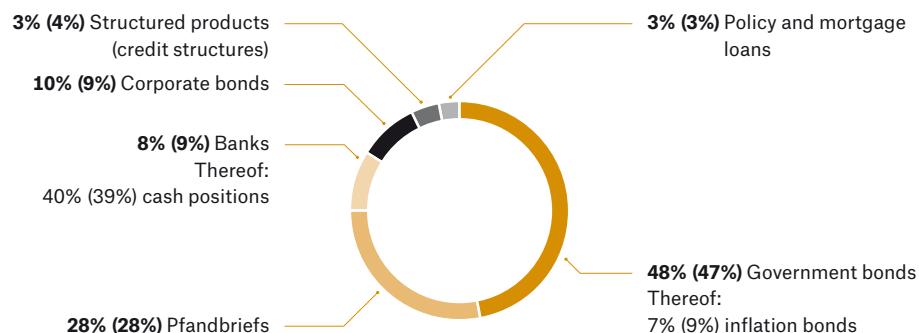
Period to maturity of government bonds and government-guaranteed securities of Greek, Irish, Italian, Portuguese and Spanish issuers according to carrying amounts¹

€m	Greece	Ireland	Italy	Portugal	Spain	Total
Up to one year	36	103	154	5	140	438
Over one year and up to two years	11	60	29	-	56	156
Over two years and up to three years	4	-	39	3	127	173
Over three years and up to four years	4	38	23	32	38	135
Over four years and up to five years	71	260	59	-	101	491
Over five years and up to ten years	75	712	617	155	455	2,014
Over ten years	168	237	1,293	121	914	2,733
Total	369	1,410	2,214	316	1,831	6,140

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

Information on the risks arising from eurozone government bonds and government-guaranteed securities can be found in the risk report on [page 136 f.](#)

Fixed-interest securities and loans, including short-term items, on a market-value basis¹



¹ Presentation based on economic view and not fully comparable with IFRS figures.
The economic view includes cash positions.

At the reporting date, 28% of our interest-bearing investments were in pfandbriefs and other securities and debt instruments with collateralisation, around 41% of which were German pfandbriefs.

We invested more again in corporate bonds, which made up 10% of our fixed-interest portfolio at the reporting date. We continue to hold a small quantity of credit derivatives, thus increasing our exposure mainly to corporates by two percentage points.

We further reduced our limited exposure to banks to 8% of our fixed-interest portfolio. At the reporting date, our proportion of bank bonds from southern European states and Ireland totalled only 2% of our bank portfolio. Nearly half our receivables from banks were deposits, while a major portion of the remainder were senior bonds, i.e. bonds that

are not subordinated or subject to loss participation. Subordinated bonds and loss-bearing bonds made up only 1% of our fixed-interest portfolio.

Our portfolio of asset/mortgage-backed securities, which are held chiefly by our reinsurance companies, increased slightly by €0.1bn to €6.2bn. Around 64% of these securities are rated AAA.

Particularly in reinsurance, we have significantly increased the duration of our fixed-interest portfolio, thus gearing the duration position of the whole Group more closely to our liabilities.

Equity exposure after hedging only 2.0% of our investments

The carrying amount of our equity portfolio (before taking derivatives into account, and including investments in affiliated companies and associates at market value) decreased to €6.7bn (7.9bn), or 3.2% (4.0%) of our total investments. The volatile market conditions also caused us to extend our hedging against falling share prices at an early stage. At the reporting date, our equity exposure after hedging was 2.0% (4.4%) of our total investments. We hold inflation-indexed bonds with a volume of €6.1bn (7.2bn). These bonds, like investments in inflation swaps with a nominal amount of €4.0bn (0.9bn) and in real assets such as equities, real estate and commodities, diversify our portfolio and simultaneously increase the level of protection against inflation. We expanded our investments in the area of renewable energies. These investments totalled around €0.5bn at the reporting date.

Investment result

Investment result

€m	2011	2010	2009	2008	2007
Regular income	8,039	7,749	7,629	7,859	8,110
Write-ups/write-downs	-1,625	-403	-1,122	-2,847	-1,032
Net realised capital gains	1,244	1,649	1,612	2,208	2,803
Other income/expenses	-902	-353	-236	-1,304	-628
Total	6,756	8,642	7,883	5,916	9,253

Investment result by type of investment

	2011	Prev. year	Change
	€m	€m	%
Real estate	292	339	-13.9
Investments in affiliated companies	251	9	>1,000.0
Investments in associates	101	50	102.0
Mortgage loans and other loans	2,207	2,150	2.7
Other securities	4,392	6,173	-28.9
Deposits retained on assumed reinsurance and other investments	229	114	100.9
Investments for the benefit of life insurance policyholders who bear the investment risk	-263	271	-
Expenses for the management of investments and other expenses	453	464	-2.4
Total	6,756	8,642	-21.8

Regular investment income rose slightly due to higher income from associates and dividend payments, and to our larger investment portfolio. Increased regular payments from our derivatives also contributed to this rise.

The net balance of write-ups and write-downs is the product of sometimes dramatic shifts in prices and interest rates resulting from the debt crisis. In an environment of falling interest rates, we saw an appreciation in the value of our interest-rate hedges, which we use to ensure that we can meet the long-term interest-rate guarantees extended to life insurance clients even in low-interest-rate scenarios. On balance, the value of these interest-rate hedging instruments climbed by €368m (80m). Interest-rate futures, by means of which we lengthened our duration, also benefited from the decline in interest rates and were written up in value. By contrast, the swaps we use in reinsurance to hedge against interest-rate risks lost value, necessitating write-downs. We also had to make write-downs on credit derivatives.

In view of the planned participation of private creditors in a rescue package for Greece, we have written down the value of our portfolio of Greek government securities, amounting to €1,178m, to the market value. Some €1,135m of this is assignable to our fixed-interest securities available for sale. The remaining amount is assignable to "loans". No write-downs had to be made on our investments from the remaining euro-zone countries. Nevertheless, the continuing political discussion regarding a permanent euro rescue fund and the downgrading of several eurozone countries by rating agencies are fuelling uncertainty on the capital markets and harbour the risk of further write-downs.

After the price slumps on the stock markets, we had to make write-downs of €544m (277m) on our non-fixed-interest securities.

In the period under review, we recorded net gains on disposal for our investment portfolio as a whole. A large portion of these came from our fixed-interest portfolio, where we realised gains mainly from the restructuring of investments in government bonds and pfandbriefs. These more than compensated for the losses on disposal from the reduction of our southern European and Irish government bonds. In addition, we realised gains from the sale of a Group company which owned a real estate complex in Singapore, and on the disposal of equities over the period under review as a whole. Where derivatives were concerned, the disposal losses mainly involved interest-rate, equity and commodity derivatives.

Also included in investments are securitisations by means of which we pass on or hold underwriting risks via capital market covers such as catastrophe bonds, weather derivatives and special forms of unit-linked life insurance (variable annuities). Regular income or expenditure, realised gains and write-ups/write-downs arising from changes in the value of our capital market covers are shown as a result from derivatives in the investment result. These covers contributed around €210m to the investment result in the period under review. After the earthquake in Japan, we recorded net write-ups of approximately €200m from the Muteki catastrophe bond, by means of which we had transferred insurance risks from a major Japanese primary insurer to the capital market on a parametric basis.

Altogether, Munich Re benefited from its conservative yet active asset management.

Total assets under management

		31.12.2011	Prev. year	Change
				%
Third-party investments	€bn	10.4	10.2	2.0
		2011	Prev. year	Change
				%
Group asset management result	€m	59	37	59.5

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) is the asset manager of Munich Re. In addition to its asset management function for the Group, MEAG also offers its expertise to private and institutional clients. Assets under management for institutional clients outside the Group rose to €8.5bn (8.1bn). The amount managed by MEAG in private-client business via investment funds totalled €1.9bn (2.1bn). The assets managed by PICC Asset Management Company Ltd. (PAMC), Shanghai, 81% of which belongs to PICC People's Insurance Company of China, and 19% to MEAG, climbed to €39.8bn (30.0bn).

Financial position

// Debt leverage down 0.7 percentage points
// Asset-liability management as basis for our investment strategy
// Group capital over 2.4 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: investments on the assets side serve mainly to cover technical provisions (75.4% of the balance sheet total). Equity (9.4% of the balance sheet total) and bonds classified as strategic debt (2.0% of the balance sheet total) are the most important sources of funds.

Group equity

Development of Group equity

€m	31.12.2011	31.12.2010	31.12.2009
Issued capital and capital reserve	7,388	7,388	7,388
Retained earnings	11,588	10,735	10,667
Other reserves	3,384	2,238	1,473
Consolidated result attributable to equity holders of Munich Reinsurance Company	702	2,422	2,521
Non-controlling interests	247	245	229
Total	23,309	23,028	22,278

The increase in equity was attributable not only to the consolidated result but also to a rise in the reserve for currency translation adjustments and to higher net unrealised gains, which derived mainly from our fixed-interest securities available for sale. The dividend payment and share buy-back programme, on which we report on [page 106](#), had a lowering effect on equity. Our off-balance-sheet valuation reserves totalling €5.7bn (3.6bn) are dealt with on [page 96](#).

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 very long-term basis as a source of financing for investment.

Debt leverage

	2011 €m	Prev. year €m	Change %
Strategic debt	5,219	5,405	-3.4
Group equity	23,309	23,028	1.2
Total	28,528	28,433	0.3
Debt leverage	%	18.3	19.0

Strategic debt includes subordinated liabilities amounting to €4,683m. These are described in the notes to the consolidated financial statements under (19) Subordinated liabilities.

Our subordinated bonds are recognised in part as own funds by the German Federal Financial Supervisory Authority (BaFin). When this is considered in calculating the strategic debt, the latter is reduced to €1,317m and the debt leverage amounts to only 5.3%.

Technical provisions

Reinsurance business accounts for approximately 35% of technical provisions, primary insurance for about 64% and Munich Health for some 1%. In contrast to liabilities under loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will arise. This is especially true of reinsurance. Whereas in property insurance a major portion of the provisions is generally paid out within two to three years, in life or liability insurance substantial amounts may still be due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling. We ensure that our business is sufficiently capitalised at all times by monitoring the situation continuously and taking suitable measures, which are dealt with in the section on capital management.

Restraints on disposal

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 €11.0bn (10.4bn).

In addition, there were contingent liabilities, which are described in the notes to the financial statements under (49) Contingent liabilities, other financial commitments.

Asset-liability management

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

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: our aim is to ensure that economic factors influence the value of our investments and that of our technical provisions and liabilities in the same way, thus cushioning the effect of capital market fluctuations. For this purpose, we mirror important features of the liabilities, such as maturity patterns, currency structures and inflation sensitivities, on the assets side of the balance sheet by acquiring investments with similar characteristics if possible. In terms of currency positioning, exchange-rate fluctuations thus affect assets and liabilities in equal measure. Currency translation losses on assets are largely offset economically by currency translation gains on underwriting liabilities. In this approach, any deviations from the structure of our liabilities are made consciously, taking due account of our risk tolerance and the risk spreads. Due to the unresolved debt crisis in 2011, we have again reduced the proportion of our investments in equities accordingly and have thus been affected less by the price correction on the stock markets. In addition, we are endeavouring in our asset-liability management to partially structure our investment portfolio in such a way that investments increase in line with rising inflation rates.

To configure our economic asset-liability management as effectively as possible, we also use derivative financial instruments to hedge against fluctuations on the interest-rate, equity and currency markets. Under IFRS accounting, we recognise these in profit or loss, i.e. as income or expense in our income statement. However, such recognition in the income statement is not provided for with regard to the related underlying transactions themselves. Despite our economically well-balanced underwriting and investment portfolios, these inconsistencies and other differences between the economic and balance-sheet perspectives give rise to considerable fluctuations in our IFRS investment, currency and consolidated result in connection with the high volatility currently prevalent on the capital markets. We explain the derivative financial instruments in the notes to the consolidated financial statements under (9) Other securities at fair value through profit or loss.

Capital management

Through active capital management, we ensure that Munich Re's capital is maintained at an appropriate level. Munich Re's available financial resources must always be sufficient to cover the capital requirements determined both by our internal risk model and the requirements of supervisory authorities and rating agencies. We aim to ensure that our financial strength is such that it enables us to take advantage of measured opportunities for growth, is not significantly affected by normal fluctuations in capital market conditions, and remains at a reasonable level even in the wake of major loss events or substantial falls in the stock markets, as we experienced in 2011. At the same time, we

also define an appropriate level of Group economic capital as one which does not exceed that required for our operations. Such a needs-based, risk-commensurate capital level makes a decisive contribution to financial discipline in all our business processes.

We derive our economic capital from IFRS equity by means of various adjustments. These are described on [page 134 f.](#)

We return surplus capital to equity holders mainly through attractive dividends, within the scope permitted by Munich Reinsurance Company's revenue reserves as determined under German commercial law, and provided this does not impair our strategic flexibility or overall capital strength. Alongside dividend payments, we still generally consider share buy-backs an important instrument of active capital management, even if we have currently discontinued these in view of the difficult environment.

Over €11bn for shareholders

In 2011, we bought back 3.0 million shares worth €350m. Since the beginning of the share buy-backs in 2006, we have returned a total of over €11bn, including dividend payouts, to our shareholders in order to bring our previously high capitalisation level more closely into line with requirements. At the balance sheet date on 31 December 2011, our revenue reserves under German commercial law accounting amounted to €1,317m.

In line with our active capital management, we bought back a nominal amount of €1.2bn of the subordinated bond 2003/2023 in the period under review, out of the total outstanding amount of €2.9bn as at the end of 2010. We also issued a new subordinated bond with a nominal volume of €1bn in the financial year 2011.

Subject to the approval of the Annual General Meeting, we aim to pay our shareholders a dividend of €6.25 per share for the financial year 2011 from Munich Reinsurance Company's net retained profits.

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

Composition of the issued capital

As at 31 December 2011, 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 Articles of Association. The shares are endowed with full voting and dividend rights, with the exception of the 1,752,462 shares held by Munich Re itself at 31 December 2011 (Section 71b of the German Stock Companies Act). Each voting share carries one vote at the Annual General Meeting. With respect to the Company, the only parties deemed shareholders in accordance with the German Stock Companies Act (Section 67) are those entered as such in the Company's register of shareholders.

Restrictions on voting rights or the transfer of shares

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

Shareholdings exceeding 10% of the voting rights

Warren E. Buffett and companies in his group informed us in accordance with Section 21 of the German Securities Trading Act (WpHG) that they hold a total share of 10.244% of Munich Reinsurance Company's voting rights. They notified us most recently, as at 12 October 2010, of the following direct or indirect shareholdings 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.

Shares with special control rights

There are no shares with special control rights.

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

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

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

The legal parameters for the appointment and dismissal of members of the Board of Management are specified in the Company's co-determination agreement, Articles 13 and 16 of the Articles of Association, Sections 84 and 85 of the German Stock Companies Act, and Sections 121a para. 1 and 7a of the German Insurance Control Act.

Munich Re's co-determination agreement and Articles of Association have taken over the legal tenets of the German Co-Determination Act. The Supervisory Board appoints the members of the Board of Management and may dismiss them at any time for good cause. On initial appointment, members of the Board of Management are usually given contracts for a term of between three and five years. Extensions of up to five years are possible and – in exceptional cases – members of the Board of Management may also be appointed by a court of law.

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

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

The Annual General Meeting is entitled to transfer to the Supervisory Board the authority to make amendments to the Articles of Association that affect only the wording (Section 179 para. 1 sentence 2 of the German Stock Companies Act). This is the case with Munich Reinsurance Company and has been regulated in Article 14 of the Articles of Association.

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

The powers of the members of the Board of Management are defined in Sections 71 and 76–94 of the German Stock Companies Act. The Board of Management has the following powers to issue and buy back shares (the complete wordings of the relevant resolutions and provisions in the Articles of Association can be viewed on our [website](#)):

// The Annual General Meeting of 20 April 2011 authorised the Company under agenda items 7 and 8, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 19 April 2016 up to a total amount of 10% of the share capital at the time of the Annual General Meeting resolution (€587,725,396.48). The shares acquired plus other own shares in the possession of the Company or attributable to the Company in accordance with Section 71a ff. of the German Stock Companies Act may at no time amount to more than 10% of the share capital. The shares may, in accordance with the provisions of the authorisation, be acquired in various ways: the Company may buy back shares amounting to a maximum of 5% of the share capital using derivatives. The Board of Management is authorised to use shares thus acquired for all legally admissible purposes, in particular those specified in the authorisation, whilst excluding subscription rights. Among other things, the Board of Management is empowered under Section 71 para. 1 item 8 of the German Stock Companies Act to retire the shares without requiring further approval from the Annual General Meeting.

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

// Under Article 4 para. 1 of the Articles of Association, the Board of Management is authorised, with the consent of the Supervisory Board, to increase the Company's share capital at any time up to 21 April 2014 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase

2009). In accordance with the above-mentioned provisions of the Articles of Association, it may exclude subscription rights.

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

The above-mentioned authorisations to issue or buy back shares are within the range of what is customary in the market and allow the Company to engage in active capital management. They enable it to cover any capital needs, even at short notice, for taking swift and flexible advantage of market opportunities in different fields of business. As demonstrated by the Company's share buy-backs, the authorisations also offer the opportunity to return to the equity holders capital that is no longer required.

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

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

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

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

Group solvency

Munich Re is subject not only to the supervisory requirements applying to individual insurance companies but also to supervision at Group level. Furthermore, Munich Reinsurance Company as the parent has introduced suitable control methods and, when reporting to BaFin, which is also responsible for the Group, includes supplementary aspects at Group level, such as shareholdings, consolidated financial data and intra-Group transactions.

Munich Re's eligible capital is more than 2.4 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 more than 2.4 times the legal requirement.

Adjusted solvency

		31.12.2011	Prev. year	Change
				%
Eligible capital of the Group	€bn	22.8	22.2	2.7
Adjusted solvency ratio	%	245.3	260.5	

The adjusted solvency ratio diminished from 260.5% in the previous year to 245.3% in 2011. This reduction was chiefly attributable to an increase in the solvency requirement.

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

	2011	Prev. year	Change
	€m	€m	%
Cash flows from operating activities	6,075	8,836	-31.2
Cash flows from investing activities	-3,525	-7,696	54.2
Cash flows from financing activities	-2,974	-1,384	-114.9
Cash flows for the financial year	-424	-244	-73.8

In the consolidated cash flow statement, the consolidated profit of €712m is used as the starting point for determining the cash inflows from operating activities. The consolidated result is adjusted by €9,857m to take account of the higher technical provisions. In reinsurance, the provision for outstanding claims increased owing to high claims costs for major losses. The net gains on the disposal of investments – which in adjusting the consolidated profit have to be deducted from the cash flows – are essentially attributable to the disposal of securities available for sale and to derivatives.

The cash outflows for investment activities were determined by payments for the acquisition of investments. They exceeded the inflows from the sale and/or maturity of investments by €3,223m. In 2011, ERGO sold its shares in the fully consolidated Capital Square Pte. Ltd. for €465m. ERGO also sold its shares in its fully consolidated subsidiaries VICTORIA-Seguros de Vida S.A. and VICTORIA-Seguros S.A. The sale took place indirectly via the sale of the parent company of these subsidiaries. The sales price prior to final determination is €69m. In the cash flow statement, we have reduced the sales prices by the cash held by the companies sold. On 1 January 2011, Munich Re acquired 100% of the shares in Windsor Health Group, Inc. via our subsidiary Munich Health North America, Inc. for a total of €99m. Also in the 2011 financial year, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in 11 wind park companies in Germany and in two photovoltaic solar park

companies in Italy for a total of €191m, as well as in a solar park operating company and photovoltaic facility in Spain for €32m. In the cash flow statement, we have reduced the purchase prices by the cash held by the companies acquired.

The cash outflows for financing activities stem mainly from the share buy-backs with a volume of €323m and the dividend payment of €1,119m in 2011.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – fell by €410m (including currency effects) to €2,490m; there were items pledged as security and other restrictions on title amounting to €45m (-).

Other success factors



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

Clients and client relationships

Munich Re has different client bases in reinsurance and primary insurance. In reinsurance, we do business with over 4,000 corporate clients from more than 160 countries. Our primary insurers in the ERGO Group serve over 40 million (mainly private) clients in over 30 countries with the focus on Europe and Asia. The Munich Health business segment has over six million clients in primary insurance and 400 in reinsurance.

Reinsurance

As reinsurers, we apply our extensive risk knowledge to find individual solutions that meet our clients' diverse requirements and to add value. Knowing our clients' needs, we devise innovative risk transfer solutions with them, and aim to expand risk competence through strategic partnerships, thus providing our cedants with the full range of underwriting products. We regularly assume a pioneering role in new coverage concepts – for example, in preparing European cedants for the introduction of Solvency II. In addition, we offer our clients consultancy and other risk-related services. We reach new client groups through our operating field Risk Solutions, where we provide customised solutions for corporate clients and industrial firms. Predominantly in North America, but also in Asia, 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. Clients can contact us through a wide range of channels: via one of the 20,000 full-time self-employed agents, through brokers, via the internet, by phone for direct insurance, or via various sales partners.

A major feature of 2011 was the implementation of ERGO's new brand proposition "To insure is to understand", which expresses the primary insurance group's aim of focusing systematically on customers' actual requirements, thus setting itself apart from the competition.

**"Clear language" initiative
sets standards for client
communication**

With clear and comprehensible communication, ERGO is addressing an important consumer concern and avoiding wording that is confusing to customers. As part of this "clear language" initiative, ERGO has adopted standards for client communication that have been certified by independent communication experts. By the end of 2011, communications for nearly 20 million clients had already been revised. At the same time, insurance terms and conditions are being shortened: in personal liability insurance they have been reduced to around one-tenth of their previous volume. Clients can use a free hotline if they have any questions, and good suggestions for greater clarity are rewarded.

ERGO counts on feedback from clients and consumers to constantly improve its range of products. Since March 2011, visitors to ERGO's "client workshop" have been able to rate letters or product documentation online before these are used for the first time. In addition, ERGO has set up a customer advisory board comprising 25 clients from all ERGO's German companies who discuss services, processes and products with management from the customer perspective and suggest changes. The first meeting took place in October 2011. In summer 2011, ERGO appointed a customer advocate, whom clients can contact to represent their interests towards the insurer in the event of misunderstandings or conflicts.

A setback to the young ERGO brand in Germany last year was the revelation of severe misconduct by sales partners on an incentive trip to Budapest in 2007. To ensure that there is no repeat of such incidents, ERGO has adopted a code of conduct for independent sales partners and significantly strengthened compliance in the group. Other allegations regarding insurance business have been thoroughly investigated and dealt with by ERGO, and errors remedied. In 2012, ERGO is all the more determined to drive forward the realisation of its brand promise "To insure is to understand".

Munich Health

Munich Re's global healthcare insurance and reinsurance expertise is combined under the Munich Health brand. Munich Health devises integrated solutions specifically tailored to clients' needs, thus realising the growing business potential in each market. We react flexibly and logically to changing market conditions. In response to the changes resulting from the US healthcare reform, Munich Health acquired the Windsor Health Group at the beginning of 2011 in a strategic realignment geared to integrated provision of health cover in the senior segment.

Asset management

MEAG is present in Europe, Asia and North America and centrally manages all important asset classes such as bonds, equities and real estate. Our investment experts adopt a stringent, risk-based approach with the aim of achieving above-average performance over the long term. Key factors in this regard are the close cooperation and trust they enjoy with clients in the Group and with other institutional investors, the good service they provide to private investors, and MEAG's long-standing experience in handling investment risks.

Research and development

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

Reinsurance

In 2011, Munich Re again developed and launched several innovative products related to climate change and the necessary expansion of renewable energies. In the field of geothermal energy, for example, Munich Re covers the exploration risk for investors and operators, providing cost and planning certainty by insuring against the risk of project failure. Elsewhere, Solvency II and the current financial crisis present Munich Re not only with challenges but also with opportunities for profitable growth, as under-capitalised insurers and their investors seek forms of capital relief. Reinsurance provides a good means of capital optimisation, and we have consequently refined our strategy in this area.

Last but not least, in many countries we also work closely with governments and specialist insurance providers on such projects as setting up catastrophe funds for property risks. The most recent example is an insurance solution devised by Munich Re for the Mexican government to cover infrastructure damage from natural catastrophes.

Primary insurance

Expansion of innovative coverage concepts

To meet consumer requirements as extensively as possible, we are also taking an innovative approach in our primary insurance product development. In 2011, ERGO Direkt launched an insurance for dental prostheses in Germany which, for the first time, enables clients to make provision retroactively rather than prospectively: the cover includes the costs of treatment that is scheduled or has already begun.

ERGO offers firms and organisations a novel product for crisis prevention and crisis management after traumatic events such as accidents, violent crimes or disasters. The rapid assistance supplied supports employees in dealing with the immediate aftermath of a crisis, mitigates the long-term consequences, and thus reduces costs for the insured company. Besides a 24-hour emergency assistance service, the cover also includes evacuation, indemnification of financial and material losses, rehabilitation, and travel and accommodation expenses for relatives.

Munich Health

In this business field, we utilise the strategic pooling of many years' experience and expertise in health reinsurance, health primary insurance and risk management to design new and innovative services. For the analysis of health risks, Munich Health offers its clients programmes and tools for standardised medical risk assessment. Enhancing the efficiency of internal processes is a significant success factor for Munich Health and its clients. The use of new automation options and test algorithms, e.g. in the transmission of claims notification and claims processing data, can detect billing errors and fraud at an early stage and help to reduce medical and operating costs.

Staff

During the financial year, we defined the Group-wide cornerstones for our future diversity management. Active diversity is conducive to commercial success. We promote and value different mindsets, mentalities, experience and specialist knowledge throughout the Group: that is the core of our new global diversity policy. The practical implementation of our ambitious programme is reflected in many current initiatives. In

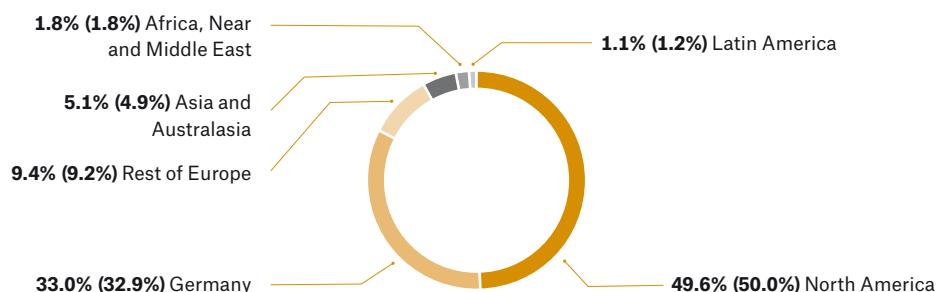
the ERGO project "Diversity – Promoting equal opportunity", we have devised a programme in which members of top management mentor female staff with management potential. Another example, in our reinsurance field of business, is the further improvement of the internal company agreement "Family and Career" at our Munich location.

In keeping with our integrated business model, we have assigned responsibility for the recruitment, development and personnel support of our Group's top executives to a single unit that reports to the Chairman of the Board of Management. Its tasks include overarching talent management and Group-wide succession planning that enable us to retain and develop outstanding managers.

Staff by region

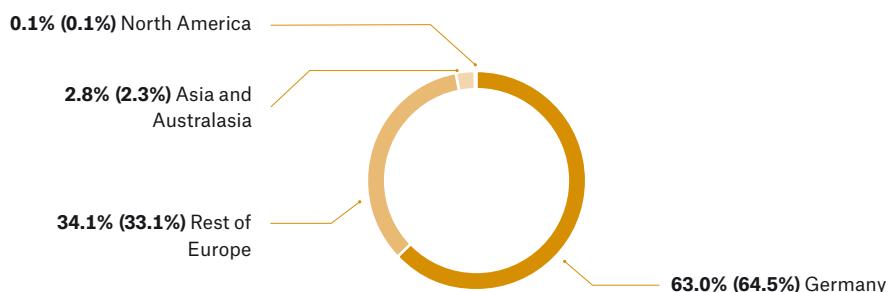
Reinsurance

Total: 11,215 (11,370)



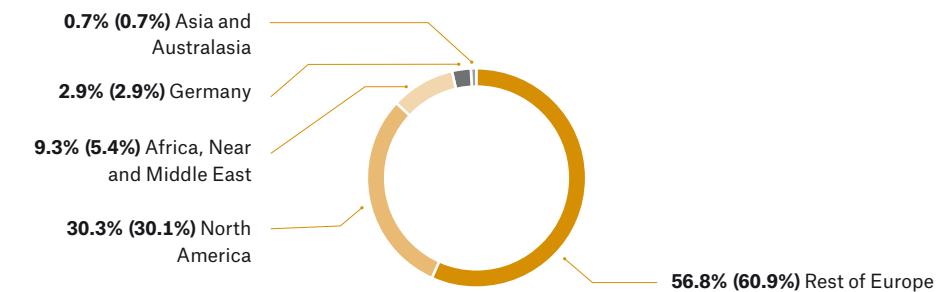
Primary insurance

Total: 31,311 (30,887)



Munich Health

Total: 3,927 (3,899)

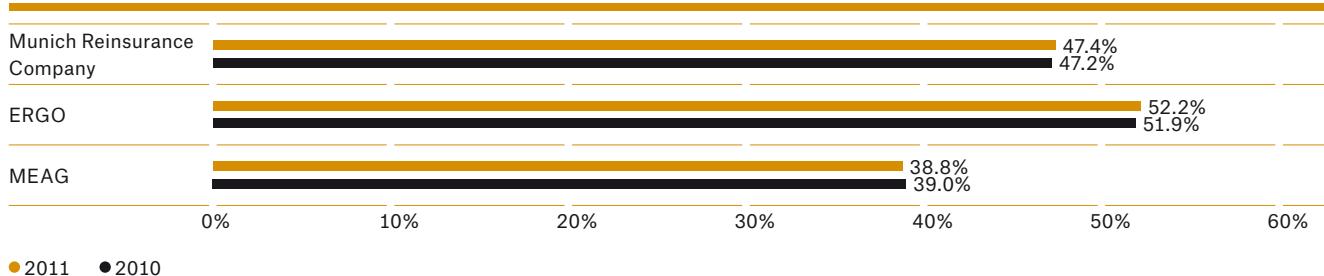


Over 90% of the 753 (759) staff in asset management work in Germany.

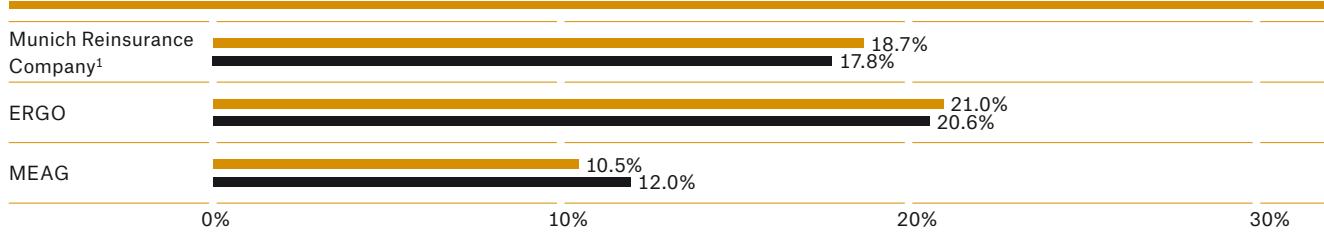
Length of service at main Group companies in Germany

%	Munich Reinsurance Company		ERGO		MEAG	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
One year and less	1.6	4.2	3.8	3.2	8.1	5.1
Over one year and up to five years	21.2	20.6	11.3	9.7	27.1	36.5
Over five years and up to ten years	25.1	28.7	14.2	17.0	27.0	30.8
Over ten years and up to 20 years	33.9	29.1	38.6	41.3	32.4	23.3
Over 20 years	18.2	17.4	32.1	28.8	5.4	4.3

Percentage of female staff at main Group companies in Germany

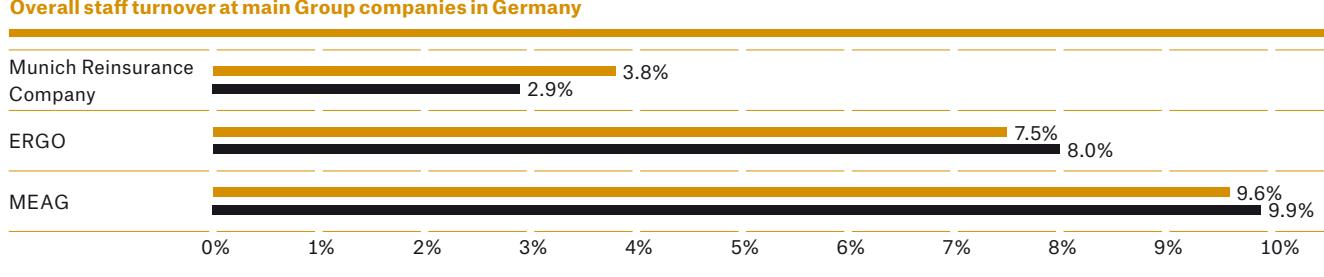


Percentage of females in management positions at main Group companies in Germany

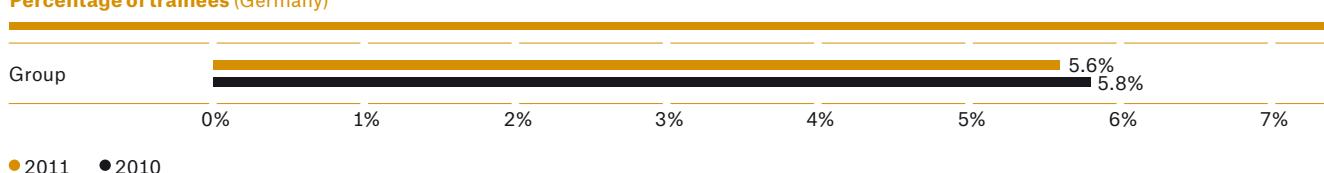


¹ As from 2011, only management positions with line management responsibility are captured in the data; the percentage for 2010 has been adjusted accordingly.

Overall staff turnover at main Group companies in Germany



Percentage of trainees (Germany)



Investment in training at main Group companies in Germany

	€k	Munich Reinsurance Company		ERGO		MEAG	
		2011	Prev. year	2011	Prev. year	2011	Prev. year
Total	€k	9,378	10,226	15,367	16,588	953	824
Per staff member	€	2,463	2,694	791	833	1,269	1,075

Reinsurance

We have refined our strategic human resources planning and, at our Munich location, successfully introduced a method for gaining a differentiated picture of the status and demographic trend of our employee portfolio. This produces valuable findings for further personnel requirements and the competences needed – findings of fundamental importance in view of the growing challenge of staffing positions with the right specialists.

Under the heading “Career @ Munich Re”, we have taken a number of measures to ensure even more targeted development of our staff in their current functions and to prepare them for assuming further responsibilities. We have communicated a uniform understanding of “career” Group-wide, clearly formulating our expectations of managers and staff. In addition, we provide practical guidance for systematic and structured competence development and possible career stages.

With the renewed internal company agreement on family and career, Munich Re (Munich) has improved the conditions for parental or care leave. Going beyond the legal requirements, we guarantee parents who return to work within 12 months reintegration in their previous positions, also in a part-time capacity. Besides this, we have expanded company-sponsored childcare provision, giving financial support to childcare organised by parents on their own initiative. At our international locations, too, a range of programmes are in place, such as paid family leave, flexible part-time arrangements and financial assistance.

Munich Re expects a high level of performance from its employees. At the same time, we recognise our duty of care towards staff. In today’s business world, pressure to succeed and meet deadlines can endanger the physical and mental health of employees, particularly if they are ambitious and highly motivated. To prevent this from happening, we support managers and staff with workshops, seminars, medical check-ups, regular communications and individual counselling. In the event of illness, we provide our employees with assistance and support them in their reintegration. Extensive measures have also been put in place in our international organisation – from preventive check-ups and advice through employee assistance programmes to work-related stress analyses.

Primary insurance

In 2011, guiding principles were introduced to improve leadership culture and establish a common understanding of leadership. The guiding principles were communicated nationally and internationally and will be gradually integrated into ERGO’s human resources toolbox. We have, for example, devised “upward feedback” for assessing leadership behaviour and introduced this for top management. With the project “Uniform HR systems for ERGO”, we have harmonised working time agreements, remuneration systems, fringe benefits and appraisal interviews for non-executive desk staff in Germany – a further step towards strengthening employees’ identification with ERGO as one “family”.

We see it as a central task of our human resources work to promote the diversity of our staff and use this as an asset to create value. With the ERGO project "Diversity – Promoting equal opportunity", we are currently implementing systematic diversity management. In 2011, the project focused on significantly increasing the proportion of women in leading positions.

Munich Health

We continued introducing our globally defined HR standards throughout Munich Health's international organisation in 2011, extending our performance and talent management process to all our units in North America (including Windsor) and our units in the Middle East.

Asset management

MEAG's human resources strategy is based on three realigned core objectives: the sustained strengthening of MEAG as an employer brand, the introduction of diversity management, and the further expansion of HR systems. The objectives are designed to support MEAG's high-performance organisation, i.e. create the parameters for top performances. Some of the components of the new HR strategy have already been realised. Recruitment of university graduates, for instance, has been enhanced through MEAG's collaboration with Munich's main universities and also through the establishment of a new graduate trainee programme.

Corporate responsibility

A forward-looking and responsible approach is an integral part of Munich Re's corporate strategy. Our understanding of corporate responsibility is underlined by our membership of the UN Global Compact, whose ten principles on environmental protection, labour rights, human rights and anti-corruption have formed the framework of our corporate responsibility strategy since 2007.

Our current strategy, revised in 2011, has three main focal areas. Firstly, our aim is to integrate ecological, social and governance factors (so-called ESG factors) in our core business and investments to a greater extent. Secondly, in order to minimise the impact we have on the environment, we have in place a Group-wide environmental management system and are successively making our business operations carbon-neutral. Thirdly, in the area of corporate citizenship, we are committed to serving the communities in which we work and operate. Our corporate responsibility portal provides details of our activities throughout the Group in the field of sustainability, in compliance with the international guidelines of the Global Reporting Initiative. Our inclusion in internationally recognised sustainability indices, such as the Dow Jones Sustainability and the FTSE4Good, as well as our first place in the Newsweek Green Ranking, attest to the successful realisation of our strategy.

In our core business, we accept global challenges ranging from climate change and demographic trends to combating poverty in developing countries, offering innovative insurance solutions wherever possible. For loss prevention in connection with extreme weather events, Munich Re supports its clients with such tools as the NATHAN (Natural Hazards Assessment Network) Risk Suite. Besides this, Munich Re and ERGO participate in public-private partnerships to help provide solutions for people whose economic existence would be ruined by events such as natural disasters because they lack insurance cover. In the Philippines, we protect the loan portfolio of smallholder cooperatives against extreme weather events like typhoons. And via ERGO, our Group

offers microinsurance (especially in India) to indemnify loss of livestock, for example, or damage to harvesting machinery. The challenges of demographic change in the USA are being addressed by Munich Health through involvement in the health insurance sector for seniors. In this special segment, our subsidiary Windsor offers managed care products that can make a contribution to curbing the rising healthcare costs in the USA.

We are also actively working on formulating globally binding principles for the core business of insurance. Together with other major providers of financial services, we are taking part in the development of internationally recognised Principles for Sustainable Insurance under the auspices of the United Nations Environment Programme. These principles, due to be signed in June 2012 at the Rio+20 UN Conference on Sustainable Development, include responsible conduct based on environmental, social and governance factors along the whole insurance value chain. Through our asset manager, MEAG, we adhere to a commitment we entered into when we signed the UN Principles for Responsible Investment (PRI) in 2006. At least 80% of our investments in shares, corporate bonds, government bonds, real estate (from construction year 2010 onwards) and RENT (renewable energies and new technologies) satisfy sustainability criteria. We plan to achieve a target investment volume of up to €2.5bn in renewable energies and new technologies in the coming years. Furthermore, new internal guidelines, compulsory for all fields of business, govern the way we handle firms that produce or market internationally outlawed landmines and cluster bombs.

To keep our environmental impact and our CO₂ emissions as low as possible, we concentrate especially on making fewer business trips and reducing our consumption of paper, water and energy. So that we can measure progress, we are steadily expanding the scope of the environmental data we record, which already capture around 57% of our employees worldwide. Our binding climate strategy Group-wide includes the target of making the whole Group carbon-neutral by 2015.

In addition to sustainable development and purposeful environmental and climate protection, corporate responsibility for Munich Re means assuming social responsibility. Besides location-based social and cultural projects, the emphasis in future is to be on business-related topics by promoting projects in areas such as catastrophe prevention, environment and demographic changes.

Risk report

// Munich Re's risk situation in 2011: manageable and under control

// Solvency ratio still comfortable

// Integrated system worldwide for managing risks

Risk governance and risk management system

Risk management organisation, roles and responsibilities

Organisational structure

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

Risk governance

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

Group level

The Group Risk Committee and the Group Investment Committee are extensions of the Group Committee

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

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

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

Additionally, there is a Reputational Risk Committee (see [page 128](#) for further details).

Each business segment has its own Risk Committee

In the 2011 financial year, the Remuneration Committee was set up in accordance with the new German statutory order on remuneration in the insurance industry (VersVergV) and is responsible for designing, reviewing and enhancing the systems for remunerating staff, with a particular focus on variable incentive components.

Segment level

For reinsurance, a dedicated risk committee – the Global Underwriting and Risk Committee (GURC) – has been formed from within the ranks of the Reinsurance Committee.

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

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

Determining the risk strategy

The assumption of risks is an essential part of our business strategy. 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 as follows:



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.

Our risk criteria

- // Whole portfolio criteria: relating to Munich Re's entire portfolio of risks, designed to protect our capital and limit the likelihood of an economic loss for the year. Particularly worth mentioning in this respect is the criterion "economic earnings at risk" (EEaR), which we use to manage the Group's risk profile in such a way that our risk-bearing capacity does not fall below a defined threshold in the event of adverse business experience of the type that occurs statistically around every ten years. Economic earnings at risk at 31 December 2011 total €4.1bn.
- // Supplementary criteria: to limit losses that can arise out of individual risk types or accumulations, such as natural hazards, terrorism and pandemics, and to limit market and credit risks that could endanger Munich Re's ongoing viability were they to materialise.
- // Other criteria: aimed at preserving Munich Re's reputation and thus protecting its future business potential. They encompass limits for individual risks that, though they would not necessarily threaten Munich Re's existence, could cause lasting damage to the confidence of clients, shareholders and staff.

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

Risk appetite anchored in business planning

Implementation of strategy and the risk management cycle

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

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

Risk identification is performed by means of appropriate systems and indicators (quantitative component) and a number of risk surveys, which are supplemented by expert opinions and assessments by selected, highly experienced managers (qualitative component). Our ad-hoc reporting process provides for staff to report risks to the central risk management function (IRM) at any time.

Constant refinement of risk measurement tools

We are constantly enhancing our risk measurement tools, which are tailored to each segment. Our lead risk measure is based on economic principles. We regularly compare the results produced by our risk model with those of supervisory authorities, rating agencies and commercial modelling companies at a number of levels, including Group, segment, legal entity and risk type. We also regularly perform benchmarkings of our risk-model results and participate in industry surveys to constantly challenge and refine our risk measurement tools.

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

We compare our internal risk model with the current status of Solvency II and take part in the Quantitative Impact Studies and stress tests (European Insurance Stress Test). We explain the results of our internal risk model on [page 130 ff.](#)

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 in 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 downstream units, working closely with numerous units and experts within, and in some cases outside, the Group. This provides us with a quantitative and qualitative assessment that considers possible interactions between risks.

Continuous reconciliation of risk criteria and business interests

Risk limitation is derived from the risk strategy. Based on the defined risk appetite, limits and rules and any risk-reducing measures required are decided on 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 depicted in figures on a decentralised or centralised basis, depending on their significance and classification.

Control and monitoring systems

Uniform worldwide system for managing risks

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

The Board of Management has Group-wide responsibility for the ICS, which falls structurally under the responsibility of the CRO. Experts and staff in our specialist areas are responsible for the detailed content of the system and perform the risk and control assessments at least annually.

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

Appropriate internal controls for accounting risks

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

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 and income statement. Any amendments are subject to a stringent procedure as regards timing, responsibilities and circulation of information.

A central IT system is used to produce the consolidated financial statements based on standard general ledgers in place throughout most of the Group, with harmonised basic data, standard processes and posting rules, and a standard interface for delivery of data to the Group or subgroup. Authorisation procedures regulate access to accounting systems. Dual control is applied, with virtually every step subject to system-based and accounting checks. Any errors are analysed and promptly corrected.

Risk reporting

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

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

Significant risks

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

Underwriting risk: Property-casualty insurance

This is defined as the risk of insured losses in property-casualty business being higher than our expectations.

Significant risks in property-casualty insurance are the premium and reserve risks. The premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions established to cover losses that have already been incurred being insufficient.

Premium risk

Line management has primary responsibility for controlling the premium risk. Line managers grant underwriting authorities and lay down internal processes aimed at ensuring that a high level of quality is maintained; in doing so, they take account of both the specific exposures in their business and the knowledge and experience of each member of staff.

In particularly critical areas, the underwriting authorities granted to the operating units are restricted by mandatory Group-wide instructions or limited capacity budgets.

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

Reserve risk

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

Group-wide reserving rules ensure consistency

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 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 underwriting risk can be found in the notes to the consolidated financial statements under (38) Risks from property-casualty insurance business.

Underwriting risk: Life and health insurance

The underwriting risk in this case is defined as the risk of insured benefits payable in life or health insurance business being higher than expected. Of particular relevance 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. For pandemic scenarios, limits are derived from the risk strategy.

Changes in client biometrics or lapse behaviour can give rise to 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 understandably dominate, whereas in life insurance mortality, longevity and disability risks are most important. The latter particularly affected us in Australia in 2011. We calculate limits, derived from the risk strategy, for longevity scenarios as well as for pandemic scenarios.

In German primary health insurance, especially comprehensive health cover, there have been additional uncertainties since 2009 because of changes to the options available to policyholders, for example

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

The changes are the result of the law reforming German healthcare (WSG). Though the new policyholder options have been taken into account in the valuation model on the basis of past experience, it is difficult to estimate how policyholder behaviour will change in the long term.

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. However, under the new regulations for policyholders in Germany, it is no longer possible for an insurer to terminate insurance contracts on the grounds of non-payment of premiums by the policyholder.

The remarks on underwriting guidelines and limits (see "property-casualty" section) also apply to life and health reinsurance business. In primary insurance, regular reviews of the actuarial assumptions by actuaries and the requisite amendment of rating rules ensure that risks and processes are effectively controlled.

Further information on underwriting risk can be found in the notes to the consolidated financial statements under (37) Risks from life and health insurance business.

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, e.g. on government bonds or on 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.

Limit and early-warning systems and asset-liability management used to manage market risks

We deal with market risks by means of suitable limit and early-warning systems, and through our asset-liability management, which is described on [page 105](#). A breakdown of investments by type can be found on [page 94 ff.](#) To hedge against market risks, we also make use of derivative financial instruments, which are described in the notes to the consolidated financial statements under (9) Other securities at fair value through profit or loss.

Applying stress tests, sensitivity and duration analyses, we simulate market fluctuations and devise strategies for counteracting them where necessary.

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

A detailed presentation of the economic risk capital for market risks can be found on [page 133 f.](#) Sensitivity analyses of the market-price risks associated with financial instruments can be found in the notes to the consolidated financial statements under (40).

Credit risk

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

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

Group-wide counterparty limit system to monitor and control credit risks

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). Investments in structured products and securities lending activities are monitored separately (completely so in the first case, and largely so in the second) and controlled using volume limits. The resultant credit risk is reduced by means of Group-wide rules for collateral management, for example for OTC derivatives and catastrophe bonds issued.

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

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

Operational risk

Munich Re defines operational risks as potential losses resulting from inadequate processes, technical failure, human error or external events. These include criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations, and disagreements with business partners.

We identify and mitigate these risks through our internal control system ([see page 123](#)). We take all possible steps to ensure that employees are aware of potential risks and to establish an appropriate risk culture. This includes willingness to learn from mistakes and to recognise them as opportunities for improvement.

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 continuously monitored.

The management of liquidity risk includes taking account of

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

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

We also optimise the availability of liquidity in the Group by means of internal funding and a cash pool fed by Group companies. Through stringent availability requirements, 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 a significant 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, and hence the CRO, plus the Chief Executive Officers (CEOs) of the business segments and the Head of Group Development. As a result, strategic decision-making processes are intermeshed with risk management. IRM is additionally involved in the operational business planning and in the processes for mergers and acquisitions.

Reputational risk

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

We monitor reputational risk through processes we have established in various internal units to identify it. As soon we become aware of the possibility of such a risk, our reaction is determined by the Compliance Officer and, if appropriate, the Reputational Risk Committee, which was set up specifically for the purpose. The committee is made up of experts from various units and is headed by the Compliance Officer.

In 2011, ERGO and Munich Re suffered considerable damage to their reputation as a result of media reports on an unethical incentive trip organised by HMI. A short while later, there were reports of irregularities in the sale of insurance products (including errors in the "Riester" proposal form and company pension products). All cases were investigated by our internal audit function. In view of the importance and impact of the issues involved, not only were the cases thoroughly investigated at ERGO, but action has also been taken to prevent recurrence: central guidelines on conduct and organisation in the ERGO Group have been changed and, in particular, compliance has been strengthened through the creation of a separate compliance unit reporting directly to the Chairman of ERGO's Board of Management.

A further reputational risk arose when our internal audit unit uncovered a case of fraud in which an external service provider had used false information and manipulated statements of account to receive unjustified payments. When the suspected fraud had been confirmed by a full special investigation, Munich Re immediately filed criminal charges with the public prosecutors' office in Munich against the service provider, former employees and persons unknown.

Economic risk capital

Overview of the risk situation

Munich Re's risk situation manageable and under control

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, which we are able to assess very well so that we can be fully aware of the implications of taking them, 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.

On page 124 ff, we provide some examples of the above-mentioned risks and how we deal with them.

Internal risk model

Integrated risk model used to manage the business

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

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

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

Diversification effects also taken into account

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. In doing so, we recognise that the various risks are not independent of each other by taking account of tail dependencies. Compared with a situation where the risks are assumed to be independent, this results in a lesser diversification effect.

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.

Calculating economic risk capital

To determine Munich Re's economic risk capital, we use the economic profit-loss distribution across all risk segments. The economic risk capital corresponds to 1.75 times the value at risk of this distribution over a one-year time horizon with a confidence level of 99.5%. The value at risk with a confidence level of 99.5% gives the economic loss for Munich Re which, given unchanged exposures, will be statistically exceeded in no more than one year in every 200. It represents the future risk tolerance under Solvency II. By setting its own capital requirement at 1.75 times this risk tolerance, our Group follows a conservative approach, offering its clients a high degree of security.

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

Economic risk capital (ERC)

€bn	31.12.2011				
	Group	Reinsurance	Primary insurance	Munich Health	Segment diversification
Property-casualty	9.5	9.4	0.6	-	-0.5
Life and health	6.6	4.8	2.5	0.6	-1.3
Market	11.4	5.7	8.5	-	-2.8
Credit	6.7	4.5	2.2	-	-
Operational risk	1.2	0.9	0.6	0.1	-0.4
Subtotal	35.4	25.3	14.4	0.7	-5.0
Diversification effect	-11.0	-8.8	-3.1	-	-
Total	24.4	16.5	11.3	0.7	-4.1

→						Prev. year	Change
€bn	Group	Reinsurance	Primary insurance	Munich Health	Segment diversification	Group	
Property-casualty	8.9	8.8	0.6	-	-0.5	0.6	
Life and health	5.1	3.9	1.3	0.7	-0.8	1.5	
Market	9.9	5.5	7.9	-	-3.5	1.5	
Credit	4.5	3.4	1.2	-	-0.1	2.2	
Operational risk	1.6	1.3	0.5	0.1	-0.3	-0.4	
Subtotal	30.0	22.9	11.5	0.8	-5.2	5.4	
Diversification effect	-9.3	-8.1	-2.0	-	-	-1.7	
Total	20.7	14.8	9.5	0.8	-4.4	3.7	

€3.7bn increase in risk capital

The table shows Munich Re's economic risk capital and risk categories as at 31 December 2011. Over last year, the economic risk capital rose by €3.7bn. The following factors contributed to the increase:

- // The economic risk capital for the property-casualty risk category, which includes credit reinsurance and bond business, increased by €0.6bn. Significant factors were higher exposure in euros in nearly all natural catastrophe scenarios than in the previous year and new modelling for the "Atlantic Hurricane" scenario and for the earthquake scenarios in North America.
- // The economic risk capital for our life and health business rose by €1.5bn, owing to portfolio growth in life reinsurance business and, in particular, lower interest rates in the USA, Canada and Europe which caused a significant rise in the economic risk capital for German primary insurance, as the lower risk buffers (future profit sharing) resulted in a higher risk for the insurer.
- // The economic risk capital for market risks grew by €1.5bn, due in part to the lower interest rates and the higher implicit interest-rate volatility. On the one hand, the risk capital was increased by the standardised use of swap rates for discounting on the liabilities side, while on the other it was reduced by an improvement in the valuation of options and guarantees in a stressed market environment, mainly of significance in life primary insurance business.
- // The economic risk capital for credit risks was up by €2.2bn. Significant factors were the lower interest rates, which had the effect of increasing both the market value and the duration of the investments, and a difficult market environment that led to lower ratings for paper with higher credit spreads. In life primary insurance especially, lower risk buffers (see remarks on life and health business) meant a rise in the credit risk recognised, which was at the same time reduced by the revised calibration of the dependency structure between individual debtors.

// As last year, we used scenarios to determine the economic risk capital requirement for operational risk. The scenarios are prepared and refined annually by various expert teams in the Group. In the financial year 2011, our review found that one scenario could be dropped.

// The diversification effect between the risk categories "property-casualty", "life and health", "market", "credit" and "operational risk" grew by around €1.7bn, due primarily to the rise of €5.4bn to €35.4bn in the sum of the economic risk requirements of the individual risk categories.

Across all the risk categories, the euro equivalent of our exposures in Canadian dollars, pounds sterling, Japanese yen and US dollars has increased because the euro fell further against these currencies over the course of the year.

The analysis at year-end 2011 showed that, in the aggregate, all the changes to the model reduced the Group's economic risk capital by a total of less than 10%.

Property-casualty

As described, Munich Re actively manages its risk exposure. The underwriting risk capital for property-casualty is made up as follows from the components "basic losses" and "large and accumulation losses":

Economic risk capital (ERC) - Property-casualty

	31.12.2011					Prev. year			Change	
	Group	Re-insurance	Primary insurance	Segment diversification	Group	Re-insurance	Primary insurance	Segment diversification	Group	
€bn										
Basic losses	3.9	3.8	0.5	-0.4	4.1	4.0	0.5	-0.4	-0.2	
Large and accumulation losses	9.0	9.0	0.2	-0.2	8.4	8.2	0.3	-0.1	0.6	
Subtotal	12.9	12.8	0.7	-0.6	12.5	12.2	0.8	-0.5	0.4	
Diversification effect	-3.4	-3.4	-0.1	-	-3.6	-3.4	-0.2	-	0.2	
Total	9.5	9.4	0.6	-0.5	8.9	8.8	0.6	-0.5	0.6	

Losses with a potential cost exceeding €10m at Group level are classified as large losses. Accumulation losses are losses affecting more than one risk (or more than one line of business). We classify all other losses as basic losses. For basic losses, we calculate the risk of subsequent reserving being required for existing risks within a year (reserve risk) and the risk of an 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 basic losses, the annual readjustment of the models has resulted in a virtually unchanged economic risk capital requirement.

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

The exposures in the reinsurance segment are updated for the quarterly ERC calculations, and we use the data to adjust the stochastic models for natural hazards. The current limit utilisation is determined by a bottom-up process. As ERGO's portfolio is more stable, its exposure is only updated annually.

The rise in the economic risk capital for large and accumulation losses is mainly due to the remodelling of the "Atlantic Hurricane" scenario and North American earthquake. In addition, all scenarios on average are showing increased exposure.

Largest natural catastrophe exposure is the "Atlantic Hurricane" scenario

The largest natural catastrophe exposure for Munich Re is the €3.5bn currently retained for the "Atlantic Hurricane" scenario (value at risk for a 200-year return period). Our exposure to European windstorms has been quantified at €2.4bn using the scenarios we have drawn up.

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

Atlantic Hurricane

Aggregate VaR (return period: 200 years)
€bn (before tax)



Storm Europe

Aggregate VaR (return period: 200 years)
€bn (before tax)



In contrast to the overall development described above, the economic risk capital for the scenario "Storm Europe" decreased, owing to an adjustment of the stochastic modelling and reduced exposure.

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

Life and health

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

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

However, particularly the products of life primary insurance, and a large part of our health primary insurance business, are characterised by their long-term nature and the distribution of results over the duration of the policies. We show the value of business in force and value sensitivities for such long-term portfolios in the notes to the consolidated financial statements under (37) Risks in life and health insurance business. The countervailing development of risk drivers with a long-term impact, such as changes in the forecast mortality and disablement trends, can cause the value of the insured portfolio to fall (trend risks). In the notes to the consolidated financial statements (37), we show the effect on the values if they are calculated for individual risk drivers using specific modified assumptions. The risk modelling then attributes probabilities to each modified assumption and produces a complete profit and loss distribution.

Market risks

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

Economic risk capital (ERC) – Market

€bn	31.12.2011					Prev. year					Change
	Group	Re-insurance	Primary insurance	Segment diversification	Group	Re-insurance	Primary insurance	Segment diversification	Group		
Equity risks	3.8	2.6	1.4	-0.2	5.5	3.8	1.8	-0.1	-1.7		
General interest-rate risk	7.8	3.7	7.2	-3.1	5.6	4.0	6.3	-4.7	2.2		
Specific interest-rate risk	4.1	2.1	2.8	-0.8	3.6	1.8	2.6	-0.8	0.5		
Property risks	2.2	1.2	1.0	-	2.0	1.1	1.0	-0.1	0.2		
Currency risks	0.9	0.8	0.1	-	0.6	0.6	0.2	-0.2	0.3		
Subtotal	18.8	10.4	12.5	-4.1	17.3	11.3	11.9	-5.9	1.5		
Diversification effect	-7.4	-4.7	-4.0	-	-7.4	-5.8	-4.0	-	-		
Total	11.4	5.7	8.5	-2.8	9.9	5.5	7.9	-3.5	1.5		

Equity risk

The market value of our investments in equities, including participating interests, was €6.7bn (7.9bn) as at 31 December 2011. As at that date, on a market-value basis the ratio of equities to total investments was 3.2% (4.0%) before taking derivatives into account and 2.0% (4.4%) after derivatives. The decrease compared to the previous year is the reason for the lower risk capital for equities.

Interest-rate risks

In reinsurance, the interest-rate risk on fixed-interest investments in units of modified duration (interest-rate sensitivity) was 6.6, whereas the modified duration of liabilities was 5.2. The sensitivity of available financial resources (see next section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to approximately -€3.9m. Were such a parallel shift in the interest-rate curves to occur, the available financial resources would change by that amount. The decrease in the general interest-rate risk in reinsurance is mainly attributable to the reduced gap between the durations of assets and liabilities.

In primary insurance, the increase in interest-rate risks is primarily due to the fall in long-term interest rates and the simultaneous rise in implicit interest-rate volatilities.

The modified duration in primary insurance is 7.1 for fixed-interest investments and 8.7 for liabilities. This exposure to falling interest rates arises mainly out of the long-term options and guarantees in life insurance business. These risks were reduced substantially by the extensive interest-rate-risk hedging programme first implemented in 2005. The sensitivity of available financial resources (see next section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to €21.2m.

Currency risk

The currency risk increased in relation to the end of the previous year, though compared with other market risk categories, it continues to play a relatively minor role.

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.

The market value of our investments in fixed-interest securities and loans as at 31 December 2011 was €173.3bn, representing 83.7% of the market value of Munich Re's total investments. These securities thus made up the bulk of the portfolio. A detailed presentation of our fixed-interest securities and loans, including short-term investments, on a market-value basis can be found on [page 99](#). Ratings for these investments are provided in the notes to the consolidated financial statements under (5) Loans, (6) Other securities held to maturity, (8) Other securities available for sale, and (9) Other securities at fair value through profit or loss.

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

Our provisions ceded to reinsurers and retrocessionaires were assignable to the following rating categories as at 31 December 2011:

Ceded share of technical provisions according to rating

%	31.12.2011	Prev. year
AAA	4.1	3.4
AA	52.8	35.5
A	34.8	54.1
BBB and lower	1.5	1.5
No rating available	6.8	5.5

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

Available financial resources

€28.3bn in 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, modified by various economically appropriate adjustments.

The valuation reserves include adjustments to items in the property-casualty segment and for Munich Health that are not accounted for at fair value under IFRS, in particular to land and buildings and loans. We perform various valuation adjustments for property-casualty and life and health. In property-casualty reinsurance, we project future claims payments using actuarial methods. We discount estimated cash flows in property-casualty and for Munich Health, and add a risk margin derived in accordance with strict economic principles. In the case of business for which we show a Market-Consistent Embedded Value (MCEV), we regard the embedded value as capital available to cushion risks and consider that part which is not already included in IFRS equity. On the other hand, capitalised goodwill and other intangible assets are included in the Group's IFRS equity. As they might not retain their value in crisis situations, we deduct

them when calculating available financial resources. 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 respective company.

Available financial resources

€bn	31.12.2011	Prev. year	Change
IFRS equity	23.3	23.0	0.3
Valuation reserves	0.9	0.9	-
Value adjustments for property-casualty and life and health ¹	4.0	5.1	-1.1
Goodwill and other intangible assets	-4.2	-4.1	-0.1
Tax effects and other	-0.4	-0.1	-0.3
Economic equity	23.6	24.8	-1.2
Hybrid capital	4.7	4.8	-0.1
Available financial resources	28.3	29.6	-1.3

¹ Change in methodology: The basis in reinsurance property-casualty is now the claims payments projected using actuarial methods (adjusted previous-year figure = €6.7bn). In addition, for property-casualty and Munich Health, swap rates instead of government-bond interest rates are used for discounting.

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 relevant past financial year) to the economic risk capital. The table below shows the changes in the figures:

Economic solvency ratio components

	31.12.2011	Prev. year	Change
(A) Economic equity	€bn 23.6	24.8	-1.2
(B) Available financial resources	€bn 28.3	29.6	-1.3
(C) Available financial resources after dividend and share buy-back	€bn 27.2	28.1	-0.9
(D) Economic risk capital (ERC)	€bn 24.4	20.7	3.7
(B) minus (D): Economic capital buffer	€bn 3.9	8.9	-5.0
(C) divided by (D): Economic solvency ratio	% 111	136	

Though the economic solvency ratio of 111% (136%) is 25 percentage points lower than for the previous year, it reflects Munich Re's capital strength. Munich Re's economic risk capital, which produces the solvency ratio described above, corresponds to 1.75 times the capital that is likely to be necessary under Solvency II according to our internal risk model. Were we not to apply the safety cushion of 75% to the value at risk with a confidence level of 99.5% and merely to comply with the Solvency II standard, the economic solvency ratio would be 195% (238%).

In calculating RORAC (see definition on page 61), the factor "additional available economic equity" is also relevant. It is the difference between the economic equity and the economic risk capital and amounted to -€0.8bn (4.1bn) as at 31 December 2011. This means that portions of our hybrid capital are used for risk assumption, as well as our economic equity.

Regulatory solvency requirements

We report on regulatory solvency requirements on page 109 f.

Selected risk complexes

Overarching accumulation risks

Effects of the sovereign debt crisis

As an insurer and reinsurer, we are an institutional investor and when we invest we have to accept certain credit risks in addition to market risks. This is clearly the case for corporate bonds, but there are also considerable risks in government bonds, which were considered safe in the past. The eurozone is our home market and we thus have substantial investments in euros. These are broadly diversified and are natural assets to hold to match the euro liabilities arising out of our insurance businesses. We use government bonds to match the currencies of our underwriting liabilities, especially for insurances of the person.

The interest rates on the borrowing of a number of eurozone sovereign issuers increased in 2011 as a result of the higher credit margins required in the markets, leading to a fall in the market values of our holdings in the government bonds of the countries concerned. This contrasted with the still generally low yields on bonds issued by eurozone countries considered safe. Especially the interest rates for German federal government or "Länder" issues fell further in 2011 in a volatile environment. This produced price gains on our German government bonds, but harbours major risks owing to the low return on reinvestment, which makes it more difficult for us to fulfil our future payment requirements. We monitor these risks closely and counter them with various risk management measures.

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

In monitoring the country risks, we do not simply rely on the customary ratings, but perform independent analyses of the political, economic and fiscal situation in those countries in which investments might potentially be made. Our experts also evaluate and draw conclusions from the movements in the market prices of the bonds issued by the country concerned. On this basis and taking account of the investment requirements of the fields of business in the respective currency areas and countries, proposals for limits or action to be taken are submitted to the Group Risk Committee. In 2011, limits for certain countries were reduced significantly a number of times because of the continually deteriorating financial situation in some European states. These limits are mandatory throughout the Group for investments and the insurance of political risks, and any exceptions must be approved individually by the Group Risk Committee.

In 2011, we reduced our investment exposures in countries on the euro periphery. Our close monitoring includes investments guaranteed directly or indirectly by the states concerned. In addition, the Board committees regularly receive an overview of our investments for each country, detailing the debtors resident there.

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

Our sophisticated limit system and our well-established administration systems have served us well so far during the periods of turbulence in the financial markets. The losses incurred due to falls in the prices of euro periphery bonds were more than offset by price gains on safe investments, in particular German and US government bonds.

Pandemic

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

Climate change

Climate change – Risks and opportunities

Climate change represents one of the greatest risks of change for the insurance industry.

In our Corporate Climate Centre, we analyse and assess this risk and are developing a holistic strategic approach. The findings are made available to all business areas and our asset-liability management function.

Whilst we are in a position to adequately assess the known risks in our portfolio on the basis of current knowledge, scientific research into climate change is complex and the political and regulatory environment in which we operate is developing dynamically, so that we must remain vigilant with regard to the identification and evaluation of new and changing risks. We adopt a multidisciplinary approach, using and combining the pertinent experience and expertise of our scientists, specialist underwriters, lawyers, economists, sociologists and actuaries as appropriate for the risk situation.

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

New and complex risks

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

We identify trends and faint signals in many ways, including systematic trend research, using Munich Re’s knowledge management, and regular structured discussions in our “emerging risks think-tank”. To ensure that emerging risks are understood, a group of experts reports on the issues involved from various perspectives. The group derives conceivable scenarios and analyses their possible impact on Munich Re, also looking at

interdependencies between different risks and other consequences related directly or indirectly to emerging risks. Cooperation with external partners complements our internal early-warning system.

Our new CARE software supports the management of complex risks

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

Legal and supervisory risks

Legal risks

So-called "Placement and Market Service Agreements (PSA)" had been under investigation by the authorities in the USA from 2004. The investigations have now been discontinued, with no payment or other obligations ensuing for Munich Re. We do not expect any significant risks to arise out of the related class actions filed by policyholders in the USA.

Investigations by several US federal and state authorities into certain loss-mitigation insurance products have now likewise been discontinued, also with no payment or other obligations ensuing for Munich Re.

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

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

There are legal disputes between some former insurance intermediaries and ERGO Lebensversicherung AG, some of which have now been concluded. In May 2011, there were reports in the media in connection with further claims by former intermediaries and then on the discovery of irregularities involving an incentive trip and the sale of insurance products at ERGO (including an incorrect "Riester" proposal form and errors in company pension products). All cases were the subject of investigations by our internal audit function and the BaFin. ERGO agreed to compensate people affected by the incorrect proposal form and to apply the relevant, more favourable conditions to their contracts. In the case of the company pensions, ERGO is also in the process of considering whether the policyholders are entitled to more favourable contracts or compensation.

Regulatory developments

The progress made in the Solvency II project in 2011 has clarified the future supervisory requirements somewhat, though some uncertainties remain. However, the adoption of the Omnibus II Directive planned for 2012 is expected to clarify the dates for the transition from Solvency I to Solvency II and the duties and powers of EIOPA. Considerable progress has been made on the first pillar, with the exception of the key issue of underwriting liabilities. In particular for life primary insurance, the still open questions have far-reaching implications for capitalisation under Solvency II. There is therefore a risk for companies, including our life primary insurers, that they may not meet the capital requirements. The draft implementing measures produced by the Solvency II Expert Group (SEG) have shed more light on the qualitative requirements of insurance companies and supervisory authorities laid down in Solvency II's Pillar 2. However, these measures are not expected to be adopted before mid-2012.

At national level, implementation of the Solvency II Directive will bring about changes in German supervisory law. We continue to monitor progress in the revision of the German Insurance Control Act initiated in the middle of the second quarter of 2011. Munich Re has played, and will continue to play, an active role and submit regular feedback on the drafts. Since there are still outstanding issues in the underlying parallel Solvency II project at European level, some uncertainties remain concerning the final translation into national law.

Work is still in going on at global level on additional supervisory requirements for systemically important financial institutions (SIFIs). Systemic importance is determined not by the fundamental significance of a sector for the economy, but by the impact the insolvency of a company could have on the real global economy. The discussions, which are being held primarily by the Financial Stability Board (FSB), are currently focusing on the banking sector. The investigations relating to the insurance industry are not following the same timetable as those for banking and will be led by the International Association of Insurance Supervisors (IAIS). The insurance industry believes that its core business does not give rise to a systemic risk. Munich Re is actively participating in the consultations. We will probably have to wait until mid-2012 before we can say with any certainty whether the insurance industry as a whole, and reinsurance companies and Munich Re in particular, could be subject to additional requirements. Specific requirements for SIFIs could range from additional reporting to higher capital requirements.

Other legal developments

On 1 March 2011, the European Court of Justice issued a fundamental ruling on sex discrimination in insurance, which repealed with effect from 21 December 2012 a European regulation allowing member states to permit differentiation between males and females for the purpose of calculating insurance benefits and premiums. This applies even if consideration of gender is based on accurate actuarial and statistical risk data. The relevant legislation in member states, including Germany, must be amended to comply with the ruling, which will lead to significant changes in the calculation of insurance benefits and premiums. To clarify outstanding issues, we are in close contact with the relevant people in the scientific community, the economy and European committees and bodies. We will take all necessary action before the deadline set by the European Court of Justice.

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

Summary

In accordance with the prescribed processes, Munich Re's Board committees explicitly defined the risk appetite for significant risk categories in the year under review and quantified it with specific figures. We determined and documented the risk appetite across the Group hierarchy and communicated it throughout Munich Re. During the whole of 2011, risk exposures were regularly quantified and compared with the risk appetite. We assess Munich Re's risk situation as manageable and under control.

Prospects



- // Challenges for the Group owing to uncertain economic environment, but also opportunities thanks to financial strength and solution-finding ability
- // Expected return on investment of around 3.5%
- // Unchanged long-term result target of 15% on risk-adjusted capital (RORAC) after tax over the cycle
- // Consolidated result in the region of €2.5bn envisaged for 2012
- // Dividend continuity for 2011

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

Overview

Despite the difficult economic situation, there are a wide range of opportunities for us. After major losses, general risk awareness is heightened and the demand for effective risk relief via reinsurance increases. With our know-how, our ability to find the right solutions and our financial strength, we are well positioned. In primary insurance, too, we expect stable development. People's need for care and provision is rising and increasingly has to be financed privately. In property-casualty primary insurance, we forecast that premium income will expand, mainly owing to growth in international business. For Munich Health, there are opportunities and risks from the international healthcare markets.

Economic environment

Further significant growth in the emerging countries

It is our assumption that the existing uncertainties with regard to the sovereign debt crisis and consolidation of state finances will continue to dampen the business climate and consumer confidence in most industrial nations. Besides this, it is anticipated that 2012 – like 2011 – will see slower economic momentum in many industrialised countries, owing to high unemployment and efforts to reduce high household debt levels. We anticipate a brief recession in the eurozone. In the emerging economies, especially China and India, growth should again be strong. Inflation rates will consequently be moderate in most industrialised countries and will only remain relatively high in a few emerging countries.

Capital markets

In spite of the difficult growth environment, yields on German government bonds with long periods to maturity are likely to increase if the situation in the eurozone eases at least to some extent or collective liability for the debts of other euro countries is expanded. In such a case, yields on US government bonds – up to now also considered safe havens – could also increase, especially since economic growth in the USA should be higher. Since we do not anticipate any increases in key interest rates, the yields on short-duration bonds are expected to remain relatively low, so that yield curves will probably become steeper overall. Given the sovereign debt crisis in Europe, the greater relaxation of European monetary policy and projected higher growth in the USA, the US dollar should rise further against the euro. If the situation in the eurozone defuses at least partially, equities could benefit.

Insurance industry

In the European Union, state supervision for primary insurers and reinsurers is set to undergo profound changes with the new rules planned under Solvency II, which are expected to generally enter into force at the earliest in mid-2013. In terms of capital, risk management and reporting, these changes will impose greater requirements on insurance companies. However, the introductory and transitional periods are likely to be long. Irrespective of the fine-tuning still to be done, Solvency II will influence insurance supply and demand. New opportunities will emerge for Munich Re in both primary insurance and reinsurance, and these will exceed the challenges from the many different additional demands.

Far-reaching changes are also on the horizon in the medium term for the accounting of insurance contracts and financial instruments in our consolidated financial statements. The International Accounting Standards Board (IASB) is scheduled to publish its revised proposals for the future accounting of insurance contracts in the second half of 2012, which are intended to achieve a consistent international approach to the way insurance contracts are accounted for in financial statements. The new requirements for the accounting and measurement of financial instruments under IFRS 9, which EU companies may not apply yet, are to be finally adopted by the end of 2012. In addition to the establishment of a new model for the recognition of impairments and new regulations concerning the recognition of hedging relationships, they also envisage another amendment to the measurement rules already adopted.

Demand for life insurance cover to grow far more quickly than the economy

The projected moderate growth in the global economy should be reflected in generally stable worldwide demand for insurance, albeit subject to considerable differences between individual regions and segments. Overall, we predict a growth rate for global premiums in property-casualty insurance that is equivalent to that of global economic growth. Given the huge need for private provision, however, demand for life insurance cover is likely to grow faster than the economy itself.

Nevertheless, the extremely low yields on German and US government bonds present a challenge for insurers because of the significant reduction in interest earned on investments in the period between premiums being received and policy benefits being paid out. Especially in long-tail business, this intensifies the need to increase prices. In property insurance business, which has a more short-term character, the heavy claims burdens arising from recent natural catastrophes have made the risk exposure clear and are driving prices up. Conversely, subdued economic growth is limiting demand for insurance protection and with it the scope for higher prices.

Risks

The economic outlook is clouded by great uncertainty. A sharp downturn in the economy or even an extended period of stagnation with deflationary consequences cannot be ruled out in a number of industrialised countries. A sustained low-interest-rate environment would significantly impair the situation of life insurance companies. The high levels of debt in many countries and potential upheavals in the eurozone could further destabilise the global financial system to the detriment of the insurance industry.

If there was a surprisingly strong economic recovery, the substantial interventions of the central banks and related expansion of the money supply might result in higher inflation, with corresponding inflation in claims costs for insurers.

Potential geopolitical upheavals, for instance in the Middle East or Southeast Asia, are also still a significant risk for the global economy and thus the insurance industry.

By nature, the insurance industry is also particularly exposed to the consequences of economic and social policy decisions, an example being healthcare policy, with its substantial implications for private health insurance. Moreover, the planned tightening of supervisory regulations in the financial services industry also harbours significant risks for the insurance sector: after the financial crisis, there are particular concerns that some of the changes – mainly geared to banking – could be transferred indiscriminately to the insurance industry, irrespective of the differences between the two business models. Conceivable in this context are exaggerated capital requirements, excessive reporting obligations, and restrictions on individual types of business.

Finally, ruinous competition with a downward trend in insurance prices lasting several years remains an unlikely but not impossible risk scenario. Giving clear priority to profitability over growth and focusing on the efficiency of management systems continues to be critical for the insurance industry's success.

Munich Re's development

Munich Re (Group) targets

	Target 2012
Gross premiums written	€bn 48-50
Consolidated result	€bn approx. 2.5
Return on investment	% approx. 3.5
Return on risk-adjusted capital (RORAC)	% 15

Limits to forecasting results

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 particular features of IFRS accounting described on page 105 also make it difficult to provide a result forecast. Thus, there may be significant fluctuations in the investment result, currency result and consolidated result – despite the fact that our assets are geared to the characteristics of our liabilities. In particular, a rising interest-rate level will tend to lead to lower results, and falling interest rates to higher results, than those forecast in these prospects. Major share price losses could require write-downs on equities which would only be partially

offset by gains on derivatives. Rises in share prices lead to write-downs on derivatives, which would at best be compensated for by gains on the sale of equities.

Reinsurance

Reinsurance continues to hold considerable promise for the future, with a wide variety of earnings opportunities, especially after the many major losses in 2011. Munich Re offers its cedants specialist consulting services and extensive solutions, also for tasks such as balance sheet management, risk modelling and asset-liability management. Reinsurance is an efficient and flexible option for protecting primary insurers against major claims and accumulation losses, or strengthening their capital base. In addition to this, we devise innovative coverage concepts that go beyond the scope of traditional reinsurance. And we partner our clients in the often challenging task of adjusting to changes in regulatory requirements, which are being made significantly more demanding in many countries.

We see further growth opportunities in life reinsurance, and we are experiencing continuing demand for large-volume capital substitute solutions. Opportunities will also derive from the privatisation trends in provision for old age, long term care and disability, from the need for asset protection, and from the dynamic expansion of the Asian life insurance markets. For 2012, we expect an increase in gross premiums written to around €10bn and a technical result of around €0.4bn.

In 2010, we set ourselves the objective of achieving value added by new business of €450m a year by 2015 based on Market Consistent Embedded Value (MCEV) Principles. Given the further very good result posted in the past year, we see ourselves as well positioned to achieve this goal.

In property-casualty reinsurance, which is influenced worldwide by partially divergent price trends in various segments and markets, Munich Re will adhere to its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions.

Essentially, the generally solid capitalisation of providers and buyers is shaping prices, terms and conditions in the international reinsurance markets. No broad-based increase in prices in property-casualty reinsurance was therefore observable in the renewals at the beginning of the year, but prices did rise – in some cases significantly – in the classes of business and regions in which companies suffered high losses. For the further course of 2012, we anticipate a continuation of this trend.

The renewals at 1 January 2012 took place in a competitive market environment. On the primary insurance side, demand was stable. By contrast, reinsurance capacity remained in sufficient supply, despite the high burden from natural catastrophes in 2011 and the reduction in capital buffers available to the insurance industry. Competitors maintained a disciplined approach, writing natural catastrophe business on a selective basis. There were appreciable rate increases in the USA and in regions recently exposed to high natural catastrophe losses, e.g. Australia and Southeast Asia. All other regions and classes of business (e.g. European natural catastrophe business) saw unchanged prices or marginal increases (e.g. UK motor insurance business). In aviation business, however, prices remained under pressure. Since the end of the last financial crisis, a certain amount of pressure on rates has also made itself felt in credit and surety business but it is uncertain what impact the persisting euro crisis will have on the expected pricing level.

Premium volume increased by 2.6% in the January renewals

A premium volume of €8.5bn of our treaty business was up for renewal. Overall, we were able to increase premium income by around €230m (+2.6%). In accordance with our profit-oriented underwriting policy, we refrained from renewing business that did not meet our pricing requirements. In particular, we reduced our European property business, traditional marine business and selected subportfolios in non-proportional casualty business. On the other hand, we were able to expand profitable business with strategic partners, particularly in UK motor insurance business. We achieved price increases in the low double-digit percentage range for US natural catastrophe covers and appreciably higher ones in Australia and Asia. All in all, the profitability of our entire portfolio was enhanced by around two percentage points thanks to our active portfolio management. Our regional diversification enabled us to take specific advantage of business opportunities in attractive markets and segments.

The renewals at 1 April 2012 (Japan and Korea) and 1 July 2012 (parts of the US market, Australia and Latin America) will involve the renegotiation of treaties with a premium volume (last year) of around €2.9bn, with a greater proportion of natural catastrophe business than the renewals in January. We project further price increases here, particularly in loss-affected regions. For other property business and in the casualty classes, we are proceeding on the assumption that prices will stabilise with a trend towards slight increases. A further continuation of the low-interest-rate phase would particularly favour a positive price trend. In the current year, however, we do not anticipate any broad-based hardening of the market.

For 2012, we expect gross premiums written in property-casualty reinsurance to amount to around €16.5bn. We aim for a combined ratio of about 96% of net earned premiums over the market cycle as a whole. The uncertainties involved in the estimate partly derive from the random incidence of major individual losses.

If exchange rates remain constant, gross premiums in reinsurance should range between €25bn and €27bn overall in 2012. We envisage a consolidated result in reinsurance of €1.9–2.1bn for 2012.

Primary insurance

We see good opportunities for primary insurance not only in evolving foreign markets but also in various sectors of our German domestic market. In Munich Re's consolidated financial statements, we post the business for which ERGO is responsible in the three primary insurance segments life, health and property-casualty. For 2012, we expect premium development in these segments to be varied, with a positive trend overall.

In life primary insurance, our total premium income is likely to be below the previous year's level, i.e. just over €7.5bn, with gross premiums written totalling slightly under €6bn. Developments in German and international business will, however, greatly hinge on single-premium business, income from which will depend on developments in the interest-rate environment, among other things. It remains to be seen how the reduction in the guaranteed interest rate in Germany as at 1 January 2012 and the introduction of unisex pricing as at 21 December 2012 will influence premium development.

In the health insurance segment, we are aiming for a moderate increase in gross premiums written to nearly €6bn. We should be able to achieve premium expansion in both comprehensive health insurance and supplementary health cover, with the increase in supplementary health cover probably being more pronounced.

In property-casualty insurance, we expect premium growth to total slightly less than €6bn, deriving from both German and especially international business. In Germany, we project market-average growth of around 1-2%. The increase is likely to be stronger for international business. Our combined ratio target for property-casualty business is a good level of below 95%, while in international business we anticipate a further improvement compared with 2011.

We expect that total premium income in primary insurance will be slightly over €19bn in 2012. Gross premiums written will probably range between €17bn and €18bn.

For the ERGO Group, we expect a consolidated result of around €400m for 2012.

Munich Health

There are a host of growth avenues in the international healthcare markets, in particular due to advances in medicine and improved life expectancy. We intend to take advantage of these opportunities.

Gross premiums written by Munich Health are likely to be slightly over €6bn in 2012. The combined ratio should be around 99%.

Large-volume capital substitute solutions and the acquisition of Windsor will ensure continued growth. For 2012, we project a consolidated result of between €50m and €100m.

Investments

Given the currently uncertain political situation, we are planning to further diversify our portfolio in order to be prepared as well as possible for different developments in the capital markets and the political environment. As things stand at present and given a continuation of the currently highly volatile development of the capital markets, we are looking to reduce our portfolio of government bonds in developed countries and invest moderately in corporate bonds and emerging market bonds. We are already prudently expanding our existing credit exposure, but we are not prepared to counter the decline in interest rates on low-risk bonds by taking inappropriate risks. In addition, we intend to marginally increase our investment in commodities. Our proportion of investments in equities is currently small, but we are keeping open the option of responding to opportunities and very moderately increasing our share portfolio.

The structure of our bond portfolio is generally geared to the periods of our liabilities in order to limit the interest-rate risk. The duration will tend to rise slightly in 2012, as a result of which, at Group level, our overall duration position will match our liabilities even more closely. We plan to continue to keep our portfolio of investments in inflation-indexed bonds/inflation swaps constant in 2012.

Further expanding the portfolio of investments in renewable energies and new technologies

Provided that profitability is appropriate, we intend to invest more strongly in renewable energy and new technologies. In 2011, we were able to expand this portfolio substantially by around €500m. To reduce the portfolio's main risk drivers, i.e. technical and political risk, we are aiming to diversify our investments in this area regionally and technologically, investing to an increasing extent in infrastructure projects. We intend to maintain our real estate portfolio unchanged in terms of both volume and orientation in 2012.

We do not anticipate any rapid and significant increase in capital market interest rates; regular income from our investments is therefore likely to be relatively low – at just under 4% overall – for the financial years 2012 and 2013. We expect an annual return on investment of around 3.5%, taking into account the result from the disposal of investments, write-ups and write-downs as well as other income and expenses.

Munich Re (Group)

Our assumption is that the Group's gross premiums written in 2012 will be in the range of €48–50bn, provided that exchange rates remain stable compared with those at the end of 2011.

Our long-term target of a 15% return on our risk-adjusted capital (RORAC) after tax across the capital-market and insurance cycle applies unchanged, but it will be difficult to achieve given the current low-interest-rate environment. As soon as the requirements of Solvency II and the new IFRSs for insurance contracts and financial instruments have been finalised, we will gear our target performance measures to the key indicators from this new framework with its strong economic focus.

For 2012, given a general upward trend in prices in reinsurance and average loss experience, we project a considerably higher technical result than in 2011. A return on investment of around 3.5% would mean an investment result of approximately €7.2bn, i.e. slightly higher than last year, which was impacted by high write-downs on Greek securities, but lower than in previous years. If actual claims experience with regard to major losses is within normal bounds and there are no severe currency or capital market developments, we expect that for 2012 we will be able to achieve a profit in the region of €2.5bn. That is equivalent to a RORAC of around 10%. For 2013, we expect to be able to improve the consolidated result further.

Subject to the approval of the Annual General Meeting, we aim to pay the same dividend amount for the financial year 2011 as for the previous year, i.e. €6.25 per share.

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Consolidated financial statements

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List of shareholdings as at 31 December 2011 in accordance with
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Consolidated balance sheet as at 31 December 2011
Assets  » Assets (XLS, 25 KB)

	Notes	31.12.2011			Prev. year	€m	Change
		€m	€m	€m			
A. Intangible assets							
I. Goodwill	(1)		3,511		3,453	58	1.7
II. Other intangible assets	(2)		1,581		1,633	-52	-3.2
			5,092		5,086	6	0.1
B. Investments							
I. Land and buildings, including buildings on third-party land	(3)		3,889		4,247	-358	-8.4
Thereof:							
Held for sale	(17)		13		-	13	-
II. Investments in affiliated companies and associates	(4)		1,154		1,091	63	5.8
Thereof:							
Associates accounted for using the equity method			924		870	54	6.2
III. Loans	(5)		53,260		48,935	4,325	8.8
IV. Other securities							
1. Held to maturity	(6)	13			42	-29	-69.0
2. Available for sale	(8)	123,677			122,123	1,554	1.3
Thereof:							
Held for sale		52			-	52	-
3. At fair value through profit or loss	(9)	2,536			1,612	924	57.3
			126,226		123,777	2,449	2.0
V. Deposits retained on assumed reinsurance	(10)		9,430		6,902	2,528	36.6
VI. Other investments	(11)		2,655		3,199	-544	-17.0
			196,614		188,151	8,463	4.5
C. Investments for the benefit of life insurance policyholders who bear the investment risk							
D. Ceded share of technical provisions	(12)						
Thereof:							
Held for sale			13		-	13	-
E. Receivables							
I. Current tax receivables			802		492	310	63.0
II. Other receivables	(13)		11,292		10,576	716	6.8
			12,094		11,068	1,026	9.3
F. Cash at banks, cheques and cash in hand							
G. Deferred acquisition costs	(14)						
Gross			9,386		9,165	221	2.4
Ceded share			44		72	-28	-38.9
Net			9,342		9,093	249	2.7
H. Deferred tax assets	(15)						
I. Other assets	(16)						
Total assets			247,580		236,358	11,222	4.7

Equity and liabilities



» Equity and liabilities (XLS, 20 KB)

	Notes	31.12.2011		Prev. year		Change
		€m	€m	€m	€m	
A. Equity	(18)					
I. Issued capital and capital reserve		7,388		7,388	-	-
II. Retained earnings		11,588		10,735	853	7.9
III. Other reserves		3,384		2,238	1,146	51.2
IV. Consolidated result attributable to Munich Reinsurance Company equity holders		702		2,422	-1,720	-71.0
V. Non-controlling interests		247		245	2	0.8
		23,309		23,028	281	1.2
B. Subordinated liabilities	(19)		4,683	4,847	-164	-3.4
C. Gross technical provisions						
I. Unearned premiums	(20)	8,391		7,879	512	6.5
Thereof:						
Held for sale		24		-	24	-
II. Provision for future policy benefits	(21)	108,477		104,413	4,064	3.9
III. Provision for outstanding claims	(22)	54,392		49,501	4,891	9.9
Thereof:						
Held for sale		16		-	16	-
IV. Other technical provisions	(23)	10,162		9,555	607	6.4
		181,422		171,348	10,074	5.9
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	(24)		5,373	5,210	163	3.1
E. Other accrued liabilities	(25)		3,522	3,458	64	1.9
F. Liabilities						
I. Bonds and notes issued	(26)	263		290	-27	-9.3
II. Deposits retained on ceded business	(27)	2,726		2,762	-36	-1.3
III. Current tax liabilities		3,388		3,253	135	4.2
IV. Other liabilities	(28)	13,051		13,103	-52	-0.4
		19,428		19,408	20	0.1
G. Deferred tax liabilities	(15)		9,843	9,059	784	8.7
Total equity and liabilities			247,580	236,358	11,222	4.7

Consolidated income statement for the financial year 2011

Items  » Consolidated income statement for the financial year 2011 (XLS, 25 KB)

	Notes	2011		Prev. year	Change	
		€m	€m		€m	%
Gross premiums written		49,572		45,541	4,031	8.9
1. Earned premiums	(29)					
Gross		49,134		44,955	4,179	9.3
Ceded		1,722		1,880	-158	-8.4
Net		47,412		43,075	4,337	10.1
2. Income from technical interest	(30)	5,897		6,587	-690	-10.5
3. Expenses for claims and benefits	(31)					
Gross		42,323		37,747	4,576	12.1
Ceded share		1,289		1,164	125	10.7
Net		41,034		36,583	4,451	12.2
4. Operating expenses	(32)					
Gross		12,305		11,545	760	6.6
Ceded share		316		431	-115	-26.7
Net		11,989		11,114	875	7.9
5. Technical result (1-4)				286	1,965	-1,679
6. Investment result	(33)					
Investment income		16,571		13,666	2,905	21.3
Investment expenses		9,815		5,024	4,791	95.4
Total		6,756		8,642	-1,886	-21.8
Thereof:						
Income from associates accounted for using the equity method		100		51	49	96.1
7. Other operating income	(34)	843		807	36	4.5
8. Other operating expenses	(34)	808		849	-41	-4.8
9. Deduction of income from technical interest		-5,897		-6,587	690	10.5
10. Non-technical result (6-9)				894	2,013	-1,119
11. Operating result				1,180	3,978	-2,798
12. Other non-operating result	(35)			-707	-454	-253
13. Impairment losses of goodwill	(35)			25	109	-84
14. Finance costs	(35)			288	293	-5
15. Taxes on income	(36)			-552	692	-1,244
16. Consolidated result				712	2,430	-1,718
Thereof:						
Attributable to Munich Reinsurance Company equity holders				702	2,422	-1,720
Attributable to non-controlling interests	(18)			10	8	2
Earnings per share	(53)			€ 3.94	€ 13.06	% -9.12
	Notes			€	€	%

Statement of recognised income and expense



» Statement of recognised income and expense (XLS, 16 KB)

€m	2011	Prev. year
Consolidated result	712	2,430
Currency translation		
Gains (losses) recognised in equity	390	645
Included in the income statement	-	-
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	1,942	1,370
Included in the income statement	-1,192	-1,240
Change resulting from valuation at equity		
Gains (losses) recognised in equity	5	-8
Included in the income statement	-	-
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	1	-3
Included in the income statement	5	-
Actuarial gains and losses on defined benefit plans	-135	-50
Other changes	-3	-20
Income and expense recognised directly in equity	1,013	694
Total recognised income and expense	1,725	3,124
Thereof:		
Attributable to Munich Reinsurance Company equity holders	1,713	3,094
Attributable to non-controlling interests	12	30

Group statement of changes in equity

 » Group statement of changes in equity (XLS, 25 KB)

	Issued capital	Capital reserve
€m		
Status at 31.12.2009	588	6,800
Allocation to retained earnings	-	-
Consolidated result	-	-
Income and expense recognised directly in equity	-	-
Currency translation	-	-
Unrealised gains and losses on investments	-	-
Change resulting from valuation at equity	-	-
Change resulting from cash flow hedges	-	-
Actuarial gains and losses on defined benefit plans	-	-
Other changes	-	-
Total recognised income and expense	-	-
Change in shareholdings in subsidiaries	-	-
Change in consolidated group	-	-
Dividend	-	-
Share buy-backs	-	-
Retirement of own shares	-	-
Status at 31.12.2010	588	6,800
Allocation to retained earnings	-	-
Consolidated result	-	-
Income and expense recognised directly in equity	-	-
Currency translation	-	-
Unrealised gains and losses on investments	-	-
Change resulting from valuation at equity	-	-
Change resulting from cash flow hedges	-	-
Actuarial gains and losses on defined benefit plans	-	-
Other changes	-	-
Total recognised income and expense	-	-
Change in shareholdings in subsidiaries	-	-
Change in consolidated group	-	-
Dividend	-	-
Share buy-backs	-	-
Retirement of own shares	-	-
Status at 31.12.2011	588	6,800

	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			
11,247	-580	2,717	-1,245	1	2,521	229	22,278
1,449	-	-	-	-	-1,449	-	-
-	-	-	-	-	2,422	8	2,430
-93	-	133	635	-3	-	22	694
-	-	-	635	-	-	10	645
-	-	131	-	-	-	-1	130
-10	-	2	-	-	-	-	-8
-	-	-	-	-3	-	-	-3
-52	-	-	-	-	-	2	-50
-31	-	-	-	-	-	11	-20
-93	-	133	635	-3	2,422	30	3,124
-20	-	-	-	-	-	-10	-30
-	-	-	-	-	-	-	-
-	-	-	-	-	-1,072	-4	-1,076
-	-1,268	-	-	-	-	-	-1,268
-1,002	1,002	-	-	-	-	-	-
11,581	-846	2,850	-610	-2	2,422	245	23,028
1,312	-	-	-	-	-1,312	-	-
-	-	-	-	-	702	10	712
-135	-	753	387	6	-	2	1,013
-	-	-	387	-	-	3	390
-	-	750	-	-	-	-	750
2	-	3	-	-	-	-	5
-	-	-	-	6	-	-	6
-137	-	-	-	-	-	2	-135
-	-	-	-	-	-	-3	-3
-135	-	753	387	6	702	12	1,725
-1	-	-	-	-	-	-1	-2
-	-	-	-	-	-	-	-
-	-	-	-	-	-1,110	-9	-1,119
-	-323	-	-	-	-	-	-323
-999	999	-	-	-	-	-	-
11,758	-170	3,603	-223	4	702	247	23,309

Consolidated cash flow statement for the financial year 2011

 » Consolidated cash flow statement for the financial year 2011 (XLS, 20 KB)

€m	2011	Prev. year
Consolidated result	712	2,430
Net change in technical provisions	9,857	7,141
Change in deferred acquisition costs	-249	-564
Change in deposits retained and accounts receivable and payable	-2,544	1,152
Change in other receivables and liabilities	-1,073	505
Gains and losses on the disposal of investments	-1,244	-1,649
Change in securities held for trading	-1,120	-165
Change in other balance sheet items	-176	79
Other income/expenses without impact on cash flow	1,912	-93
I. Cash flows from operating activities	6,075	8,836
Change from losing control of consolidated subsidiaries	498	-8
Change from obtaining control of consolidated subsidiaries	-310	-3
Change from the acquisition, sale and maturities of other investments	-3,223	-7,042
Change from the acquisition and sale of investments for unit-linked life insurance	-489	-657
Other	-1	14
II. Cash flows from investing activities	-3,525	-7,696
Inflows from increases in capital and from non-controlling interests	-	-
Outflows to ownership interests and non-controlling interests	345	1,301
Dividend payments	1,119	1,076
Change from other financing activities	-1,510	993
III. Cash flows from financing activities	-2,974	-1,384
Cash flows for the financial year (I + II + III)	-424	-244
Effect of exchange rate changes on cash	14	62
Cash at the beginning of the financial year	2,900	3,082
Cash at the end of the financial year	2,490	2,900
Additional information		
Income tax paid (net)	845	574
Dividends received	416	308
Interest received	7,144	7,083
Interest paid	738	672

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 paragraph 1 of the German Commercial Code in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 concerning the application of international accounting standards. We have complied with the international accounting standards adopted in accordance with Articles 2, 3 and 6 of the aforementioned Regulation and with the Commercial Code rules designated in Section 315a para. 1 of the German Commercial Code. The consolidated financial statements thus also meet all the requirements of IFRSs. Our presentation currency is the euro (€). Amounts are rounded to million euros, with figures in brackets referring to the previous year.

Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as International Financial Reporting Standards (IFRSs); the standards from previous years continue to bear the name International Accounting Standards (IASs).

In accordance with the rules of IFRS 4, underwriting items are recognised and measured on the basis of US GAAP (United States Generally Accepted Accounting Principles) at first-time adoption of IFRS 4 on 1 January 2005.

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

In November 2011, the Board of Management and Supervisory Board of Munich Reinsurance Company published an updated declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the internet.

Recognition and measurement

Use of judgements and estimates in recognition and measurement

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

Particularly in insurance and reinsurance, the use of estimates for measuring technical provisions is of substantial significance, given that usually there are no market prices available 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 many other items as well.

Our internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take account of new knowledge.

Owing to the uncertainties involved in estimates, the discretionary judgements to be made always include a subjective component. This may result in comparable items being measured differently by Munich Re and another company, especially as the range of realistic assumptions can be relatively great in individual cases. However, this does not mean that the measurement is not appropriate – merely that it reflects differing knowledge and assessments of future developments.

Discretionary judgements and estimates are of significance for the following items in particular and are described in more detail in the respective explanatory notes:

- // Goodwill and other intangible assets
- // Fair values and impairments of financial instruments
- // Deferred acquisition costs
- // Technical provisions
- // Pension provisions
- // Deferred tax
- // Contingent liabilities

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as "held for sale" are recognised at the lower of carrying amount or fair value less sales cost and shown separately in the consolidated balance sheet.

Figures for previous years

The previous-year figures have been calculated on the same basis as the figures for the financial year 2011.

Changes in accounting policies

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

In the financial year 2011, the following new IFRSs had to be applied for the first time:

The revision of **IAS 24 (rev. 11/2009), Related Party Disclosures**, simplifies the disclosure requirements for state-controlled entities. Certain related parties that result from the participation of the state in private companies are exempted from some of the disclosure requirements of IAS 24 specified in the amended standard. In addition, the overall definition of related parties has been revised. These changes are of subordinate importance for Munich Re.

The changes to **IAS 32 (rev. 10/2009), Financial Instruments: Presentation**, provide for certain subscription rights (also options or warrants) denominated in a foreign currency (i.e. a currency other than the entity's functional currency) to be classified as equity and not as a liability by the issuer to whose equity instruments these rights apply. The amendments are of no relevance for Munich Re.

The amended interpretation **IFRIC 14 (rev. 11/2009), IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**, applies in the circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits the entity to treat the benefit of such an early payment as an asset. This change has no practical significance for Munich Re.

The interpretation **IFRIC 19 (11/2009), Extinguishing Financial Liabilities with Equity Instruments**, contains guidelines on how financial liabilities are to be accounted for in accordance with IAS 39 if the creditor accepts the entity's shares or other equity instruments to settle these liabilities fully or partially. For Munich Re, the interpretation is currently of no significance.

The amendments published as part of the **IFRS Annual Improvement Process** in May 2010 concern 11 IFRSs and the interpretation IFRIC 13. With the exception of the change to IAS 34, Interim Financial Reporting, these are not significant for Munich Re. The change to IAS 34 extends disclosure requirements in the notes to the financial statements. Of particular relevance is that significant transfers between levels of the fair value hierarchy for financial instruments now have to be published in interim financial statements as well. Munich Re has put in place a process to ensure that such transfers are made transparent and can be disclosed in interim reports where necessary.

Standards or changes in standards not yet entered into force

The amendments to **IFRS 7 (rev. 10/2010), Financial Instruments: Disclosures, Improving Disclosures about Financial Instruments**, contain more extensive disclosure requirements regarding the transfer of financial assets, with a view to making more transparent the influence of such transactions on the entity's risk exposure and hence its financial situation. Application of the new rules is mandatory for financial years beginning on or after 1 July 2011 and were adopted into European law in November 2011.

The amendments to **IAS 12 (rev. 12/2010), Taxes on Income, Deferred Tax: Recovery of Underlying Assets**, address the issue that the measurement of deferred tax items depends on whether the carrying amount of an asset is expected to be recovered through use or through sale. In practice, the two are often difficult to distinguish. The amendment provides a solution through the introduction of a refutable presumption that recovery of the carrying amount will normally be through sale. These amendments are mandatory for financial years beginning on or after 1 January 2012; their adoption in the EU is still outstanding.

Under the amendment to **IAS 1 (rev. 06/2011), Presentation of Financial Statements, Presentation of Items of Other Comprehensive Income** "other comprehensive income" must now be divided into items that will be reclassified to profit or loss at a later date and items that will not. The purpose of this amendment is to improve the presentation of these items and align the approaches under IFRS and US GAAP. The amendments are mandatory for financial years beginning on or after 1 July 2012 but have not yet been adopted into European law.

The following standards are mandatory for financial years beginning on or after 1 January 2013. They have not yet been adopted into European law.

IFRS 10 (05/2011), Consolidated Financial Statements, will supersede the provisions of IAS 27 and SIC 12 and create a uniform definition for control, irrespective of whether this control is based on company law or on contractual or economic circumstances. There will be no 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, i.e. activities affecting the investee's returns. Furthermore, IFRS 10 addresses issues that have not been dealt with until now, including the regulation that a situation of control exists even if an investor holds less than a majority of the voting rights but regularly has a de facto majority of voting rights at the annual general meetings. The effects of the new standard on the consolidated Munich Re companies are currently being reviewed.

IFRS 11 (05/2011), Joint Arrangements, defines joint operations and joint ventures and specifies how they are to be recognised in the balance sheet. The changes compared with IAS 31, Interest in Joint Ventures, mainly concern the elimination of the option of proportionate consolidation for joint ventures, the amended definition of joint control, and the extended scope of application of joint operations. These may also include arrangements structured through a separate vehicle. The elimination of the option of proportionate consolidation will have no impact on Munich Re, as we do not avail ourselves of this option and already apply the equity method. The effects of the two other changes are currently being analysed.

IFRS 12 (05/2011), Disclosure of Interests in Other Entities, combines the disclosures regarding facts and circumstances governed by IFRS 10, 11 and IAS 28. The objective of the standard is to provide information on the type and risk of interests in other entities and their implication for the consolidated financial statements. As a consequence, the information provided needs to be more comprehensive than hitherto. In particular, IFRS 12 requires disclosures relating to unconsolidated structured entities, non-controlling interests, discretionary judgements and assumptions in evaluating the nature of interests in other entities, as well as detailed information on each significant joint arrangement. The extent to which Munich Re is affected by the extended disclosure requirements is currently being examined.

IAS 27 (rev. 05/2011), Separate Financial Statements, will in future deal only with the recognition of shareholdings in entities under control, 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 entities under control in consolidated financial statements, is now regulated by IFRS 10. The standard has no effect on Munich Re, as the aforementioned rules for separate single-entity financial statements in accordance with IFRS have remained unchanged.

IAS 28 (rev. 05/2011), Investments in Associates and Joint Ventures, specifically includes amendments following from the publication of IFRS 11 and IFRS 12. Among other things, the standard integrates the balance sheet recognition of joint ventures and circumstances governed by SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Furthermore, investments in associates or joint ventures held by such entities as investment funds or unit trusts is no longer excluded from the standard's scope of application. Rather, there is now an option to measure these at fair value according to IFRS 9, Financial Instruments. The amendments are not expected to have any major effects on Munich Re.

IFRS 13 (05/2011), Fair Value Measurement, provides guidance on measuring items at fair value if another standard prescribes fair value measurement or fair value disclosure in the notes to the financial statements. The standard thus does not determine what items need to be measured at fair value. IFRS 13 revises the definition of fair

value, defining it as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard includes detailed information on how to determine the fair value for different types of assets and liabilities. In addition, the standard requires further disclosures in the notes – for instance, the fair value hierarchy thus far only required for financial instruments under IFRS 7 has now been extended to include all items measured at fair value. On the basis of IFRS 13, we are verifying whether Munich Re's fair value measurement is in compliance with the new provisions, and we will make any adjustments necessary. The new disclosures in the notes will also need to be implemented.

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 without impact on profit or loss. Furthermore, the past service cost for retroactive changes in a defined benefit plan is also 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 limit on a defined benefit asset have been integrated and further specified. Moreover, additional disclosures in the notes are required, e.g. analysing obligations in terms of their risks and sensitivities for the actuarial assumptions. The effects of the changes on Munich Re are currently being examined.

IFRS 9 (11/2009 and rev. 10/2010), Financial Instruments, will replace the current requirements of IAS 39 relating to recognition and measurement of financial instruments. Given its complexity, the overall project has been subdivided into three phases. The new rules in IFRS 9 that have thus far been adopted from the first phase of the project mainly concern the classification and measurement of financial instruments. Under these rules, financial assets will in future be divided into only two primary measurement categories: amortised cost and fair value through profit or loss. The distinction is to be made on the basis of the reporting entity's business model and the contractual cash flows of the assets. In addition, for equity instruments there will be the option of measurement at fair value without affecting the income statement, although then it will not be permissible for value changes recognised in other comprehensive income to be subsequently transferred to profit or loss. There also remains the possibility of voluntary measurement at fair value (fair value option). For financial liabilities, there are no changes in the measurement rules except that if the fair value option is applied, value changes attributable to a change in the entity's credit risk must be recognised without impact on profit or loss in future.

The two other phases of the project are concerned with rules for recognising impairments and for hedge accounting. These rules are still under discussion and are to be integrated into IFRS 9 after conclusion of the whole project. What is more, the new valuation principles are likely to be subject to further amendments, making it possible for certain debt securities to continue to be recognised at fair value with no impact on profit or loss.

Originally, IFRS 9 provided for a mandatory first-time application of the new provisions from 2013. Since discussions of the still outstanding project phases are taking longer than originally planned, first-time application 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.

The amendments to **IAS 32 (rev. 12/2011), Offsetting Financial Assets and Financial Liabilities** and **IFRS 7 (rev. 12/2011), Disclosures - Offsetting Financial Assets and Financial Liabilities**, clarify some issues in relation to the admissibility of offsetting financial assets and financial liabilities. They also require additional disclosures in the notes to the financial statements. These additional disclosures comprise gross and net amounts related to offsetting as well as amounts for existing rights to offset that do not

satisfy the offsetting criteria. The new disclosures are mandatory for annual periods beginning on or after 1 January 2013 and the clarifications for annual periods beginning on or after 1 January 2014. The possible impact on Munich Re is currently being examined.

IFRIC 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 the resulting asset should be measured, both initially and in subsequent periods. This interpretation has no practical significance for Munich Re.

Consolidation

Consolidated companies

In accordance with IAS 27, the consolidated financial statements include Munich Reinsurance Company (the parent) and all the entities in which Munich Reinsurance Company owns, directly or indirectly, more than half of the voting power or over which it has the factual ability to exercise control (subsidiaries). Structured entities, e.g. special funds, are consolidated in Munich Re's financial statements in accordance with SIC 12 if, from an economic point of view, they are controlled by Munich Re.

Number of consolidated subsidiaries¹

	Germany	Other countries	Total
31 Dec. previous year	80	228	308
Additions	20	16	36
Reductions	3	14	17
31 Dec. financial year	97	230	327

¹ In addition, 64 German and three 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 2011 in accordance with Section 313 para. 2 of the German Commercial Code".

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

Cash flows arising from obtaining control

€m	2011	Prev. year
Total consideration for obtaining control	-348	-4
Non-cash consideration for obtaining control	-	-
Cash consideration for obtaining control	-348	-4
Cash over which control was obtained	38	1
Total	-310	-3

Net assets obtained

€m	2011	Prev. year
Goodwill	44	2
Other intangible assets	130	-
Investments	250	2
Cash	38	1
Other assets	80	1
Technical provisions (net)	29	-1
Other liabilities	-70	-
Total	501	5

Cash flows arising from losing control

€m	2011	Prev. year
Total consideration for losing control	534	3
Non-cash consideration for losing control	-	-
Cash consideration for losing control	534	3
Cash over which control was lost	-36	-11
Total	498	-8

Net assets lost

€m	2011	Prev. year
Goodwill	-	-
Other intangible assets	6	3
Investments	595	22
Cash	36	11
Other assets	51	34
Technical provisions (net)	-373	-26
Other liabilities	-286	-19
Total	29	25

Business combinations occurring during the reporting period

On 1 January 2011, through its subsidiary Munich Health North America Inc., Wilmington, Delaware, Munich Re acquired 100% of the shares in the **Windsor Health Group Inc. (Windsor), Brentwood, Tennessee**, for a total of US\$ 135.7m (€101.2m) in cash, fully financed from our own resources.

Windsor operates government-sponsored health plans for the senior segment through its subsidiary Windsor Health Plan, Inc., Brentwood, Tennessee, which provides specialty managed healthcare services in the senior segment to more than 75,000 members in the US states of Alabama, Arkansas, Mississippi, South Carolina and Tennessee. The acquisition of Windsor strengthens the position of our US subsidiary Sterling Life Insurance Company, Bellingham, Washington State, in the sector of health insurance for seniors by sharpening our competitive edge for the challenges of the US health reform.

In connection with the acquisition of Windsor, other intangible assets of €46.6m and goodwill of €39.0m have been recognised. The goodwill derives in particular from synergies with the rest of Munich Re's Medicare business as regards products and services offered, geographical spread and distribution channels. The goodwill includes the value assigned to Windsor's staff and is not tax-deductible.

Windsor's combined opening balance sheet at the time of acquisition, after elimination of its intra-group business, also includes the following IFRS fair values: investments of €9.0m, cash at banks, cheques and cash in hand of €29.5m, receivables of €26.0m, deferred tax assets of €7.5m and other assets of €13.3m, technical provisions of €29.4m, other provisions and liabilities of €22.0m, and deferred taxes of €18.3m. Windsor's equity at the time of acquisition amounted to €33.4m.

The acquired receivables consist mainly of amounts payable by Centers for Medicare and Medicaid Services (CMS), from which Windsor receives its premiums. At the time of acquisition, these receivables amounted to €16.6m. This represents the fair value, as we do not expect any defaults from CMS, given that it is a federal agency.

No contingent liabilities, contingent payments or separate transactions within the meaning of IFRS 3 were identified. The income and expenses for the months of January to December 2011 have been recognised in the consolidated income statement. In this period, Windsor contributed €363 9m to Group earnings and -€16.1m to the consolidated result.

As Windsor was acquired with effect from 1 January 2011, the earnings and result included in the consolidated financial statements for the financial year 2011 tally with the figures since the commencement of the current financial year.

Based on the conclusion of the acquisition process and the related determination of the tax impact, the provisional figures for Windsor have been adjusted since January 2011. The adjustments mainly concern increases of €3.2m in the purchase price, €7.5m in deferred tax assets, and €3.2m in receivables from CMS. Altogether, there was a decrease of €6.8m in goodwill.

Via its subsidiary IK Premium Fonds GmbH & Co. KG, Düsseldorf, on the basis of a placement guarantee, Munich Re increased its stake in **IDEENKAPITAL Metropolen Europa GmbH & Co. KG, Düsseldorf**, by 60.60% for a purchase price of €25.7m on 30 May 2011. In the third quarter, a further 11.74% was acquired for a purchase price of €18.0m. Following the two acquisitions, Munich Re now holds 72.35% of the shares. IDEENKAPITAL Metropolen Europa GmbH & Co. KG, Düsseldorf, is a closed real estate fund whose object is the acquisition and holding of units in the Hines Pan-European Core Fund.

The following acquisitions are part of the **RENT programme (Renewable Energy and New Technologies)**, through which Munich Re plans to invest in renewable energies and new environmental technologies.

On 1 January 2011, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in 11 wind park companies in a bidding process. The wind park portfolio comprises 11 wind parks already operating in various regions of Germany with a total of 40 wind turbines.

Through a purchase and share-transfer contract and an agreement on the change of general partner, MR RENT-Investment GmbH, Munich, acquired from wpd windpark asset GmbH & Co. KG, Bremen, all the limited partner shares in each of the following wind park companies:

- // Windpark Mittelhausen GmbH & Co. KG, Bremen
- // Windpark Sassenberg GmbH & Co. KG, Bremen
- // Einzelanlage Hohenseefeld GmbH & Co. KG, Bremen
- // wpd Windpark Wergzahna GmbH & Co. KG, Bremen
- // Windpark Hillmersdorf GmbH & Co. KG, Bremen
- // Windpark Marwitz GmbH & Co. KG, Bremen
- // Windpark Großberndten 2 GmbH & Co. KG, Bremen
- // Windpark Kruge GmbH & Co. KG, Bremen
- // Windpark Geisleden Betriebs GmbH & Co. KG, Bremen
- // Windpark Klein Bünzow GmbH & Co. KG, Bremen
- // Windpark Langengrassau GmbH & Co. KG, Bremen

MR RENT-Management GmbH, Munich, also a subsidiary of Munich Re, became the new general partner in the limited partnerships.

The provisional purchase price for the wind park portfolio was €40.5m in cash and fully financed from our own resources. The purchase price comprises various forms of conditional consideration. At the reporting date, the adjustment to the purchase price due to additional or fewer downtimes was still open. There were no significant impacts on the results from adjustments to the purchase price made in the period under review.

The IFRS fair values of the assets and liabilities of the wind park portfolio at the time of acquisition are as follows: intangible assets of €23.8m, investments of €101.7m, other assets of €10.2m, liabilities of €90.7m, and other liabilities of €5.4m.

The fair value of the acquired receivables from deliveries and services amounts to €3.6m and corresponds to the gross contract value. No defaults were expected at the time of acquisition.

Goodwill of €0.9m arithmetically resulting from the transaction was written off in full after we carried out an impairment test.

Earnings of €13.9m for the months of January to December 2011 have been recognised in the consolidated income statement. In this period, the wind park portfolio business contributed €1.2m to the consolidated result.

As the wind park portfolio was acquired with effect from 1 January 2011, the earnings and result included in the consolidated result for the financial year 2011 tally with the figures since the commencement of the current financial year.

On 19 July 2011, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the following two photovoltaic solar park companies from FOTOWATIO Italia S.R.L. Turin, Italy:

// FOTOWATIO Italia Galatina S.R.L., Galatina, Italy
// FOTOUNO S.R.L., Ginosa, Italy

FOTOWATIO Italia Galatina S.R.L. operates a photovoltaics park outside the town of Galatina (near Lecce, in the Apulia region of Italy). FOTOUNO S.R.L. operates three photovoltaic parks (Cantore Plant, Stornara Plant, Marinella Plant) on the outskirts of the town of Ginosa.

The purchase price for the solar park companies is €150.9m. The amount comprises a cash payment of €17.3m to the seller and €133.6m for the settlement of liabilities of the acquired companies. At the reporting date, the contingent adjustment to the purchase price due to deviations between the actual and estimated net debt of the acquired companies at the time of acquisition (including the results for July) had been concluded, with no significant impacts on the results.

The IFRS fair values of the assets and liabilities of the companies at the time of acquisition are as follows: intangible assets of €42.7m, investments of €91.1m, receivables of €20.8m, other assets of €1.4m, liabilities of €133.6m towards MR RENT-Investment GmbH, other liabilities of €2.7m, and deferred tax liabilities of €6.1m. The liabilities of €133.6m towards MR RENT-Investment GmbH are eliminated in the consolidation process.

The fair value of the receivables acquired as part of the transaction amounts to €20.8m and corresponds to the carrying amount. No defaults were expected at the time of acquisition.

The goodwill of €3.7m arithmetically resulting from the transaction was written off in full after we carried out an impairment test.

Since 19 July 2011, the business of the acquired companies contributed €8.4m to the consolidated earnings and €3.7m to the consolidated result. If the business combination had taken place on 1 January 2011, the consolidated earnings would have increased by €17.3m. The change in the consolidated result cannot be accurately calculated owing to lack of data at the beginning of the year.

On 17 October 2011, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park operating company Adelfa Servicios a Instalaciones Fotovoltaicas S.L. (Adelfa), Santa Cruz de Tenerife, Spain, from Capital Riesgo Global, Boadilla del Monte, Madrid, Spain, and the photovoltaic plant of Gestión Instalaciones Fotovoltaicas, S.L., Boadilla del Monte, Madrid, Spain. The transaction makes the photovoltaic plant part of Adelfa's assets.

A purchase price of €32.3m was paid for Adelfa and the photovoltaic plant. No contingent purchase price adjustments were agreed. The purchase price comprises €2.5m for settlement of liabilities of the acquired company and a cash capital increase of €29.8m at Adelfa for the acquisition of the photovoltaic plant.

The IFRS fair values of the assets and liabilities of Adelfa and the photovoltaic plant at the time of acquisition are as follows: intangible assets of €15.5m, investments of €15.3m, receivables of €1.1m, other assets of €4.9m, liabilities of €2.5m towards MR RENT-Investment GmbH, and other liabilities of €4.6m.

The fair value of the receivables acquired as part of the transaction amounts to €1.1m and corresponds to the carrying amount. No defaults were expected at the time of acquisition.

The goodwill of €0.1m arithmetically resulting from the transaction was written off in full after we carried out an impairment test.

Since 17 October 2011, the business of Adelfa and the photovoltaic plant contributed €0.4m to the consolidated earnings. During this period, income and expenses balanced each other out. If the business combination had taken place on 1 January 2011, the consolidated earnings would have increased by €3.3m. The change in the consolidated result cannot be accurately calculated owing to lack of data at the beginning of the year.

Business combinations completed in prior years

At the time of acquisition on 8 May 2007, the purchase price for the Bell & Clements Group contained various contingent components. In the third quarter of 2011, these had to be reduced by €3m, because their settlement amount was below the original estimate. This led to a reduction in goodwill of the same amount. All contingent payment obligations from the acquisition of the Bell & Clements Group have now been settled.

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	22	27	49
Additions	1	3	4
Reductions	2	2	4
31 Dec. financial year	21	28	49

Number of other associates (not valued at equity)

	Germany	Other countries	Total
31 Dec. previous year	45	16	61
Additions	-	1	1
Reductions	2	6	8
31 Dec. financial year	43	11	54

Information on the measurement of investments in associates can be found in the notes on assets, under B – Investments.

Assets

A // Intangible assets

Goodwill resulting from the first-time consolidation of subsidiaries is tested for impairment at least annually, in accordance with IAS 36. We additionally carry out ad-hoc impairment tests if there are indications of impairment. For impairment testing, the goodwill is allocated to the cash-generating units or groups of cash-generating units expected to derive benefit from the synergies of the business combination. To ascertain whether there is any impairment, the carrying amount (including allocated goodwill) of a cash-generating unit or a group of cash-generating units is compared with that unit's or group's recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use (present value of future cash flows expected to be derived from a cash-generating unit or a group of cash-generating units). 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, self-developed and other software, and acquired sales networks, client bases and brand names.

Acquired insurance portfolios are recognised at their present value on acquisition (PVFP – present value of future profits). This is determined as the present value of expected profits from the portfolio acquired, without consideration of new business and tax effects. The acquired insurance portfolios are amortised in accordance with the realisation of the profits from the insurance portfolios underlying the PVFP calculation. They are regularly tested for impairment in accordance with IFRS 4 (liability adequacy test); cf. notes on liabilities item C. Write-downs are recognised under operating expenses.

Self-developed and other software, acquired sales networks, client bases and brand names are carried at cost. Self-developed and other software is amortised on a straight-line basis at a rate of 20–33% over its useful life – three to five years – or in exceptional circumstances at a rate of at least 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%, and those of the brand names 1–30 years and 3–100%; the items in question are amortised consistently in accordance with the straight-line method. In addition, the assets are tested for impairment at each balance sheet date and write-downs or write-ups made if required. Write-downs and write-ups are distributed in the consolidated income statement between investment expenses, expenses for claims and benefits and operating expenses. If it is not possible to allocate the write-downs and write-ups to the functional areas, they are shown under other non-operating expenses and income.

B // Investments

Land and buildings shown under investments comprise property used by third parties and are carried at cost. Maintenance expenses are recognised as an expense. Structural measures equivalent to 5% or more of the historical cost of a building are generally assessed with regard to whether they have to be capitalised. Buildings are depreciated on a straight-line basis in accordance with the component approach, depending on the weighted useful life for their specific building class. The underlying useful lives mainly range between 40 and 55 years. If the recoverable amount of land and buildings falls below their carrying amount, the carrying amount is written down to the recoverable amount. Impairment losses are recognised as investment expense in the consolidated income statement, and reversals of impairment losses as investment income.

Investments in affiliated companies that we do not consolidate because they are not material are generally carried at their fair values. If the investments are quoted on a stock exchange, we use the share prices at the balance sheet date; for unquoted investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

Investments in associates are valued by the equity method at the Group's proportionate share of their net assets. The associate's earnings attributable to the Group are included in the investment result. As a rule, the equity and annual result from the most recent individual or consolidated financial statements of the associate are used; in the case of the annual financial statements of significant associates, appropriate adjustments are made to conform them to Munich Re's accounting policies, in accordance with IAS 28.27; exceptional transactions of material importance for a true and fair picture of the associate's financial position are recognised in the same financial year. Investments in associates that are not material for assessing the Group's financial position are generally accounted for at fair value. To determine the fair value, we use the share prices at the balance sheet date if the investments are quoted on a stock exchange; for unquoted investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

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

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

Fixed-interest or non-fixed-interest securities available for sale that are not designated as at fair value through profit or loss or recognised under loans are accounted for at fair value. 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 for hedging purposes but which do not meet the requirements of IAS 39 for hedge accounting, and the positive fair values of insurance derivatives and of derivative components separated from the underlying insurance contract. Securities designated as at fair value through profit or loss comprise structured securities. This designation may only be made at the time of acquisition; reallocation to this category in later periods is not possible.

Securities at fair value through profit or loss are accounted for at fair value at the balance sheet date. If no quoted prices in an active market are available, fair values (particularly with derivatives) are based on recognised valuation methods. Munich Re uses a range of valuation models for this purpose, details of which may be obtained from the following table:

Valuation models

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
Stock options traded on the stock exchange	Quoted price	-	-
OTC stock options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate Dividend yield	Black-Scholes (European) Cox, Ross and Rubinstein (American) Monte Carlo simulation
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Equity/index futures	Quoted price	-	-
Total return swaps (hedge fund certificates)	Theoretical price	Market values of the funds Interest-rate curve	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 matrix and skew Swap curve Money-market interest-rate curve	Black-76
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Interest-rate futures	Quoted price	-	-
Inflation swaps	Theoretical price	Zero coupon inflation swap rates Interest-rate curve	Present-value method
Bond futures	Quoted price	-	-
Quoted options on bond futures	Quoted price	-	-
Currency risks			
Currency options	Theoretical price	Volatility Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
Other transactions			
Insurance derivatives (excluding variable annuities)	Theoretical price	Market values of the cat bonds Interest-rate curve	Present-value method
Insurance derivates (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	Present-value method
Commodity options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate	Black-Scholes (European) Cox, Ross and Rubinstein (American)

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

Deposits retained on assumed reinsurance are receivables from our cedants for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

Other investments comprise deposits with banks and tangible assets in renewable energies and forestry investments. Deposits with banks are measured at cost in accordance with the effective interest method. Tangible assets in renewable energies are generally accounted for at amortised cost. The items in question are amortised on a straight-line basis at a rate of 5% over a useful life of 20 years. Forestry investments are measured at fair value less estimated costs to sell.

Repurchase agreements and securities lending

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

Securities that we lend by way of securities lending continue to be recognised in our balance sheet, as the main risks and rewards remain with Munich Re; securities that we have borrowed are accounted for by the lender. Interest income from these transactions is recognised in the investment result.

Recognition of financial instruments

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

Determining fair values

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

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

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

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

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

For assets allocated to Level 3, we use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data are available. The inputs used reflect Munich Re's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data. The financial instruments allocated to this level of the fair value hierarchy largely comprise investments in private equity, renewable energy and new technologies (RENT), certain credit structures, and investments in affiliated companies and associates measured at fair value. We also allocate insurance derivatives and derivative components that are separated from the host insurance contract to Level 3.

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

Net investment result

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

Impairment

At each balance sheet date, we assess whether there is any substantial objective evidence of impairment in a financial asset or group of financial assets. Impairments in value are recognised as an expense in the income statement. IAS 39.59 contains a list of factors providing substantial objective evidence of impairment of such financial assets. In addition, IAS 39.61 states that for equity investments, a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. These rules are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, we assume a significant decline in fair value if the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months. In the case of fixed-interest securities and loans, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer.

We determine acquisition cost on the basis of the average purchase price. In the case of an impairment, a write-down is made to the fair value at the balance sheet date, i.e. generally the publicly quoted market price. If there is a further fall in the fair value of equity investments that have already been written down once, a further write-down recognised in the income statement is made again immediately. Such impairments recognised in profit or loss may not be reversed through profit or loss. If, in a subsequent period, the reasons for the impairment of fixed-interest securities or loans cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

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

These are investments for policyholders under unit-linked life insurances. They are measured at fair value. Unrealised gains or losses from changes in fair value are included in the investment result. These are matched by corresponding changes in the technical provisions (equity and liabilities item D), which are included in the technical result. The change in technical provisions also includes changes from additional premium components. Recognising these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

D // Ceded share of technical provisions

The share of technical provisions for business ceded by us is determined from the respective technical provisions in accordance with the terms of the reinsurance agreements, cf. the notes on equity and liabilities item C. Appropriate allowance is made for the credit risk.

E // Receivables

Current tax receivables and **other receivables** are accounted for at nominal value. Adjustments of value are made if there is objective evidence of impairment, cf. assets item B – Impairment. In impairment tests of our receivables, we generally first assess whether objective evidence of impairment exists for items that are individually significant. If this is not the case, and also in the case of individually insignificant items, the impairment test is carried out collectively on the basis of groups of similar receivables. Receivables that are individually assessed for impairment are not included in the collective assessment. The amount of the probable loss is measured as the difference between the amortised cost and the present value of estimated future cash flows. The impairment thus determined is recognised as an expense. We generally deduct impairments directly from the items concerned on the assets side, without using a value adjustment account. If, in a subsequent period, the reasons for the impairment cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

Current tax receivables comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax receivables are shown under "other receivables".

F // Cash at banks, cheques and cash in hand

Cash and cheques are accounted for at face value.

G // Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. In life business and long-term health primary insurance, acquisition costs are capitalised and amortised over the duration of the contracts. This is done either proportionally to the premium income (FAS 60) or proportionally to the respective contracts' expected gross profit margins calculated for the relevant year of the contract term (FAS 97, 120). The allocation of individual contracts to the FASs concerned is shown in the notes on equity and liabilities item C. In determining the amount of amortisation, we take into account an actuarial interest rate and changes resulting from the disposal or withdrawal of contracts from the portfolio. In property-casualty business, short-term health primary insurance and health reinsurance, the deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using a liability adequacy test as per IFRS 4; cf. notes on equity and liabilities item C.

H // Deferred tax assets

Under IAS 12, deferred tax assets must be recognised in cases where asset items have to be valued lower, or liability items higher, in the consolidated balance sheet than in the tax accounts of the Group company concerned and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. We take into account the tax rates of the countries concerned and the consolidated company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries. Changes in tax rates and tax legislation that have already been adopted by the government at the balance sheet date are taken into account. Deferred tax assets are recognised if a realisation is probable.

I // Other assets

Other assets are generally carried at amortised cost. The owner-occupied property recognised under other assets is accounted for as outlined under the notes on asset item B - Land and buildings. Plant and equipment is amortised mainly on a straight-line basis, the underlying useful lives ranging between one and 50 years. Impairment losses, and impairment losses reversed, in the Group's owner-occupied property and plant and equipment are distributed between the underwriting 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 capital reserve is reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects.

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

Own shares held by Munich Re at the balance sheet date have been deducted directly from retained earnings.

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

Non-controlling interests are accounted for in the balance sheet as part of equity. These are the shares of third parties in the equity of subsidiaries that are not wholly owned directly or indirectly by Munich Reinsurance Company. Direct minority interests in special funds are recognised under "other liabilities". The portion of the result attributable to non-controlling interests is shown in the consolidated result.

B // Subordinated liabilities

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

C // Gross technical provisions

The technical provisions are shown as gross figures in the balance sheet, i.e. before deduction of the ceded share; cf. the explanatory remarks on assets item D. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements. Acquisition costs for insurance contracts are capitalised and amortised over the terms of the contracts; cf. notes on assets item G. The measurement of technical provisions is based on 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 (except long-term accident cover) and parts of health business.

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

In reinsurance, measurement is carried out partly individually for each risk and partly collectively for reinsured portfolios, using biometric actuarial assumptions based on the tables of the national actuarial associations. These are adjusted for the respective reinsured portfolio, in line with the probabilities observed for the occurrence of an insured event. Discount rates are chosen that reflect the best estimate of expected investment income, less a safety margin. For the major part of the portfolio, these assumptions are fixed at the beginning of the contract and not changed over its duration.

In primary insurance, measurement is generally carried out individually for each risk. For German life primary insurance, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used. We also largely use the tables of the national actuarial associations for the rest of the primary insurance business. The actuarial interest rate employed for discounting in life primary insurance is limited by the respective maximum actuarial interest rate prescribed by the supervisory authorities. In health primary insurance, discount rates are chosen that reflect the best estimate of expected investment income, less a safety margin.

The actuarial assumptions are adjusted if this is shown to be necessary by a liability adequacy test in accordance with IFRS 4.

The measurement of the provisions for future policy benefits depends on the type of contract, being based either on FAS 60 (life primary insurance without performance-related participation in surplus, health primary insurance and the bulk of reinsurance treaties), on FAS 97 (life primary insurance on the universal life model, unit-linked life insurance and life reinsurance for assumed policies based on FAS 97) or on FAS 120 (life primary insurance with performance-related participation in surplus).

For contracts in accordance with FAS 60, the provision for future policy benefits is calculated from the present value of estimated future policy benefits (including claims adjustment expenses) less the present value of future net level premiums. Net level premium is that part of the gross premium that is needed to finance future policy benefits. Life primary insurance contracts with limited premium payment are generally valued in accordance with FAS 97.

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

In the case of contracts as per FAS 120, the provision for future policy benefits comprises the net level premium reserve and liabilities for terminal dividends. The net level premium reserve is calculated from the present value of guaranteed policy benefits (including acquired bonuses but excluding claims adjustment expenses) less the present value of future net level premiums. The net level premium is the net premium less the portion of the premium envisaged for covering claims adjustment expenses. The actuarial assumptions are generally the same as those used for premium calculation. The provision for terminal dividends is built up proportionally with a fixed share of the expected gross profit margins. The same method is used for this as for determining the amortisation of the deferred acquisition costs.

The **provision for outstanding claims** is for payment obligations arising from insurance contracts in primary insurance and reinsurance where the size of the claim or the timing of the payment is still uncertain. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims whose occurrence is not yet known (e.g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustment expenses. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological factors). Future payment obligations are generally not discounted; exceptions are some provisions for occupational disability pensions and annuities in workers' compensation and other lines of property-casualty business, which we discount. For determining the provision for outstanding claims, Munich Re uses a range of actuarial projection methods, including the chain ladder and the Bornhuetter-Ferguson method. In applying the statistical methods, we regard large exposures separately. The standard actuarial methods we use are applied both to the run-off triangles for the payments and to the run-off triangles for the reported claims, so that we obtain a range of estimates for the ultimate loss. Within this range, a realistic estimated value for the ultimate loss is determined.

Other technical provisions mainly include the provision for premium refunds in primary insurance and the provision for profit commission in reinsurance. Provisions for premium refunds are posted in life and health primary insurance for obligations involving policyholder bonuses and rebates that have not yet been irrevocably allocated to individual contracts at the balance sheet date. Where these provisions are posted on the basis of national regulations, a retrospective approach is usually taken based on supervisory or individual contract regulations. The provision for premium refunds based on national regulations relates only to German primary insurance business. The provision for premium refunds also incorporates the provision for premium loadings and the provision for future premium reductions in German health primary insurance. For life insurance companies, health insurance companies and pension funds subject to supervision by the German Federal Financial Supervisory Authority, the supervisory rules in accordance with the German Insurance Control Act and with the respective statutory orders have to be observed.

Besides this, there are provisions for deferred premium refunds, which are posted for the amounts apportionable to policyholders from the valuation differences between IFRS and local GAAP on the basis of the expected future participation quotas. For unrealised gains and losses on investments available for sale, which are recognised directly in equity (see assets item B), the resultant provision for deferred premium refunds is also posted without impact on profit or loss; otherwise, changes in the provision for deferred premium refunds are recognised in the income statement.

All technical provisions are regularly subjected to a **liability adequacy test in accordance with IFRS 4**. If current experience shows that the provisions posted on the basis of the original assumptions – less the related deferred acquisition costs and the present value of the related premiums – are inadequate to cover the expected future benefits, we adjust the relevant technical provisions with recognition in profit or loss and disclose this under impairment losses/unscheduled changes in the notes to the consolidated balance sheet; see (2) Other intangible assets, (14) Deferred acquisition costs and (21) Provision for future policy benefits. The appropriateness of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future amount to be paid. The appropriateness of the provision for future policy benefits is assessed on the basis of realistic estimates of the actuarial assumptions, the proportional investment result and, for contracts with participation in surplus, the future profit sharing.

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

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

E // Other accrued liabilities

This item includes **provisions for post-employment benefits**. Munich Re companies generally give commitments to their staff in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the staff member's length of service and salary. Under defined contribution plans, the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations. Under defined benefit plans, the staff member is promised a particular level of retirement benefit either by the companies or by a pension fund. The companies' contributions needed to finance this are not fixed in advance. If pension obligations are covered by assets held by a legally separate entity (e.g. a fund or a con-

tractual trust agreement in the form of a two-way trust) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets. If the fair value of the assets exceeds the related outsourced pension commitments, this reimbursement right is recognised under “other receivables”.

Pension obligations are recognised in accordance with IAS 19, using the projected unit credit method and based on actuarial studies. The calculation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

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

The **other provisions** included in this item are established in the amount of the probable requirement. Such amounts are not discounted if the interest-rate effect is insignificant.

F // Liabilities

This item comprises bonds and notes issued, deposits retained on ceded business, current tax liabilities, and other liabilities. Financial liabilities are generally recognised at amortised cost. Derivatives (derivative financial instruments, insurance derivatives and derivative components separated from the host insurance contract) are recognised at fair value. Details of how the fair value is determined are provided under assets item B.

Current tax liabilities comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax liabilities are shown under “other liabilities”.

Tax liabilities for current taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

Deferred tax obligations are shown under equity and liabilities item G.

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

G // Deferred tax liabilities

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

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 61](#), 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

Rate for €1	Balance sheet				Income statement				Income statement			
	31.12.2011	Prev. year	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010		
Australian dollar	1.26620	1.30875	1.33147	1.34548	1.35471	1.36117	1.37376	1.42952	1.44180	1.53014		
Canadian dollar	1.32185	1.33300	1.37857	1.38415	1.39349	1.34905	1.37457	1.34359	1.30782	1.43929		
Pound sterling	0.83530	0.85685	0.85711	0.87730	0.88272	0.85434	0.85925	0.83357	0.85292	0.88760		
Rand	10.48050	8.87535	10.90820	10.08520	9.77872	9.56836	9.36757	9.45681	9.60159	10.38680		
Swiss franc	1.21390	1.25045	1.22905	1.16407	1.25180	1.28747	1.32172	1.33251	1.40842	1.46288		
US dollar	1.29815	1.34155	1.34715	1.41210	1.43956	1.36872	1.35754	1.29286	1.27292	1.38356		
Yen	99.8797	108.8060	104.1610	109.6890	117.3950	112.5780	112.0370	110.8440	117.2940	125.5380		

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)

Up to the third quarter of 2011, Munich Re's primary insurance segments comprised all the activities of the ERGO Insurance Group with the exception of the international health primary insurance business handled by Munich Health. Following the legal transfer of the international DKV companies to Munich Health in the fourth quarter of 2011, health primary insurance business outside Germany is no longer an activity of the ERGO Insurance Group. As a consequence, with effect from that quarter, all of the ERGO Group's activities are recognised in the primary insurance segments. Moreover, 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 segments.

Munich Re uses different performance indicators and measures, depending on the type and duration of the business. Besides this, IFRS result contributions are a central feature of planning and strategy in all segments. Therefore, the uniform assessment basis used for the measure of segment result is the operating result adjusted to eliminate non-operating components (e.g. foreign currency gains and losses, income and expenses from the sale of intangible assets). In line with our internal management approach, the operating result is split into a technical result and a non-technical result, with an interest component allocated to the underwriting business in the form of income from technical interest; cf. (30) Income from technical interest.

Not all the investments we hold to cover our technical provisions and other liabilities are managed separately by field of business. This means that for our reinsurance companies which conduct life, health and property-casualty reinsurance, we have to divide up investment results and investment portfolios that cannot be directly allocated to a particular segment. In those cases where, as reinsurers, we post technical provisions with our clients to collateralise our obligations, the original amounts of the resulting deposits retained and associated interest income are naturally allocated precisely to the respective segment. This also applies to the portfolios and investment income from reinsurance covers for variable annuities. For all other portfolios and investment income, we undertake what is inevitably an imprecise division based on an allocation key.

Transactions between reported segments are measured on the basis of market prices, like transactions with third parties, and eliminated in the consolidation.

Segment assets

» Segment assets (XLS, 25 KB)

€m	Reinsurance					
	Life		Property-casualty		Life	
	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year
A. Intangible assets	169	168	2,007	1,969	1,103	1,162
B. Investments						
I. Land and buildings, including buildings on third-party land	257	267	1,187	1,178	1,445	1,760
Thereof:						
Held for sale	-	-	-	-	13	-
II. Investments in affiliated companies and associates	1,359	1,274	6,000	5,418	350	406
Thereof:						
Associates accounted for using the equity method	78	58	403	295	100	179
III. Loans	230	339	1,065	1,436	35,863	32,708
IV. Other securities						
1. Held to maturity	-	-	-	-	13	42
2. Available for sale	14,489	12,879	51,355	50,529	34,352	37,695
Thereof:						
Held for sale	-	-	52	-	-	-
3. At fair value through profit or loss	549	331	909	603	990	617
	15,038	13,210	52,264	51,132	35,355	38,354
V. Deposits retained on assumed reinsurance	8,694	6,121	1,198	1,500	166	137
VI. Other investments	245	457	1,176	1,333	934	624
	25,823	21,668	62,890	61,997	74,113	73,989
C. Investments for the benefit of life insurance policyholders who bear the investment risk						
D. Ceded share of technical provisions	930	987	2,518	2,396	2,837	2,936
Thereof:						
Held for sale	-	-	13	-	-	-
E. Other segment assets	6,271	5,631	11,499	10,183	8,613	9,085
Total segment assets	33,193	28,454	78,914	76,545	91,758	92,125

Segment equity and liabilities

» Segment equity and liabilities (XLS, 25 KB)

€m	Reinsurance					
	Life		Property-casualty		Life	
	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year
A. Subordinated liabilities	1,350	1,344	3,043	2,885	108	105
B. Gross technical provisions						
I. Unearned premiums	45	52	6,144	5,669	8	1
Thereof:						
Held for sale	-	-	24	-	-	-
II. Provision for future policy benefits	14,638	11,605	-	317	69,387	69,606
III. Provision for outstanding claims	5,116	4,509	41,230	37,161	1,581	1,510
Thereof:						
Held for sale	-	-	16	-	-	-
IV. Other technical provisions	505	498	65	138	2,457	2,167
	20,304	16,664	47,439	43,285	73,433	73,284
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholder						
D. Other accrued liabilities	167	174	677	623	616	565
E. Other segment liabilities	5,995	5,904	11,486	11,296	8,801	9,300
Total segment liabilities	27,816	24,086	62,645	58,089	88,330	88,460

	Primary insurance		Munich Health		Asset management		Consolidation		Total	
	Health		Property-casualty							
	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year
	685	691	912	955	199	124	19	21	-2	-4
796	623	115	340	31	16	64	63	-6	-	3,889
-	-	-	-	-	-	-	-	-	-	13
144	317	4,074	4,280	277	53	74	59	-11,124	-10,716	1,154
86	107	142	153	93	51	57	42	-35	-15	924
17,444	15,856	2,541	2,482	32	25	-	-	-3,915	-3,911	53,260
-	-	-	-	-	-	-	-	-	-	13
13,073	12,428	6,089	5,857	4,080	2,621	239	114	-	-	123,677
-	-	-	-	-	-	-	-	-	-	52
70	37	9	12	10	12	-	-	-1	-	2,536
13,143	12,465	6,098	5,869	4,090	2,633	239	114	-1	-	126,226
1	1	21	20	1,321	1,251	-	-	-1,971	-2,128	9,430
77	87	258	552	114	129	265	780	-414	-763	2,655
31,605	29,349	13,107	13,543	5,865	4,107	642	1,016	-17,431	-17,518	196,614
-	3	-	-	1	1	-	-	-	-	5,093
1,050	1,062	920	894	59	30	-	-	-2,680	-2,815	5,634
-	-	-	-	-	-	-	-	-	-	13
3,478	3,464	4,351	4,445	2,329	1,919	142	58	-1,536	-2,111	35,147
36,818	34,569	19,290	19,837	8,453	6,181	803	1,095	-21,649	-22,448	247,580
										236,358

	Primary insurance		Munich Health		Asset management		Consolidation		Total	
	Health		Property-casualty							
	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year	31.12. 2011	Prev. year
	23	23	970	366	220	185	-	-	-1,031	-61
98	97	1,735	1,691	443	444	-	-	-82	-75	8,391
-	-	-	-	-	-	-	-	-	-	24
24,216	22,855	425	443	1,661	1,591	-	-	-1,850	-2,004	108,477
946	939	5,043	4,915	1,110	1,075	-	-	-634	-608	54,392
-	-	-	-	-	-	-	-	-	-	16
6,929	6,508	152	182	220	215	-	-	-166	-153	10,162
32,189	30,399	7,355	7,231	3,434	3,325	-	-	-2,732	-2,840	181,422
-	3	-	-	1	1	-	-	-	-	5,373
303	316	1,756	1,776	160	102	46	47	-203	-145	3,522
2,315	2,080	4,724	6,037	1,839	1,559	611	909	-6,500	-8,618	29,271
34,830	32,821	14,805	15,410	5,654	5,172	657	956	-10,466	-11,664	224,271
										213,330
									Equity	23,309
									Total equity and liabilities	247,580
										236,358

Segment income statement

» Segment income statement (XLS, 33 KB)

€m	Reinsurance					
	Life		Property-casualty		Life	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
Gross premiums written	9,602	7,901	16,903	15,701	6,263	6,484
Thereof:						
From insurance transactions with other segments	121	135	346	324	1	-
From insurance transactions with external third parties	9,481	7,766	16,557	15,377	6,262	6,484
1. Earned premiums						
Gross	9,610	7,975	16,628	15,286	6,261	6,484
Ceded	427	416	859	1,093	269	282
Net	9,183	7,559	15,769	14,193	5,992	6,202
2. Income from technical interest	682	556	1,385	1,371	2,195	3,052
3. Expenses for claims and benefits						
Gross	7,277	5,977	14,002	10,669	7,243	8,333
Ceded share	222	174	786	765	147	163
Net	7,055	5,803	13,216	9,904	7,096	8,170
4. Operating expenses						
Gross	2,576	2,391	4,896	4,652	1,300	1,148
Ceded share	133	158	117	215	78	58
Net	2,443	2,233	4,779	4,437	1,222	1,090
Thereof:						
Amortisation and impairment losses of acquired insurance portfolios	6	13	-	-	45	28
5. Technical result (1-4)	367	79	-841	1,223	-131	-6
6. Investment result						
Investment income	2,626	1,799	6,746	4,696	4,817	4,712
Investment expenses	1,646	926	4,589	2,133	2,241	1,227
Total	980	873	2,157	2,563	2,576	3,485
Thereof:						
Interest and similar income	798	727	1,671	1,724	3,030	3,019
Interest charges and similar expenses	25	41	104	69	29	26
Write-downs of investments	892	539	1,684	755	1,375	658
Write-ups of investments	711	470	1,298	558	725	660
Income from associates accounted for using the equity method	13	7	62	35	-	7
7. Other operating income	119	84	302	321	486	462
Thereof:						
Interest and similar income	31	27	36	66	35	7
Write-ups of other operating assets	23	1	53	3	2	1
8. Other operating expenses	72	46	231	227	530	534
Thereof:						
Interest charges and similar expenses	16	6	26	9	21	19
Write-downs of other operating assets	5	3	11	28	18	30
9. Deduction of income from technical interest	-682	-556	-1,385	-1,371	-2,195	-3,052
10. Non-technical result (6-9)	345	355	843	1,286	337	361
11. Operating result	712	434	2	2,509	206	355
12. Other non-operating result, finance costs and impairment losses of goodwill	-160	-86	-428	-269	-89	-102
13. Taxes on income	149	55	-797	434	4	81
14. Consolidated result	403	293	371	1,806	113	172
Thereof:						
Attributable to Munich Reinsurance Company equity holders	404	294	375	1,809	115	172
Attributable to non-controlling interests	-1	-1	-4	-3	-2	-

	Primary insurance		Munich Health		Asset management		Consolidation		Total	
	Health		Property-casualty							
	2011	Prev. year	2011	Prev. year	2011	Prev. year	2011	Prev. year	2011	Prev. year
	5,717	5,499	5,637	5,498	6,133	5,140	-	-	-683	-682
7	6	42	39	166	178	-	-	-683	-682	-
5,710	5,493	5,595	5,459	5,967	4,962	-	-	-	-	49,572
5,703	5,492	5,492	5,329	6,120	5,075	-	-	-680	-686	49,134
222	231	546	516	79	28	-	-	-680	-686	1,722
5,481	5,261	4,946	4,813	6,041	5,047	-	-	-	-	47,412
1,469	1,431	158	174	87	88	-	-	-79	-85	5,897
5,920	5,805	3,538	3,485	4,941	4,020	-	-	-598	-542	42,323
116	131	398	355	61	22	-	-	-441	-446	1,289
5,804	5,674	3,140	3,130	4,880	3,998	-	-	-157	-96	41,034
659	680	1,835	1,726	1,195	1,074	-	-	-156	-126	12,305
81	80	124	105	13	6	-	-	-230	-191	316
578	600	1,711	1,621	1,182	1,068	-	-	74	65	11,989
5	5	1	2	-	-	-	-	-	-	57
568	418	253	236	66	69	-	-	4	-54	286
										1,965
2,113	1,702	1,216	1,159	308	202	38	12	-1,293	-616	16,571
812	385	505	386	144	60	-	10	-122	-103	9,815
1,301	1,317	711	773	164	142	38	2	-1,171	-513	6,756
1,262	1,194	323	353	171	127	9	5	-231	-158	7,033
9	9	10	13	3	2	-	-	-3	-5	177
431	85	141	153	54	20	1	10	-	-	4,578
144	71	46	38	26	20	3	-	-	-	2,953
5	6	-4	-3	3	9	21	-10	-	-	100
118	154	1,085	1,070	96	102	261	265	-1,624	-1,651	843
5	8	6	6	16	15	9	5	-20	-9	118
1	2	2	-	14	-	-	-	-	-	95
193	222	1,233	1,227	74	94	198	192	-1,723	-1,693	808
										849
31	34	114	108	8	6	20	10	-100	-56	136
10	9	42	25	4	9	1	1	-1	-	90
-1,469	-1,431	-158	-174	-87	-88	-	-	79	85	-5,897
-243	-182	405	442	99	62	101	75	-993	-386	894
325	236	658	678	165	131	101	75	-989	-440	1,180
										3,978
-49	-62	-247	-310	-77	-29	-20	-10	50	12	-1,020
32	9	6	49	43	39	22	28	-11	-3	-552
244	165	405	319	45	63	59	37	-928	-425	712
										2,430
243	165	388	312	44	60	59	37	-926	-427	702
1	-	17	7	1	3	-	-	-2	2	10
										8

Non-current assets by country¹



» Non-current assets by country (XLS, 16 KB)

€m	31.12.2011	Prev. year
Germany	7,721	7,651
USA	2,109	2,024
Austria	441	472
UK	296	296
Sweden	245	247
Italy	201	63
Spain	161	136
Netherlands	160	177
France	159	161
Poland	129	126
Switzerland	99	96
Portugal	69	110
Others	287	608
Total	12,077	12,167

¹ The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property, as well as investments in renewable energy (RENT).

Investments in long-term assets per segment^{1,2}

€m	31.12.2011	Prev. year
Reinsurance life	89	72
Reinsurance property-casualty	330	248
Primary insurance life	69	110
Primary insurance health	26	80
Primary insurance property-casualty	182	235
Munich Health	115	26
Asset management	7	33
Total	818	804

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).

² After elimination of intra-Group transactions across segments.

Gross premiums written¹

€m	Reinsurance		Primary insurance		Munich Health		Total	
	2011	Prev. year	2011	Prev. year	2011	Prev. year	2011	Prev. year
Europe								
Germany	1,155	1,431	13,228	13,266	40	67	14,423	14,764
UK	3,951	3,843	212	151	395	465	4,558	4,459
Belgium	31	36	539	487	429	399	999	922
Spain	468	504	63	66	628	601	1,159	1,171
Poland	8	12	1,012	923	-	-	1,020	935
Others	2,611	2,450	2,327	2,371	109	125	5,047	4,946
	8,224	8,276	17,381	17,264	1,601	1,657	27,206	27,197
North America								
USA	7,014	6,757	-	-	1,046	1,011	8,060	7,768
Canada	3,912	2,598	-	-	2,892	1,695	6,804	4,293
	10,926	9,355	-	-	3,938	2,706	14,864	12,061
Asia and Australasia								
Australia	1,308	1,088	-	-	-	-	1,308	1,088
China	1,664	885	1	-	53	49	1,718	934
Japan	660	664	1	-	2	2	663	666
Taiwan	395	398	-	-	14	136	409	534
Others	636	633	173	172	71	183	880	988
	4,663	3,668	175	172	140	370	4,978	4,210
Africa, Near and Middle East								
South Africa	406	371	-	-	-	-	406	371
United Arab Emirates	39	29	1	-	151	147	191	176
Others	320	297	3	-	68	72	391	369
	765	697	4	-	219	219	988	916
Latin America	1,460	1,147	7	-	69	10	1,536	1,157
Total	26,038	23,143	17,567	17,436	5,967	4,962	49,572	45,541

¹ After elimination of intra-Group reinsurance across segments. The premiums are generally allocated according to the location of the risks insured. The presentation in the management report differs from this; cf. note on page 73.

Notes to the consolidated balance sheet - Assets

1 // Goodwill

Development of goodwill

€m	Reinsurance		Primary insurance		Munich Health	Total 2011	Total Prev. year
	Munich Re America	Other	ERGO Insurance Group	Other	Other		
Goodwill from the acquisition of							
Gross carrying amount at 31.12. previous year	1,028	427	1,754	554	113	3,876	3,791
Accumulated impairment losses at 31.12. previous year	-	22	-	361	40	423	314
Carrying amount at 31.12. previous year	1,028	405	1,754	193	73	3,453	3,477
Currency translation differences	34	11	-	-	2	47	99
Additions	-	5	-	-	39	44	2
Reclassifications	-	-8	-	-	-	-8	-16
Impairment losses	-	5	-	20	-	25	109
Carrying amount at 31.12. financial year	1,062	408	1,754	173	114	3,511	3,453
Accumulated impairment losses at 31.12. financial year	-	27	-	381	40	448	423
Gross carrying amount at 31.12. financial year	1,062	435	1,754	554	154	3,959	3,876

The additions are largely due to the acquisition of Windsor. We describe this acquisition and others in detail in our notes on business combinations in the financial year.

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 53 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	Various	
	property-casualty segment	ERGO	cash-generating units
Goodwill at 31 December 2011	1,464	1,754	293

The goodwill from the acquisition of Munich Re America has been allocated to the cash-generating unit "reinsurance property-casualty segment." The carrying amount shown includes other goodwill that is impairment-tested on the basis of cash-generating units at the level of divisions or groups of divisions within the segment, with the goodwill allocated to each unit not being significant in comparison with the total carrying amount of goodwill. As a rule, the recoverable amounts of these cash-generating units are based on the same key assumptions as those given for the reinsurance property-casualty segment in the following table. The goodwill from the acquisition of shares in the ERGO Insurance Group has been allocated to the cash generating unit "ERGO".

Goodwill allocated across other multiple cash-generating units or groups of cash-generating units is not significant in comparison with the total carrying amount of goodwill in any instance. In cases where the recoverable amounts of these cash-generating units or groups of cash-generating units are based on the same key assumptions, the aggregate carrying amount of the goodwill allocated is not significant in comparison with the total carrying amount of goodwill either. We regard as "significant" within the meaning of IAS 36.134 and IAS 36.135 amounts of 10% or more of total Group goodwill.

Assumptions for determining the recoverable amount in impairment testing

Impairment tests for cash-generating units allocated a significant portion of the goodwill were carried out on the basis of the following assumptions:

Cash-generating unit or group of cash-generating units	Reinsurance property-casualty segment	ERGO
Method for calculating the recoverable amount	Value in use	Value in use
Key assumptions regarding cash flow planning (at the time of the planning)	In the detailed planning phase (three years), we expect a more or less stable premium income with an improvement in the loss ratios. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.	For the detailed planning (four years), growth in results is expected on average. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.
Growth rates used for extrapolating beyond the cash flow planning based on financial plans/forecasts	0.5%	0.5%
Discount rates	9.3%	9.5%

The calculation of these values in use is based on cash flow forecasts derived from the current market environment and the latest corporate planning approved by management. Prepared in an interactive process involving the operational units, the controlling units responsible and the Board of Management, the corporate plans are reviewed and updated at least every quarter. After the detailed planning phase, we estimate the growth achievable long term by extrapolating the adjusted cash flows of the last plan year.

The discount rates have been determined in the form of the weighted average cost of capital, with the proportionate cost of capital derived per period using the Capital Asset Pricing Model (CAPM). Calculations are based on cash flows after consideration of normalised taxes. In the above table, for disclosure purposes, a corresponding pre-tax interest rate is given in each case; a reconciliation to Munich Re's cost of capital is not possible. Sensitivity analyses were performed for the discount rates, the growth rates for extrapolation, and the cash flows. No impairments were identified.

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

In the financial year 2011, our impairment testing of goodwill identified an impairment of €25m. This has been recognised in the item "impairment losses of goodwill" in the income statement and is mainly attributable to the following:

Given the difficult market environment in South Korean motor insurance business, increasingly evident regulation and the less favourable mid-term opportunity and risk profile, we subjected the goodwill of ERGO Daum Direct General Insurance Co. Ltd., Seoul, South Korea, to an impairment test in the first quarter of 2011. The goodwill of €20m has consequently been completely written off. This is recognised in the property-casualty primary insurance segment.

2 // Other intangible assets

Development of other intangible assets

	Acquired insurance portfolios	Software	Acquired brand names	Acquired distribution networks/ client bases
€m	Self-developed	Other		
Gross carrying amount at 31 Dec. previous year	1,378	329	774	272
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	774	152	567	185
Carrying amount at 31 Dec. previous year	604	177	207	87
Currency translation differences	-1	-	-2	2
Additions				
Business combinations	-	-	1	11
Other	4	18	74	2
Disposals				
Loss of control	3	1	2	-
Other	-	2	2	-
Reclassifications	-	-	-	6
Impairment losses reversed	-	-	-	-
Depreciation and impairment losses				
Depreciation	70	32	62	16
Impairment losses	1	2	5	1
Carrying amount at 31 Dec. financial year	533	158	209	85
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	826	184	605	201
Gross carrying amount at 31 Dec. financial year	1,359	342	814	286

→	Acquired licences/ patents	Miscellaneous	2011	Prev. year
€m	Self-developed	Other		
Gross carrying amount at 31 Dec. previous year	41	5	70	3,866
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	8	3	20	2,233
Carrying amount at 31 Dec. previous year	33	2	50	1,633
Currency translation differences	1	-	-	7
Additions				
Business combinations	80	-	3	130
Other	1	-	6	105
Disposals				
Loss of control	-	-	-	6
Other	-	-	-	4
Reclassifications	-	-	-	6
Impairment losses reversed	-	-	-	-
Depreciation and impairment losses				
Depreciation	5	-	5	270
Impairment losses	-	2	1	20
Carrying amount at 31 Dec. financial year	110	-	53	1,581
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	12	5	29	2,173
Gross carrying amount at 31 Dec. financial year	122	5	82	3,754

The impairment losses are distributed between the different Group segments as follows: In reinsurance, - (€19m) is apportionable to life and - (€28m) to property-casualty; in primary insurance, €19m (5m) is apportionable to property-casualty and €1m (-) to life; - (€8m) is apportionable to Munich Health.

Assets pledged as security and other restrictions on title amount to €5m (5m). Commitments to acquire other intangible assets total €4m (3m). Costs of €20m (21m) 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	2011	Prev. year
Gross carrying amount at 31 Dec. previous year	5,142	4,949
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	895	863
Carrying amount at 31 Dec. previous year	4,247	4,086
Currency translation differences	-4	78
Additions		
Business combinations	4	13
Other	56	258
Disposals		
Loss of control	260	6
Other	41	131
Impairment losses reversed	7	19
Depreciation and impairment losses		
Depreciation	88	83
Impairment losses	57	37
Reclassification	25	50
Carrying amount at 31 Dec. financial year	3,889	4,247
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	1,014	895
Gross carrying amount at 31 Dec. financial year	4,903	5,142

The impairment losses are distributed between the different Group segments as follows: In reinsurance, €2m (2m) is apportionable to life and €5m (4m) to property-casualty; in primary insurance, €46m (23m) is apportionable to life, €3m (8m) to health and €1m (-) to property-casualty.

The impairment losses were largely triggered by reduced earnings and higher return requirements in the market.

Property pledged as security and other restrictions on title amount to €742m (996m). Expenditures recognised in the carrying amount for assets in the course of construction total €37m (113m) at the balance sheet date, and contractual commitments to acquire property amount to €18m (29m). The fair value of investment property at the balance sheet date amounted to €5,324m (5,672m). The valuation was performed for each directly held site at 31 December 2011, calculations being carried out mainly by valuers within the Group but in individual cases by external valuers, in accordance with the rules of the German Investment Companies Act. Determining the sustainability of cash inflows and outflows, taking into account the market conditions at the respective property location, is material for the valuation. The fair value is determined individually per item by discounting the future cash flow to the valuation date. Depending on the type and opportunity/risk profile of the property, discount rates of 3.25% to 5.50% are used for residential buildings, 4.00% to 8.00% for office buildings, and 4.00% to 8.25% for retail.

4 // Investments in affiliated companies and associates

Breakdown of investments in affiliated companies and associates

€m	31.12.2011	Prev. year
Affiliated companies		
accounted for at fair value	214	203
Associates		
accounted for using the equity method	924	870
accounted for at fair value	16	18
Total	1,154	1,091

The fair value of investments in associates accounted for using the equity method amounted to €1,250m (1,181m) at the balance sheet date. In the financial year, shares of losses of associates amounting to €11m (15m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet totalled €26m (16m).

The aggregated assets of all associates amount to €8,429m (9,519m), liabilities to €5,585m (6,444m), results for the year to €122m (47m), and revenue to €1,603m (1,520m). For associates not accounted for using the equity method, assets amount to €160m (411m), liabilities to €85m (355m), results for the year to - (-€6m), and revenue to €120m (177m).

A list of all our shareholdings can be found in the section "List of shareholdings as at 31 December 2011 in accordance with Section 313 para. 2 of the German Commercial Code".

5 // Loans

Breakdown of loans

€m	Carrying amounts	
	31.12.2011	Prev. year
Mortgage loans	4,421	4,496
Loans and advance payments on insurance policies	602	612
Other loans	48,237	43,827
Total	53,260	48,935

The other loans mainly comprise pfandbriefs, government bonds, and borrowers' note loans of banks.

The fair value of the loans, based on recognised valuation methods in line with the present value principle and taking observable market parameters into account, totalled €56,893m (50,488m) at the reporting date.

Contractual period to maturity

€m	Carrying amounts	
	31.12.2011	Prev. year
Up to one year	2,011	1,881
Over one year and up to two years	1,361	1,536
Over two years and up to three years	2,118	1,455
Over three years and up to four years	3,015	2,146
Over four years and up to five years	2,194	3,257
Over five years and up to ten years	13,394	13,228
Over ten years	29,167	25,432
Total	53,260	48,935

Rating of "other loans" according to carrying amounts

€m	31.12.2011	Prev. year
AAA	23,957	22,211
AA	17,251	16,280
A	4,712	4,441
BBB or lower	925	503
No rating	1,392	392
Total	48,237	43,827

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the loans represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7. Virtually no credit risk exists in respect of the mortgage loans or the loans and advance payments on insurance policies.

6 // Other securities held to maturity

Breakdown of other securities held to maturity

€m	Carrying amounts		Fair values	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Government bonds	-	-	-	-
Debt securities of banks	13	42	13	43
Total	13	42	13	43

The fair values are based on recognised valuation methods in line with the present value principle and taking observable market parameters into account.

Contractual period to maturity

€m	Carrying amounts		Fair values	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Up to one year	6	29	6	29
Over one year and up to two years	3	6	3	7
Over two years and up to three years	4	3	4	3
Over three years and up to four years	-	4	-	4
Over four years and up to five years	-	-	-	-
Over five years and up to ten years	-	-	-	-
Total	13	42	13	43

Rating according to carrying amounts

€m	31.12.2011	Prev. year
AAA	-	-
AA	-	2
A	13	39
BBB or lower	-	-
No rating	-	1
Total	13	42

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.

7 // Hierarchy for the fair value measurement of investments

At 31 December 2011, around 81% of the investments measured at fair value are allocated to Level 1 of the fair value hierarchy, 17% to Level 2 and 2% to Level 3.

Allocation of investments measured at fair value¹ to levels of the fair value hierarchy

€m	Level 1	Level 2	Level 3	31.12.2011
Other securities available for sale				
Fixed-interest	94,746	19,847	626	115,219
Non-fixed-interest	6,661	595	1,202	8,458
Investments in affiliated companies measured at fair value	-	-	214	214
Investments in associates measured at fair value	-	-	16	16
Other securities at fair value through profit or loss				
Held for trading	815	1,808	8	2,631
Designated as at fair value through profit or loss	-	166	-	166
Investments for the benefit of life insurance policyholders	5,093	-	-	5,093
Total	107,315	22,416	2,066	131,797

→	Level 1	Level 2	Level 3	Prev. year
€m				
Other securities available for sale				
Fixed-interest	86,082	25,194	1,078	112,354
Non-fixed-interest	8,351	869	549	9,769
Investments in affiliated companies measured at fair value	-	9	194	203
Investments in associates measured at fair value	-	-	18	18
Other securities at fair value through profit or loss				
Held for trading	489	1,062	17	1,568
Designated as at fair value through profit or loss	-	242	-	242
Investments for the benefit of life insurance policyholders who bear the investment risk	4,957	-	-	4,957
Total	99,879	27,376	1,856	129,111

¹ Including hedging derivatives.

Information on the criteria for allocation to the individual levels of the fair value hierarchy can be found in the notes to assets items under B – Investments: Determining fair values.

In the financial year, we reallocated large portions of the asset-backed securities and certain collateralised loan obligations (CLOs) in our portfolio from Level 3 to Level 2, it now being possible to value these portfolios solely on the basis of observable market inputs again. At the same time, we reallocated the shares in real estate funds and the derivative components of variable annuities from Level 2 to Level 3, since we did not use inputs observable in the market for valuing them in the financial year.

The only investments held for trading that are allocated to Level 3 are derivatives with the corresponding hierarchy-level allocation. Changes during the year under review largely derive from a positive change in the market value and subsequent sale of a catastrophe bond. The transfers out of Level 3 in the case of investments in affiliated companies, recognised at fair value, derive mainly from the first-time consolidation of companies, which are consequently no longer shown in the reconciliation. The following table presents the reconciliation from the beginning balances to the ending balances for investments allocated to Level 3.

Reconciliation for investments allocated to Level 3 at 31 December 2011

€m	31.12.2011	Other securities available for sale	
		Fixed-interest	Non-fixed-interest
Carrying amount at 31 Dec. previous year	1,078	2,478	549
Gains and losses	4	225	37
Gains (losses) recognised in the income statement	11	35	-6
Gains (losses) recognised in equity	-7	190	43
Acquisitions	301	2,909	194
Disposals	424	2,237	38
Transfer to/out of Level 3	243	-2,297	-116
Changes in the market value of derivatives	-	-	-
Carrying amount at 31 Dec. financial year	1,202	1,078	626
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	4	-	-57
→			
Investments in affiliated companies measured at fair value			
31.12.2011		Investments in associates measured at fair value	
Prev. year		31.12.2011	
Prev. year		Prev. year	
Carrying amount at 31 Dec. previous year	194	-	18
Gains and losses	-26	3	-1
Gains (losses) recognised in the income statement	-26	-4	-1
Gains (losses) recognised in equity	-	7	-
Acquisitions	283	2	-
Disposals	21	-	1
Transfer to/out of Level 3	-216	189	-
Changes in the market value of derivatives	-	-	-
Carrying amount at 31 Dec. financial year	214	194	16
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	-14	-3	-



	Other securities at fair value through profit or loss				Total	
	Held for trading		Designated as at fair value through profit or loss			
€m	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Carrying amount at 31 Dec. previous year	17	12	-	-	1,856	2,821
Gains and losses	222	2	-	-	236	165
Gains (losses) recognised in the income statement	222	2	-	-	200	-39
Gains (losses) recognised in equity	-	-	-	-	36	204
Acquisitions	-	1	-	-	778	3,113
Disposals	221	8	-	-	705	2,325
Transfer to/out of Level 3	-10	12	-	-	-99	-1,916
Change in the market value of derivates	-	-2	-	-	-	-2
Carrying amount at 31 Dec. financial year	8	17	-	-	2,066	1,856
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	8	-	-	2	-2	-58

8 // Other securities available for sale

Breakdown of other securities available for sale

€m	Carrying amounts		Unrealised gains/losses		Amortised cost	
	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Fixed-interest securities						
Government bonds						
Germany	11,222	7,590	746	288	10,476	7,302
Rest of EU	21,761	26,605	-187	-826	21,948	27,431
USA	12,927	11,190	1,225	339	11,702	10,851
Other	11,955	9,245	996	553	10,959	8,692
Corporate debt securities	47,398	47,142	1,648	1,410	45,750	45,732
Other	9,956	10,582	464	437	9,492	10,145
Total	115,219	112,354	4,892	2,201	110,327	110,153
Non-fixed-interest securities						
Shares	4,911	6,027	553	1,488	4,358	4,539
Investment funds						
Equity funds	308	505	18	85	290	420
Bond funds	1,552	1,959	22	18	1,530	1,941
Real estate funds	529	545	11	10	518	535
Other	1,158	733	89	33	1,069	700
Total	8,458	9,769	693	1,634	7,765	8,135
Total	123,677	122,123	5,585	3,835	118,092	118,288

Over half the corporate debt securities are pfandbriefs or issues by development banks and comparable institutions. The remaining portfolio is composed of securities issued by companies outside the banking sector (with each individual risk making up less than 1%), bonds issued by banks and state central savings banks (with state guarantees), and asset-backed securities/mortgage-backed securities that largely have implicit state guarantees or an above-average rating.

Assets pledged as security and other restrictions on title amount to €10,142m (9,422m). Some €1,419m (1,936m) 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. As at 31 December 2011, for our securities lending, we had received collateral of – (€764m) that may be sold or passed on as collateral. Of the €5,585m (3,835m) in unrealised gains and losses, €3,404m (2,636m) has been recognised in equity (other reserves), after deduction of provisions for deferred premium refunds, deferred taxes, non-controlling interests and consolidation effects.

To support Hypo Real Estate (HRE), the German federal government adopted a rescue package in October 2008, backed by the Deutsche Bundesbank and also the German financial services industry. Munich Re participated in this rescue package and also in its follow-up financing in 2009 and 2010. These measures have now expired, and further such steps are not envisaged.

Disposal proceeds in the financial year

€m	2011	Prev. year
Fixed-interest securities	57,885	53,063
Non-fixed-interest securities		
Quoted	17,779	10,036
Unquoted	1,354	2,192
Total	77,018	65,291

Realised gains and losses

€m	2011	Prev. year
Gains on disposal	2,480	2,253
Fixed-interest securities	1,621	1,434
Non-fixed-interest securities	859	819
Losses on disposal	1,182	552
Fixed-interest securities	860	367
Non-fixed-interest securities	322	185
Total	1,298	1,701

Contractual period to maturity of fixed-interest securities

€m	Carrying amounts		Amortised cost	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Up to one year	10,914	9,297	10,846	9,221
Over one year and up to two years	9,429	8,510	9,282	8,306
Over two years and up to three years	10,303	9,690	10,019	9,398
Over three years and up to four years	9,920	10,007	9,667	9,693
Over four years and up to five years	9,411	9,670	8,862	9,509
Over five years and up to ten years	32,131	35,809	31,066	35,377
Over ten years	33,111	29,371	30,585	28,649
Total	115,219	112,354	110,327	110,153

Rating of fixed-interest securities according to fair values

€m	31.12.2011	Prev. year
AAA	56,747	65,705
AA	27,779	20,497
A	16,427	13,752
BBB	10,739	9,830
Lower	3,362	2,290
No rating	165	280
Total	115,219	112,354

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 €2,370m (1,371m) held for trading and securities of €166m (241m) designated as at fair value through profit or loss.

The securities held for trading are made up of fixed-interest securities totalling €567m (475m), non-fixed-interest securities totalling €31m (29m) and derivatives held for trading amounting to €1,772m (867m). The securities designated as at fair value through profit or loss comprise €161m (233m) assignable to fixed-interest securities and €5m (8m) to non-fixed interest securities.

Rating of fixed-interest securities according to fair values

€m	31.12.2011	Prev. year
AAA	306	326
AA	222	212
A	157	137
BBB	32	15
Lower	-	4
No rating	11	14
Total	728	708

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 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 2011, Munich Re held collateral for derivatives in the form of securities with a minimum rating of AA that may either be sold or transferred as collateral. The fair value of this collateral amounts to €668m.

Disclosure of derivatives by balance sheet item

€m	Qualifying for hedge accounting	Balance sheet item	31.12.2011	Prev. year
Fair value	No	Investments, other securities held for trading	1,772	867
	Yes	Other assets	261	197
Positive	No	Liabilities, other liabilities	-1,344	-627
	Yes			
Total			689	437

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 2011, the open positions amounted to €689m (437m), or 0.3% (0.2%) of the balance sheet total.

Open positions

Periods to maturity in years	< 1	1-2	2-3	3-4	4-5	> 5	31.12. 2011	Prev. year
€m								
Interest-rate risks								
Traded on the stock exchange								
Fair values	41	-	-	-	-	-	41	-56
Notional amounts	4,660	-	-	-	-	-	4,660	8,260
Over-the-counter								
Fair values	145	42	158	48	65	267	725	500
Notional amounts	1,834	525	2,487	779	1,425	12,485	19,535	14,213
Total interest-rate risks								
Fair values	186	42	158	48	65	267	766	444
Notional amounts	6,494	525	2,487	779	1,425	12,485	24,195	22,473
Currency risks								
Traded on the stock exchange								
Fair values	-	-	-	-	-	-	-	-
Notional amounts	20	-	-	-	-	-	20	-
Over-the-counter								
Fair values	-12	-	-	-	-	-23	-35	-14
Notional amounts	17,447	-	-	-	-	244	17,691	15,848
Total currency risks								
Fair values	-12	-	-	-	-	-23	-35	-14
Notional amounts	17,467	-	-	-	-	244	17,711	15,848
Equity and index risks								
Traded on the stock exchange								
Fair values	69	-	-	-	-	-	69	37
Notional amounts	5,575	-	-	-	-	-	5,575	3,936
Over-the-counter								
Fair values	-	-	-	12	1	-	13	24
Notional amounts	132	2	48	64	38	-	284	400
Total equity and index risks								
Fair values	69	-	-	12	1	-	82	61
Notional amounts	5,707	2	48	64	38	-	5,859	4,336
Credit risks								
Over-the-counter								
Fair values	-2	-	-	-2	-95	-12	-111	-24
Notional amounts	403	17	82	18	3,451	668	4,639	2,422
Weather risks								
Over-the-counter								
Fair values	-28	-	-	-	-	-	-28	-15
Notional amounts	91	1	3	-	-	-	95	61
Commodity risks								
Over-the-counter								
Fair values	-1	12	2	2	1	-	16	17
Notional amounts	363	862	202	243	114	45	1,829	764
Insurance risks								
Over-the-counter								
Fair values	-58	-2	21	69	63	-22	71	-25
Notional amounts	3,068	788	879	1,354	1,185	9,983	17,257	13,492
Other risks								
Over-the-counter								
Fair values	-	-	-	-	-	-72	-72	-7
Notional amounts	2	-	-	-	-	1,212	1,214	832
Total of all risks								
Fair values	154	52	181	129	35	138	689	437
Notional amounts	33,595	2,195	3,701	2,458	6,213	24,637	72,799	60,228

We have introduced a new type of risk for insurance risks previously allocated to weather risks and other risks: "insurance risks". Under this risk type, we essentially subsume for property-casualty business the derivative portions of natural catastrophe bonds, individually structured insurance derivatives and derivative components separated from their host contract. For life and health business, the risk type "insurance risks" essentially includes the derivative components from securitisations of mortality and morbidity risks and of variable annuities. The securitisation of variable annuities previously allocated to various risk types has also been reallocated to the risk type "insurance risks".

Interest-rate risks in life insurance have been hedged using swaptions and total return swaps. These derivatives providing the right to receive a fixed interest rate are shown in the category "interest-rate risks/over-the-counter". At the reporting date, the fair values of the derivatives totalled €537m (185m), and the underlying notional amounts €5,090m (7,467m). The investment result from derivatives includes a loss of €355m (76m) from fluctuations in value of these items.

Although the derivatives used by Munich Re essentially serve to hedge against risks, only an amount of €254m (197m) 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 finance costs. Munich Re uses hedging relationships in the form of fair value hedges to selectively and efficiently mitigate interest-rate and other market-price risks. The main types of transaction employed for hedging are swaps and forwards. The fair value of the derivatives used for this amounted to €215m (168m) at the balance sheet date. In 2011, the following changes in value were recognised in the consolidated income statement: €60m for the hedging instruments and -€62m for the relevant underlyings.

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. Munich Re uses cash flow hedges chiefly to hedge against interest-rate risks, with interest-rate swaps the main instruments employed. Changes in the fair value of the hedging instrument are recognised directly in equity for this purpose. Only when the actual cash inflow or outflow takes place, as a result of the hedged circumstance, is the relevant equity item reversed with recognition in profit or loss.

The change in fair value assignable to the ineffective portion of the hedging was negligible at the reporting date.

At the balance sheet date, there is an equity item of €4m (-2m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €39m (29m) 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	31.12.2011	Prev. year
Notional amounts of hedged transactions	-	-	25	-	25	339	389	295

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 balance sheet year generally derive from the values for the changes in the related technical provisions for the reinsured business. Deposits retained on assumed reinsurance business thus do not have a fixed maturity date, their release generally being dependent on the run-off of the corresponding provisions.

11 // Other investments

Other investments comprise deposits with banks totalling €2,392m (3,153m), our tangible assets in renewable energies amounting to €260m (46m), and forestry investments of €3m (-). Deposits with banks include receivables of €104m (64m) from repurchase agreements that have been booked by us as the lender to borrowers for securities lent under repurchase agreements.

As the deposits with banks mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts. 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. Assets pledged as security and other restrictions on title amount to €31m (-) for deposits with banks.

Development of tangible assets in renewable energies

€m	2011	Prev. year
Gross carrying amount at 31 Dec. previous year	55	-
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	9	-
Carrying amount at 31 Dec. previous year	46	-
Changes due to currency translation	-	-
Additions		
Business combinations	203	-
Other	20	20
Disposals		
Loss of control	-	-
Other	-	1
Impairment losses reversed	-	-
Depreciation and impairment losses		
Depreciation	12	3
Impairment losses	-	-
Reclassification	3	30
Carrying amount at 31 Dec. financial year	260	46
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	22	9
Gross carrying amount at 31 Dec. financial year	282	55

The fair values of tangible assets in renewable energies at the balance sheet date amount to €267m (46m). The tangible assets include items pledged as security and other restrictions on title amounting to €97m (-).

12 // Ceded share of technical provisions

Ceded share of technical provisions

€m ¹	Reinsurance			
	Life		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Unearned premiums	-	-	134	309
Provision for future policy benefits	645	684	-	-
Provision for outstanding claims	278	288	2,383	2,080
Other technical provisions	6	15	-	4
Total	929	987	2,517	2,393



€m ¹	Primary insurance					
	Life		Health		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Unearned premiums	-	-	3	2	67	68
Provision for future policy benefits	1,806	1,742	-	2	-	-
Provision for outstanding claims	10	19	8	4	220	230
Other technical provisions	-	-	-	-	23	20
Total	1,816	1,761	11	8	310	318



€m ¹	Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Unearned premiums	9	7	213	386
Provision for future policy benefits	7	7	2,458	2,435
Provision for outstanding claims	35	9	2,934	2,630
Other technical provisions	-	-	29	39
Total	51	23	5,634	5,490

¹ After elimination of intra-Group transactions across segments.

Details of the ceded share of technical provisions are shown in (20) Unearned premiums, (21) Provisions for future policy benefits, (22) Provisions for outstanding claims, (23) Other technical provisions and (39) Credit risks from ceded reinsurance business.

13 // Other receivables

Breakdown of other receivables

€m	31.12.2011	Prev. year
Amounts receivable on primary insurance business	1,552	1,411
Accounts receivable on reinsurance business	4,909	4,514
Interest and rent	2,880	2,852
Miscellaneous receivables	1,951	1,799
Total	11,292	10,576

€672m (632m) of the amounts receivable on primary insurance business is apportionable to receivables from insurance agents. The miscellaneous receivables contain receivables of €519m (305m) resulting from reinsurance contracts without significant risk transfer, which do not fall within the scope of IFRS 4. 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

€m	Carrying amounts	
	31.12.2011	Prev. year
Up to one year	10,578	10,112
Over one year and up to two years	50	29
Over two years and up to three years	233	33
Over three years and up to four years	84	26
Over four years and up to five years	28	211
Over five years and up to ten years	88	116
Over ten years	231	49
Total	11,292	10,576

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 2011, our accounts receivable on ceded business were split between the following ratings (based on those of Standard & Poor's):

Rating of accounts receivable

€m	31.12.2011	Prev. year
AAA	9	59
AA	158	181
A	109	200
BBB and lower	8	13
No external rating	147	174

€331m (379m) 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 €144m (141m).

14 // Deferred acquisition costs

Deferred acquisition costs

	€m ¹	Reinsurance			
		Life	Property-casualty	31.12.2011	Prev. year
Gross		1,947	1,848	1,431	1,322
Ceded share		-14	-13	26	51
Net		1,961	1,861	1,405	1,271

	€m ¹	Primary insurance					
		Life		Health		Property-casualty	
		31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross		3,502	3,623	1,679	1,583	702	663
Ceded share		10	11	1	-	6	5
Net		3,492	3,612	1,678	1,583	696	658

	€m ¹	Munich Health				Total
		31.12.2011	Prev. year	31.12.2011	Prev. year	
Gross		125	126	9,386	9,165	
Ceded share		15	18	44	72	
Net		110	108	9,342	9,093	

¹ After elimination of intra-Group transactions across segments.

Development of gross deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m ¹	31.12.2011	Prev. year	31.12.2011	Prev. year
Status at 31 Dec. previous year	1,848	1,659	1,322	1,166
Currency translation differences	50	116	29	72
Change in consolidated group/Other	-	-	-	-
New deferred acquisition costs	309	442	1,861	1,431
Changes				
Amortisation	-259	-312	-1,785	-1,364
Impairment losses	-1	-57	4	17
Status at 31 Dec. financial year	1,947	1,848	1,431	1,322



	Primary insurance			
	Life		Health	
€m ¹	31.12.2011	Prev. year	31.12.2011	Prev. year
Status at 31 Dec. previous year	3,623	3,642	1,583	1,513
Currency translation differences	-4	1	-	-
Change in consolidated group/Other	-4	-	-1	-
New deferred acquisition costs	372	300	260	190
Changes				
Amortisation	-236	-219	-163	-120
Impairment losses	-249	-101	-	-
Status at 31 Dec. financial year	3,502	3,623	1,679	1,583



	Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year
€m ¹				
Status at 31 Dec. previous year	126	71	9,165	8,604
Currency translation differences	3	3	53	198
Change in consolidated group/Other	-	-2	-7	-2
New deferred acquisition costs	176	89	3,334	2,806
Changes				
Amortisation	-180	-35	-2,913	-2,300
Impairment losses	-	-	-246	-141
Status at 31 Dec. financial year	125	126	9,386	9,165

¹ After elimination of intra-Group transactions across segments.

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, long-term interest-rate levels were adjusted on the basis of the long-term regular return on investments. The now lower interest margin and adjustment of other assumptions led to impairment losses of deferred acquisition costs.

15 // Deferred tax

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

Deferred tax

€m	31.12.2011		Prev. year	
	Assets	Liabilities	Assets	Liabilities
Assets				
A. Intangible assets	203	345	177	345
B. Investments	3,100	4,643	2,381	3,603
C. Investments for the benefit of life insurance policyholders who bear the investment risk	-	2	-	2
E. Receivables	228	21	173	46
I. Other assets	547	790	605	757
Total assets	4,078	5,801	3,336	4,753
Equity and liabilities				
C. Net technical provisions	2,024	3,525	1,694	3,821
E. Other accrued liabilities	582	483	468	434
F. Liabilities	340	34	328	51
Total equity and liabilities	2,946	4,042	2,490	4,306
Off balance sheet				
Loss carry-forwards and tax credits	523	-	133	-
Total	7,547	9,843	5,959	9,059

The deferred taxes for technical provisions include the deferred taxes for deferred acquisition costs and €1,888m (2,437m) for claims equalisation provisions, which are not posted under IFRS.

The excess of deferred tax liabilities over deferred tax assets amounts to €2,296m (3,100m). The reduction of €804m (396m) was recognised as follows: -€367m (23m) without impact on profit or loss and €1,184m (373m) 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 €45m (41m) 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	Set off	31.12.2011
			additions and reduc- tions due to changes in valuation allowances			
Deferred tax assets for						
Corporation tax loss carry-forwards	94	451	66	-187	424	
Trade tax loss carry-forwards	10	-1	55	-2	62	
Loss carry-forwards from capital losses	-	-	-	-	-	
Tax credits	29	-	20	-12	37	
Total	133	450	141	-201	523	

The column "Set off against income/Deconsolidation" includes changes due to losing control and to changes in exchange rates.

Tax loss carry-forwards and tax credits

€m		31.12.2011		Prev. year			
		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	27	81	108	11	37	48	
Expiring in over three years and up to ten years	224	83	307	160	102	262	
Expiring in over ten years	765	1,147	1,912	16	2,305	2,321	
Not expiring	390	997	1,387	208	323	531	
	1,406	2,308	3,714	395	2,767	3,162	
Trade tax loss carry-forwards							
Not expiring	370	169	539	61	202	263	
	370	169	539	61	202	263	
Loss carry-forwards from capital losses							
Expiring in up to three years	-	-	-	-	-	-	
Expiring in over three years and up to ten years	-	-	-	-	183	183	
Expiring in over ten years	-	-	-	-	-	-	
Not expiring	-	-	-	-	-	-	
	-	-	-	-	183	183	
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	37	-	37	29	-	29	
	37	-	37	29	-	29	

16 // Other assets

These mainly comprise owner-occupied property totalling €2,385m (2,411m), plant and equipment of €294m (284m), advance payments on insurance amounting to €437m (467m), derivatives totalling €261m (197m) and miscellaneous deferred items of €129m (137m). €18m (20m) of the owner-occupied property and – (€1m) of the plant and equipment involve finance leases.

Development of property, plant and equipment

	Owner-occupied property	Operating and office equipment	Other	2011	Prev. year
€m					
Gross carrying amount at 31 Dec. previous year	3,353	948	54	4,355	4,495
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	942	664	25	1,631	1,670
Carrying amount at 31 Dec. previous year	2,411	284	29	2,724	2,825
Currency translation differences	2	2	1	5	30
Additions					
Business combinations	-	1	-	1	2
Other	88	131	4	223	315
Disposals					
Loss of control	5	2	-	7	14
Other	6	17	1	24	74
Impairment losses reversed	8	-	-	8	2
Depreciation and impairment losses					
Depreciation	56	108	6	170	157
Impairment losses	34	2	-	36	31
Reclassification	-23	5	-	-18	-174
Carrying amount at 31 Dec. financial year	2,385	294	27	2,706	2,724
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	1,000	682	30	1,712	1,631
Gross carrying amount at 31 Dec. financial year	3,385	976	57	4,418	4,355

The impairment losses are distributed between the different Group segments as follows: in reinsurance €8m (4m) is apportionable to life and €14m (7m) to property-casualty; in primary insurance, the impairment losses amount to €1m (14m) in life, €7m (2m) in health and €2m (2m) in property-casualty; Munich Health accounts for €4m (2m).

The impairment losses were largely triggered by reduced earnings and higher return requirements in the market.

The fair value of the property amounts to €2,689m (2,681m).

Expenditures recognised in the carrying amount for assets in the course of construction total €133m (144m) for property and €16m (14m) for plant and equipment. Commitments to acquire property total €22m (28m) and commitments to acquire plant and equipment €16m (24m). Assets pledged as security and other restrictions on title amount to €3m (3m) for plant and equipment.

17 // Non-current assets and disposal groups held for sale

In the first quarter of 2011, with economic effect from 29 April 2011, the ERGO Insurance Group sold its shares in the fully consolidated Capital Square Pte. Ltd., Singapore, the sales price totalling €465m. The disposal group mainly included an office investment property with a carrying amount of €239m.

We decided in the second quarter of 2011 to sell our fully consolidated subsidiaries American Modern Life Insurance Company, Amelia, Ohio, and Southern Pioneer Life Insurance Company, Jonesboro, Arkansas. A contract regarding the sale of these companies, with economic effect from January 2012, was signed in the third quarter of 2011; the sales price was around €26m.

In the third quarter of 2011, with economic effect from 29 December 2011, the ERGO Insurance Group sold its shares in its fully consolidated subsidiaries VICTORIA-Seguros de Vida, S.A., Lisbon, and VICTORIA-Seguros S.A., Lisbon. The sale took place indirectly via the sale of the parent company of these subsidiaries. The provisional sales price is €69m.

In the fourth quarter of 2011, with expected economic effect from the first quarter of 2012, the ERGO Insurance Group sold an office investment property with a carrying amount of €13m. The sales price is €52m.

How the non-current assets and disposal groups held for sale are allocated between the segments is disclosed in the segment reporting.

Notes to the consolidated balance sheet - Equity and liabilities

18 // Equity

The total share capital of €587,725,396.48 at 31 December 2011 is divided into 179,341,212 no-par-value registered shares, each fully paid up and entitled to one vote. By resolution of the Annual General Meeting on 28 April 2010, Munich Reinsurance Company was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 27 April 2015. The Annual General Meeting on 20 April 2011 renewed this resolution, thereby authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 19 April 2016. In the year under review, the number of shares in circulation developed as follows:

Development of shares in circulation

Number of shares	2011	Prev. year
Status at 31 Dec. previous year	180,378,583	191,910,177
Additions		
Disposal of remaining portfolio of employee shares	-	255
Disposals from hedging stock appreciation rights under long-term incentive plans	247,758	299,485
Reductions		
Acquisition of shares for retirement (share buy-back programme)	3,037,591	11,797,271
Acquisition of shares to hedge stock appreciation rights under long-term incentive plans	-	34,063
Status at 31 Dec. financial year	177,588,750	180,378,583

On 31 December 2011, a total of 1,752,462 Munich Reinsurance Company shares with a calculated nominal value of around €5.7m were held by Group companies. This represents 1.0% of the share capital.

On 7 May 2010, 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 28 April 2010, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. In the period from 25 May 2010 to 12 April 2011, 9,127,259 Munich Reinsurance Company shares were acquired via the stock exchange at an average price of €109.56. Of these, 3,037,591 shares were acquired in the calendar year 2011 at an average price of €115.34. All shares from this buy-back programme were retired on 20 April 2011 in a simplified process, without reducing the share capital, by adjusting the proportion of the Company's share capital represented by each of the remaining no-par-value shares.

No shares have so far been bought back under the new authorisation to buy back shares adopted by the Annual General Meeting on 20 April 2011.

In 2011, no employee share programmes were set up for the employees of Munich Reinsurance Company or of dependent Group companies or enterprises in which the Company has a majority shareholding. There are no shares remaining from former employee share programmes.

One subsidiary holds 1,423,055 shares to hedge stock appreciation rights granted to the Board of Management and top Munich Reinsurance Company executives since 1999. In 2011, no shares were acquired for hedging these programmes, but a total of 186,012 shares were sold at an average price of €121.36.

In the financial year 2011, companies of the ERGO Insurance Group acquired no shares to cover future commitments from the long-term incentive plans launched since 2002, but sold a total of 46,589 shares at a price of €118.18 each. Together with the remaining Munich Re shares acquired to hedge the stock appreciation rights granted in prior years, the ERGO Insurance Group had a total portfolio of 177,468 shares at 31 December 2011.

MEAG Munich ERGO AssetManagement GmbH also acquired no shares in the financial year 2011 to safeguard obligations from its long-term incentive plan, but sold 15,157 shares at an average price of €116.22, leaving it with a portfolio of 151,939 Munich Re shares.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €169,752,530.94.

In the year under review, a total of €1,110m was distributed to Munich Reinsurance Company's equity holders for the financial year 2010 in the form of a dividend of €6.25 per dividend-bearing share.

Composition of the capital authorised for capital increases

€m	31.12.2011
Authorised Capital Increase 2009 (until 21 April 2014)	280
Authorised Capital Increase 2011 (until 19 April 2016)	10
Total	290

Composition of contingent capital

€m	31.12.2011
Contingent Capital Increase 2010 (until 27 April 2015)	117
Total	117

Composition of equity

€m	31.12.2011	Prev. year
Issued capital	588	588
Capital reserve	6,800	6,800
Retained earnings	11,588	10,735
Other reserves	3,384	2,238
Consolidated result attributable to Munich Reinsurance Company equity holders	702	2,422
Non-controlling interests	247	245
Total equity	23,309	23,028

Retained earnings contain equalisation reserves of €4,791m (5,795m). 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 -€223m (-610m) from currency translation and €4m (-2m) 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	31.12.2011	Prev. year
Non-consolidated affiliated companies and associates not accounted for using the equity method	143	161
Associates accounted for using the equity method	72	68
Other securities available for sale		
Fixed-interest	4,892	2,201
Non-fixed-interest	693	1,634
Less		
Provision for deferred premium refunds recognised in equity	847	598
Deferred taxes recognised in equity	1,276	605
Non-controlling interests	10	11
Consolidation and currency translation effects	64	-
Total	3,603	2,850

Tax effects in the income and expenses recognised directly in equity

€m	2011			Prev. year		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Currency translation	390	-	390	645	-	645
Unrealised gains and losses on investments	1,421	671	750	112	-18	130
Change resulting from valuation at equity	5	-	5	-8	-	-8
Change resulting from cash flow hedges	9	3	6	-5	-2	-3
Actuarial gains and losses on defined benefit plans	-209	-74	-135	-73	-23	-50
Other changes	-3	-	-3	-20	-	-20
Income and expense recognised directly in equity	1,613	600	1,013	651	-43	694

The taxes of €600m recognised directly in equity comprise current taxes on unrealised gains of €233m on assets, with the remainder of €367m being deferred tax assets.

Non-controlling interests

€m	31.12.2011	Prev. year
Unrealised gains and losses	10	11
Consolidated result	10	9
Other equity	227	225
Total	247	245

The non-controlling interests are mainly minority interests in individual companies of the primary insurance group. We disclose direct minority interests in special funds under "other liabilities".

Information on capital management and minimum capital requirements is provided in the sections on those items under "Financial position – Capital management" and "Financial position – Group solvency".

19 // Subordinated liabilities

Breakdown of subordinated liabilities

€m	Identifica- tion number	A.M. Best	Fitch	Moody's	S&P	31.12.2011	Prev. year
Munich Reinsurance Company, Munich, 6.00% until 2021, thereafter floating €1,000m, Bonds 2011/2041	WKN: A1KQYJ ISIN: XS0608392550 Reuters: DEA1KQYJ= Bloomberg: MUNRE	a+	A	-	A	987	-
Munich Reinsurance Company, Munich, 6.75% until 2013, thereafter floating, €1,678m ¹ , Bonds 2003/2023	WKN: 843278 ISIN: XS0166965797 Reuters: DE016696579=	a+	A	A2 (hyb)	A	1,669	2,884
Munich Reinsurance Company, Munich, 7.625% until 2018, thereafter floating, £300m, Bonds 2003/2028	WKN: 843449 ISIN: XS0167260529 Reuters: DE016726052=	a+	A	A2 (hyb)	A	357	348
Munich Reinsurance Company, Munich, 5.767% until 2017, thereafter floating, €1,349m, Bonds 2007/perpetual	WKN: A0N4EX ISIN: XS0304987042 Reuters: DE030498704=	a	A	A3 (hyb)	A	1,562	1,513
Bank Austria Creditanstalt Versicherung AG, Vienna, 4.95%, €50m, Registered bonds 2004/2014	Bloomberg: MUNRE	-	-	-	-	51	49
Bank Austria Creditanstalt Versicherung AG, Vienna, 6% until 2011, thereafter floating, €12m ² , Registered bonds 2001/perpetual		-	-	-	-	10	9
Bank Austria Creditanstalt Versicherung AG, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m ³ , Registered bonds 1998/perpetual		-	-	-	-	11	10
HSB Group Inc., Delaware, LIBOR +91 BP, US\$ 76m, Bonds 1997/2027		-	-	-	-	36	34
Total						4,683	4,847

¹ In the financial year 2011, the issuer bought back bonds with a nominal value of €1,222m.² ERGO International AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.³ ERGO AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.

On 29 March 2011, with a settlement date of 5 April 2011, we placed a subordinated bond of €1bn with a consortium of investors. As part of our active capital management, we bought back a nominal amount of €1,222m of the Munich Reinsurance Company subordinated bond 2003/2023 in the period under review.

In the case of Munich Reinsurance Company's bonds, annual outflows of liquidity occur for the interest payments until the first possible call dates in 2021, 2013, 2018, and 2017; in the financial year, these amounted to €282m. Thereafter, the liquidity outflows will vary, depending on the respective interest-rate level. In the case of the Bank Austria Creditanstalt Versicherung AG registered bonds from 2004, the annual outflow of liquidity is €2m. For its registered bonds from 2001, the annual outflow for the first ten years amounts to €1m. Thereafter the payments for these bonds and the registered bonds from 1998 are, like those for the HSB Group bonds, 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 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 €4,254m (4,777m). For the Munich Reinsurance Company bonds, we take the stock market prices as fair values. For the other subordinated liabilities, we determine the fair values using net present value methods with observable market parameters.

20 // Unearned premiums

Unearned premiums

	Reinsurance					
	Life		Property-casualty			
€m ¹	31.12.2011	Prev. year	31.12.2011	Prev. year		
Gross	45	52	6,070	5,600		
Ceded share	-	-	134	309		
Net	45	52	5,936	5,291		

→	Primary insurance					
	Life		Health		Property-casualty	
€m ¹	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	8	1	97	96	1,728	1,687
Ceded share	-	-	3	2	67	68
Net	8	1	94	94	1,661	1,619

→	Munich Health			Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year	
€m ¹					
Gross	443	443	8,391	7,879	
Ceded share	9	7	213	386	
Net	434	436	8,178	7,493	

¹ After elimination of intra-Group transactions across segments.

Development of gross unearned premiums

€m ¹	Reinsurance			
	Life		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Status at 31 Dec. previous year	52	113	5,600	4,883
Currency translation effects	1	12	197	299
Change in consolidated group	-	-	-	-
Gross premiums written	9,481	7,766	16,557	15,377
Earned premiums	9,489	7,839	16,284	14,959
Status at 31 Dec. financial year	45	52	6,070	5,600



Primary insurance

€m ¹	Life		Health		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Status at 31 Dec. previous year	1	1	96	88	1,687	1,491
Currency translation effects	6	-	-6	1	-84	28
Change in consolidated group	-	-	-7	-	-20	-
Gross premiums written	6,262	6,484	5,710	5,493	5,595	5,459
Earned premiums	6,261	6,484	5,696	5,486	5,450	5,291
Status at 31 Dec. financial year	8	1	97	96	1,728	1,687



Munich Health

Total

€m ¹	Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Status at 31 Dec. previous year	443	370	7,879	6,946
Currency translation effects	-13	23	101	363
Change in consolidated group	-	-16	-27	-16
Gross premiums written	5,967	4,962	49,572	45,541
Earned premiums	5,954	4,896	49,134	44,955
Status at 31 Dec. financial year	443	443	8,391	7,879

¹ After elimination of intra-Group transactions across segments.

21 // Provision for future policy benefits

Provision for future policy benefits

€m ¹	Reinsurance			
	Life		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	13,682	10,521	-	317
Ceded share	645	684	-	-
Net	13,037	9,837	-	317

€m ¹	Primary insurance			
	Life		Health	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	69,334	69,555	24,216	22,855
Ceded share	1,806	1,742	-	2
Net	67,528	67,813	24,216	22,853

€m ¹	Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	836	758	108,477	104,413
Ceded share	7	7	2,458	2,435
Net	829	751	106,019	101,978

¹ After elimination of intra-Group transactions across segments.

Gross provision for future policy benefits according to type of insurance cover

€m	31.12.2011	Prev. year
Life	83,016	80,076
Reinsurance	13,682	10,521
Primary insurance	69,334	69,555
Term life insurance	2,889	2,654
Other life insurance	37,530	39,118
Annuity insurance	27,763	26,697
Disability insurance	1,138	1,073
Contracts with combination of more than one risk	14	13
Health	25,052	23,613
Munich Health	836	758
Primary insurance	24,216	22,855
Property-casualty	409	724
Reinsurance	-	317
Primary insurance	409	407
Total	108,477	104,413

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 (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business.

Development of gross provision for future policy benefits

€m	2011	Prev. year
Status at 31 Dec. previous year	104,413	100,862
Currency translation differences	81	144
Change in consolidated group/Other	3,680	955
Changes		
Scheduled	289	2,169
Unscheduled	14	283
Status at 31 Dec. financial year	108,477	104,413

The change under "Other" contains €368m in savings premiums for capitalisation products and €3,372m for portfolio entries and withdrawals. Scheduled changes in the provision for future policy benefits contain the changes deriving from prospective calculation as a result of premium payments, benefit cases and the unwinding of discount in the year under review.

22 // Provision for outstanding claims

Provision for outstanding claims

€m ¹	Reinsurance			
	Life		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	5,087	4,477	40,670	36,632
Ceded share	278	288	2,383	2,080
Net	4,809	4,189	38,287	34,552



€m ¹	Primary insurance			
	Life		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	1,581	1,509	944	938
Ceded share	10	19	8	4
Net	1,571	1,490	936	934



€m ¹	Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Gross	1,076	1,037	54,392	49,501
Ceded share	35	9	2,934	2,630
Net	1,041	1,028	51,458	46,871

¹ After elimination of intra-Group transactions across segments.

Gross provision by type

€m ¹	Reinsurance			
	Life		Property-casualty	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Annuity claims provision	3,057	2,568	245	242
Case reserve	883	819	19,766	17,647
IBNR reserve	1,147	1,090	20,659	18,743
Total	5,087	4,477	40,670	36,632

€m ¹	Primary insurance			
	Life		Health	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Annuity claims provision	1,103	1,045	1	1
Case reserve	289	290	893	893
IBNR reserve	189	174	50	44
Total	1,581	1,509	944	938

€m ¹	Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Annuity claims provision	34	28	4,812	4,230
Case reserve	278	501	25,698	23,676
IBNR reserve	764	508	23,882	21,595
Total	1,076	1,037	54,392	49,501

¹ After elimination of intra-Group transactions across segments.

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. The assumptions regarding Australian disability business were adjusted on the basis of recent biometric analyses. The adjustment mainly involves an update of the assumptions for calculating the duration of disability. Provisions for annuity claims are calculated as the present value of the expected future payments. The discount rates used are shown under (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business.

The case reserve reflects the amount which is expected to be needed to settle claims which are known and have already been reported at the balance sheet date. The major part of this provision is measured at face value. The IBNR reserve is calculated using actuarial methods on the basis of historical claims development data and taking into account foreseeable future trends.

Expected payments from the provisions for outstanding claims (property-casualty only)

%	Reinsurance		Primary insurance	
	31.12.2011	Prev. year	31.12.2011	Prev. year
Up to one year	31.4	30.2	39.2	40.4
Over one year and up to five years	44.1	46.5	38.6	37.3
Over five years and up to ten years	13.2	14.3	13.0	13.0
Over ten years and up to fifteen years	5.0	4.2	5.2	5.2
Over fifteen years	6.3	4.8	4.0	4.1

¹ After elimination of intra-Group transactions across segments.

It should be borne in mind that the expected timing of payments from the provisions for outstanding claims involves considerable uncertainty.

Development of the claims reserve in the property-casualty segment

	2011			Prev. year		
	Gross	Ceded share	Net	Gross	Ceded share	Net
€m ¹						
Status at 31 Dec. previous year	41,540	2,310	39,230	39,833	2,517	37,316
Currency translation differences	1,039	26	1,013	1,802	53	1,749
Change in consolidated group	-53	-4	-49	-	-	-
Claims expenses						
For the year under review	17,931	895	17,036	14,242	782	13,460
For previous years	-809	41	-850	-597	94	-691
Total claims expenses	17,122	936	16,186	13,645	876	12,769
Unwinding of discount	82	3	79	86	5	81
Less payments						
For the year under review	5,930	172	5,758	5,213	262	4,951
For previous years	8,096	496	7,600	8,613	879	7,734
Total payments	14,026	668	13,358	13,826	1,141	12,685
Status at 31 Dec. financial year	45,704	2,603	43,101	41,540	2,310	39,230

¹ After elimination of intra-Group transactions across segments.

The claims expenses for the year under review show both payments made for the year under review and expenses for posting the claims reserve in that year. The provisions set up for claims from previous years are regularly updated using best estimates based on exposure and claims information and past claims experience. The respective change is shown under claims expenses for previous years.

In the year under review, most sectors experienced comparatively low claims-reporting activity from previous years, which had a positive influence on the ultimate-loss projection.

Net run-off results in property-casualty business The values in the following run-off triangles cover more than 99% of our Group's portfolio of property-casualty business.

Claims payments for the individual accident years (per calendar year, net)

€m	Accident year											
Calendar year	≤ 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
2001	9,415											
2002	6,989	3,902										
2003	3,912	2,919	4,074									
2004	3,241	1,258	2,170	3,854								
2005	2,082	686	917	2,935	3,497							
2006	1,638	372	424	930	3,623	3,374						
2007	1,517	265	413	411	1,640	2,471	4,188					
2008	1,553	315	320	422	541	1,351	2,810	4,238				
2009	1,129	339	235	243	491	551	1,246	3,198	4,387			
2010	851	163	250	246	242	430	838	1,621	3,158	4,895		
2011	1,275	133	156	132	166	280	517	657	1,326	3,220	5,840	13,702

Claims reserves for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
31.12.2001	23,421											
31.12.2002	19,645	9,561										
31.12.2003	17,077	6,005	8,297									
31.12.2004	14,396	5,013	5,716	7,769								
31.12.2005	14,685	3,108	4,054	4,875	9,109							
31.12.2006	13,579	2,644	3,517	3,936	5,525	7,450						
31.12.2007	12,810	2,368	2,769	3,391	3,900	4,850	7,770					
31.12.2008	11,659	2,058	2,297	2,574	3,077	3,389	5,214	8,750				
31.12.2009	10,511	1,724	2,015	2,021	2,587	2,714	3,871	5,825	8,570			
31.12.2010	10,129	1,537	1,727	1,497	1,878	2,012	3,005	4,170	5,368	8,557		
31.12.2011	8,869	1,355	1,566	1,312	1,513	1,644	2,451	3,337	3,680	5,520	11,898	43,144

Ultimate loss for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
31.12.2001	32,836											
31.12.2002	36,049	13,463										
31.12.2003	37,393	12,826	12,371									
31.12.2004	37,953	13,092	11,960	11,623								
31.12.2005	40,324	11,873	11,215	11,664	12,606							
31.12.2006	40,856	11,781	11,102	11,655	12,645	10,824						
31.12.2007	41,604	11,770	10,767	11,521	12,660	10,695	11,958					
31.12.2008	42,006	11,775	10,615	11,126	12,378	10,585	12,212	12,988				
31.12.2009	41,987	11,780	10,568	10,816	12,379	10,461	12,115	13,261	12,957			
31.12.2010	42,456	11,756	10,530	10,538	11,912	10,189	12,087	13,227	12,913	13,452		
31.12.2011	42,471	11,707	10,525	10,485	11,713	10,101	12,050	13,051	12,551	13,635	17,738	166,027
Net run-off result	-9,635	1,756	1,846	1,138	893	723	-92	-63	406	-183	n/a	-3,211
Change												
2010 to 2011	-15	49	5	53	199	88	37	176	362	-183	n/a	771

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 2011). This ensures that neutral net run-off results in the original currency (i.e. where the ultimate loss originally estimated for an accident year and current loss estimate are identical) do not lead to currency-related run-off effects when expressed in the Group currency.

23 // Other technical provisions

Breakdown of other technical provisions

€m ¹	Reinsurance		Primary insurance		Munich Health		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Provision for premium refunds based on national regulations	-	-	5,711	5,213	-	-	5,711	5,213
Provision for deferred premium refunds	-	-	3,759	3,556	-47	1	3,712	3,557
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	-	-	856	617	20	1	876	618
Thereof resulting from other revaluations (recognised in profit or loss)	-	-	2,903	2,939	-67	-	2,836	2,939
Provision for profit commission	566	604	-	-	20	36	586	640
Other	2	4	119	132	32	9	153	145
Total (gross)	568	608	9,589	8,901	5	46	10,162	9,555

¹ After elimination of intra-Group transactions across segments.

Of the provision for premium refunds based on national regulations, €74m (63m) 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 €29m (39m), of which €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	2011	Prev. year
Status at 31 Dec. previous year	5,213	4,880
Change in consolidated group	-	-
Allocations/Withdrawals	498	333
Status at 31 Dec. financial year	5,711	5,213

Development of provision for deferred premium refunds

€m	2011	Prev. year
Status at 31 Dec. previous year	3,557	4,343
Change in consolidated group	-8	-
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	258	-1,032
Change resulting from other revaluations (recognised in profit or loss)	-95	246
Status at 31 Dec. financial year	3,712	3,557

The above change resulting from unrealised gains and losses on investments reflects the proportional allocation to expected future policyholders' bonuses of the change in fair values that has occurred in the past year. Changes in the provision for deferred premium refunds are only recognised in the income statement to the extent that they result from valuation differences recognised in profit or loss. In German life primary insurance, an "additional interest reserve" was posted in accordance with local regulations. The reserve takes account of interest-rate commitments to policyholders insofar as these are not sufficiently covered by current or expected investment income. This increases the valuation differences recognised in profit or loss and thus the provision for deferred premium refunds. 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.

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

Development of gross provision

€m	2011	Prev. year
Status at 31 Dec. previous year	5,210	4,117
Change in consolidated group and other influences	22	294
Savings premiums	782	883
Unrealised gains/losses on fund assets	-259	275
Withdrawal for expenses and risk	-73	-44
Withdrawal for benefits	-309	-315
Status at 31 Dec. financial year	5,373	5,210

These provisions are valued retrospectively. The withdrawal for underwriting risks from the premiums and provision for future policy benefits is made on the basis of prudent assumptions regarding expected mortality and morbidity. Here, as with the provision for future policy benefits for non-unit-linked life insurance, we base the underlying calculation on best estimates, with appropriate provisions for adverse deviation.

The provisions are directly covered by the investments for the benefit of life insurance policyholders who bear the investment risk. Small differences in relation to these investments arise as a result of including unearned revenue liability in these provisions.

25 // Other accrued liabilities

Breakdown of other accrued liabilities

€m	31.12.2011	Prev. year
Provisions for post-employment benefits	1,691	1,562
Other provisions	1,831	1,896
Total	3,522	3,458

Provisions for post-employment benefits Munich Re companies generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan.

Expenses for defined contribution plans in the year under review totalled €56m (59m).

In the case of defined benefit plans, the amount of the defined benefits is largely dependent on salary and length of service. These benefits may be partially or fully financed through plan assets.

Change in the present value of obligations under defined benefit plans

€m	2011	Prev. year
Status at 31 Dec. previous year	2,952	2,618
Currency translation differences	31	59
Change in consolidated group	-2	-
Current service cost	107	101
Interest cost	133	131
Actuarial gains/losses	210	131
Paid pension benefits	-103	-94
Plan curtailments	-3	-2
Past service cost	9	5
Other	11	3
Status at 31 Dec. financial year	3,345	2,952

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to €163m (145m) at the balance sheet date.

In 2003, Munich Reinsurance Company established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. To finance these obligations, it is necessary for the trust assets to correspond to the present value of pension obligations. In the process, however, account has to be taken of the difference between the actuarial interest rate relevant for measuring the obligations and the return attainable on the investments. Therefore, the present value of the pension obligations was calculated using an actuarial interest rate equivalent to the expected investment return, which increased the present value of defined benefit obligations at 31 December 2011 by €215m (112m).

Change in the plan assets for defined benefit plans

€m	2011	Prev. year
Status at 31 Dec. previous year	1,449	1,229
Currency translation differences	18	43
Change in consolidated group	-4	-
Expected return	73	66
Actuarial gains/losses	26	49
Capital transfer to plan assets	214	85
Paid pension benefits	-48	-26
Other	-3	3
Status at 31 Dec. financial year	1,725	1,449

Change in the reimbursement rights for defined benefit plans

€m	2011	Prev. year
Status at 31 Dec. previous year	126	117
Expected return	6	5
Actuarial gains/losses	-1	1
Capital transfer	14	8
Paid pension benefits	-2	-2
Other	-	-3
Status at 31 Dec. financial year	143	126

The reimbursement rights derive from insurance concluded to cover the benefit obligations.

Funded status of defined benefit plans

€m	31.12.2011	Prev. year
Unfunded obligations		
Present value	1,445	1,432
Past service cost not yet recognised	12	13
Net balance sheet liability	1,457	1,445
Wholly/partly funded obligations		
Present value	1,900	1,520
Plan assets	-1,725	-1,449
Other receivables	56	43
Other	3	3
Net balance sheet liability	234	117
Total net balance sheet liability	1,691	1,562

Change in the provision for defined benefit plans

€m	2011	Prev. year
Status at 31 Dec. previous year	1,562	1,424
Currency translation differences	15	19
Change in consolidated group	2	-
Expenses	168	167
Payments	-53	-66
Capital transfer to plan assets	-214	-85
Transfer to other receivables	13	22
Actuarial gains/losses recognised in equity	196	78
Other	2	3
Status at 31 Dec. financial year	1,691	1,562

Breakdown of expenses booked in the business year

€m	2011	Prev. year
Current service cost	107	101
Interest cost	133	131
Less		
Expected return on plan assets	-73	-66
Expected return on reimbursements	-6	-5
Past service cost	9	4
Effects of plan curtailments	-3	-
Other	1	2
Total	168	167

The actual return on plan assets amounts to €99m (115m), and the actual return on reimbursements to €5m (6m).

The expenses are shown mainly under “operating expenses” and “expenses for claims and benefits” in the consolidated income statement.

Included in the recognised income and expenses are actuarial losses amounting to €211m (93m) in the financial year and €812m (601m) cumulative, taking currency fluctuations into account.

Breakdown of plan assets to cover pension obligations

%	31.12.2011	Prev. year
Non-fixed-interest securities	20.3	23.9
Fixed-interest securities and loans	78.0	73.6
Real estate	0.1	0.2
Other	1.6	2.3
Total	100.0	100.0

The fair value of the plan assets does not include any own shares.

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

Actuarial assumptions

%	2011	Prev. year
Discount rate	4.2	4.6
Expected rate of return on fund assets	4.9	5.2
Expected rate of return on reimbursements	4.9	4.6
Future increases in entitlement/salary	2.3	3.2
Future pension increases	1.5	1.6
Medical cost trend rate	4.4	4.4

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields.

For the financial year 2012, capital transfers of €72m (49m) to plan assets are expected.

A change in the medical cost trend rate by one percentage point would have the following effects on the present value of defined benefit obligations and pension expenses:

Effects of change in the medical cost trend rate

		Increase by one percentage point	Reduction by one percentage point
€m			
Present value of defined benefit obligations		19	-15
Pension expenses		2	-1

Other figures for the current financial year and previous years

€m	2011	2010	2009	2008	2007
Present value of defined benefit obligations (excluding medical-care benefits)	3,182	2,807	2,489	2,178	2,053
Plan assets	-1,725	-1,449	-1,229	-989	-965
Not covered by plan assets	1,457	1,358	1,260	1,189	1,088
Experience adjustments arising on the plan liabilities	14	-3	-44	7	-24
Experience adjustments arising on the plan assets	20	52	20	-100	-7

Other provisions

€m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2011
Earned commission	175	444	420	19	-	180
Early retirement benefits/semi-retirement	165	33	24	-	22	196
Outstanding invoices	138	164	138	16	1	149
Bonuses	134	61	48	4	-6	137
Anniversary benefits	68	17	12	-	2	75
Holiday and overtime pay	58	45	43	1	-	59
Miscellaneous	1,158	672	634	138	-23	1,035
Total	1,896	1,436	1,319	178	-4	1,831

The miscellaneous other provisions comprise a large number of different items, including €50m (73m) for medium- and long-term incentive plans, €61m (89m) for salary obligations, €44m (43m) for other remuneration for desk and field staff, €262m (258m) for restructuring, €21m (28m) for competitions for sales staff, €28m (29m) for litigation risks, and - (€5m) for insurance tax on outstanding premiums. The provisions for restructuring mainly concern the ERGO Group's "Continuous improvement of our competitive position" project.

The provisions for early-retirement benefits/semi-retirement, anniversary benefits and medium- and long-term incentive plans are mainly long term, whereas the provisions for earned commission, outstanding invoices, bonuses, holiday and overtime pay, and miscellaneous are essentially short term.

26 // Bonds and notes issued

Breakdown of bonds and notes issued

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2011	Prev. year
Munich Re America Corporation, Wilmington, 7.45%, US\$ 342m ¹ , Senior Notes 1996/2026	CUSIP-Nr.: 029163AD4 ISIN, Reuters: - Bloomberg: AMER RE CORP MUNRE	bbb+	A+	A2	A-	263	290
Total						263	290

¹ In the financial year 2011, the issuer bought back notes with a nominal value of US\$ 48m.

Outflows of liquidity occur annually in the amount of the interest payments until the notes mature. These totalled US\$ 29m in the financial year. We calculate the fair value of the notes issued using a recognised valuation method with observable market inputs. The fair value at the reporting date amounts to €304m (317m).

27 // Deposits retained on ceded business

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires, and do not trigger any cash flows. As a rule, the changes in deposits retained on ceded business derive from the changes in the relevant technical provisions covering ceded business. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

28 // Other liabilities

Breakdown of other liabilities

€m	31.12.2011	Prev. year
Amounts payable on primary insurance business	3,788	3,848
Accounts payable on reinsurance business	4,146	3,634
Amounts due to banks	616	1,843
Miscellaneous liabilities	4,501	3,778
Total	13,051	13,103

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.

€81m of the amounts owed to banks are attributable to bank borrowing by wind park companies acquired by Munich Re as part of the RENT (Renewable Energies and New Technologies) programme.

The miscellaneous liabilities contain liabilities of €312m (150m) resulting from reinsurance contracts without significant risk transfer, derivative financial instruments with a negative fair value of €1,039m (441m), and derivative components of variable annuities with a negative fair value of €305m (186m). The miscellaneous liabilities also include €15m (17m) for social security and €227m (200m) for interest and rent.

The following table provides information on the remaining contractual maturities of the items shown under "other liabilities". Since the amounts payable on primary insurance business are directly linked to the underlying insurance business, we analyse the liquidity risk arising from these together with the corresponding insurance contracts. This currently also applies to the derivatives embedded in variable annuity business. For information on this, see (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business. The derivatives listed below are recognised at market value.

Remaining terms of the other liabilities according to carrying amounts
 (excluding amounts payable on primary insurance business and excluding liabilities from derivative components embedded in variable annuities)

	Carrying amounts	
€m	31.12.2011	Prev. year
Up to one year	7,801	8,120
Over one year and up to two years	47	418
Over two years and up to three years	73	61
Over three years and up to four years	36	63
Over four years and up to five years	136	51
Over five years and up to ten years	730	306
Over ten years	440	236
Total	9,263	9,255

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. €258m (1,341m) of the amounts owed to banks and €648m (436m) of the liabilities from derivatives are due within one year. Any deviations in the liabilities with remaining terms of over one year from the undiscounted cash flows are not material for the presentation and significance of the financial liabilities for our financial position and performance.

The following table shows the allocation of the other liabilities measured at fair value to levels of the fair value hierarchy.

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy

€m				31.12.2011				Prev. year
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Other liabilities								
Derivatives	27	1,074	243	1,344	71	537	19	627

In the other liabilities, only derivatives with a negative market value are currently recognised at fair value. Of these, as in the previous year, we allocated hedge fund certificates, the derivative portions of catastrophe bonds and weather derivatives to Level 3. In addition, the derivative components of variable annuities have now also been allocated to this level of the fair value hierarchy. The strong increase in liabilities allocated to Level 3 is primarily due to this change in allocation to hierarchy levels.

The following table presents the reconciliation from the beginning balances to the ending balances for other liabilities allocated to Level 3.

Reconciliation for other liabilities allocated to Level 3

€m	Other liabilities at fair value through profit or loss	
	31.12.2011	Prev. year
Carrying amount at 31 Dec. previous year	19	-
Gains and losses	-71	-12
Gains (losses) recognised in the income statement	-71	-12
Gains (losses) recognised in equity	-	-
Acquisitions	8	-
Disposals	52	-
Transfer to/out of Level 3	211	9
Change in the market value of derivatives	14	2
Carrying amount at 31 Dec. financial year	243	19
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	-36	-12

Notes to the consolidated income statement

29 // Premiums

Premiums¹

	Life		Reinsurance	
	2011	Prev. year	2011	Prev. year
€m				
Total gross premiums	9,481	7,766	16,557	15,377
Gross premiums written	9,481	7,766	16,557	15,377
Change in unearned premiums – Gross	-8	-73	273	418
Gross earned premiums	9,489	7,839	16,284	14,959
Ceded premiums written	427	416	697	1,100
Change in unearned premiums – Ceded share	-	-	-160	9
Earned premiums ceded	427	416	857	1,091
Net earned premiums	9,062	7,423	15,427	13,868

	Life		Health		Primary insurance	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
€m						
Total gross premiums	7,892	8,158	5,710	5,493	5,595	5,459
Gross premiums written	6,262	6,484	5,710	5,493	5,595	5,459
Change in unearned premiums – Gross	1	-	14	7	145	168
Gross earned premiums	6,261	6,484	5,696	5,486	5,450	5,291
Ceded premiums written	137	139	23	19	217	197
Change in unearned premiums – Ceded share	-	-	1	-	11	5
Earned premiums ceded	137	139	22	19	206	192
Net earned premiums	6,124	6,345	5,674	5,467	5,244	5,099

	Munich Health		Total	
	2011	Prev. year	2011	Prev. year
€m				
Total gross premiums	5,967	4,962	51,202	47,215
Gross premiums written	5,967	4,962	49,572	45,541
Change in unearned premiums – Gross	13	66	438	586
Gross earned premiums	5,954	4,896	49,134	44,955
Ceded premiums written	75	26	1,576	1,897
Change in unearned premiums – Ceded share	2	3	-146	17
Earned premiums ceded	73	23	1,722	1,880
Net earned premiums	5,881	4,873	47,412	43,075

¹ After elimination of intra-Group transactions across segments.

The total gross premiums include not only the gross premiums written but also savings premiums from unit-linked life insurances and capitalisation products. Premiums from long-term insurance business, especially in the life primary insurance segment, are recognised in full as earned premiums and income when they become due. Under gross premiums written, only those parts of the premium from unit-linked life business are included that are used to cover the risks and associated costs.

Of the gross premiums written from short-term insurance business, the portions attributable to periods after the balance sheet date are posted as unearned premiums; cf. (20) Unearned premiums. Unearned premiums are reversed in accordance with the reduction in risk, over the duration of the contracts.

30 // Income from technical interest

Income from technical interest¹

€m	Life		Reinsurance	
	2011	Prev. year	2011	Prev. year
Income from technical interest	647	513	1,385	1,371

€m	Life		Health		Primary insurance	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
Income from technical interest	2,195	3,052	1,469	1,431	158	174

€m	Munich Health		Total	
	2011	Prev. year	2011	Prev. year
Income from technical interest	43	46	5,897	6,587

¹ After elimination of intra-Group transactions across segments.

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. Its composition varies from segment to segment, depending on the type of insurance business conducted and the related statutory regulations.

In the primary insurance and reinsurance property-casualty segments, we allow for the fact that provisions established in prior years were invested at higher interest rates than the current level of market interest rates. The income from technical interest therefore corresponds to the risk-free interest on our discounted technical provisions at the respective historical interest rate, taking into account the relevant period of insurance and currency. For balance sheet provisions in excess of the discounted provisions, short-term interest rates are applied.

For the life segment in reinsurance, the interest on the provisions is essentially based on contractually agreed allocations of interest (in Germany, for example, at least the guaranteed interest rate).

For the life primary insurance segment, the income from technical interest for German life business comprises the gains and losses from unit-linked life insurance plus the guaranteed interest rate and profit sharing on the basis of the IFRS investment result. 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 provision for non-performance related premium refunds, on the investment result exceeding the actuarial interest rate, and on policyholders' participation in the other non-technical result components.

In the Munich Health segment, the income from technical interest for international primary insurance business is based on the interest on technical provisions at the relevant national risk-free interest rate and, where applicable, on the interest allocated to the provision for future policy benefits. In the case of long-term reinsurance treaties, the interest corresponds to the contractually agreed allocations of interest. For short-term reinsurance business, the income from technical interest is calculated on the basis of the risk-free interest on technical provisions at the relevant national interest rate.

31 // Expenses for claims and benefits

Net expenses for claims and benefits¹

€m	Reinsurance			
	Life		Property-casualty	
	2011	Prev. year	2011	Prev. year
Gross				
Claims and benefits paid	6,479	4,716	10,747	10,688
Change in technical provisions				
Provision for future policy benefits	179	724	-5	17
Provision for outstanding claims	511	381	2,931	-328
Provision for premium refunds	-	-	10	6
Other technical result	1	37	41	55
Gross expenses for claims and benefits	7,170	5,858	13,724	10,438
Ceded share				
Claims and benefits paid	298	188	560	1,056
Change in technical provisions				
Provision for future policy benefits	-38	-69	-	-
Provision for outstanding claims	-9	81	261	-299
Provision for premium refunds	-	-	-	-
Other technical result	-29	-26	-35	-7
Expenses for claims and benefits - Ceded share	222	174	786	750
Net				
Claims and benefits paid	6,181	4,528	10,187	9,632
Change in technical provisions				
Provision for future policy benefits	217	793	-5	17
Provision for outstanding claims	520	300	2,670	-29
Provision for premium refunds	-	-	10	6
Other technical result	30	63	76	62
Net expenses for claims and benefits	6,948	5,684	12,938	9,688

€m	Primary insurance					
	Life		Health		Property-casualty	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
→						
Gross						
Claims and benefits paid	7,045	6,278	3,911	3,720	3,279	3,138
Change in technical provisions	-585	1,126	1,068	1,026	2	47
Provision for future policy benefits	78	35	13	-6	247	233
Provision for outstanding claims	504	706	871	1,067	30	19
Other technical result	185	182	-5	-5	-18	30
Gross expenses for claims and benefits	7,227	8,327	5,858	5,802	3,540	3,467
Ceded share						
Claims and benefits paid	108	92	6	7	108	85
Change in technical provisions	62	65	-	-	-	-
Provision for future policy benefits	-9	3	5	-	10	39
Provision for outstanding claims	1	1	-	-	-	-
Other technical result	-71	-73	-	-	-	-
Expenses for claims and benefits - Ceded share	91	88	11	7	118	124
Net						
Claims and benefits paid	6,937	6,186	3,905	3,713	3,171	3,053
Change in technical provisions	-647	1,061	1,068	1,026	2	47
Provision for future policy benefits	87	32	8	-6	237	194
Provision for outstanding claims	503	705	871	1,067	30	19
Other technical result	256	255	-5	-5	-18	30
Net expenses for claims and benefits	7,136	8,239	5,847	5,795	3,422	3,343
→						
	Munich Health			Total		
€m	2011	Prev. year	2011	Prev. year		
Gross						
Claims and benefits paid	4,708	3,512	36,169	32,052		
Change in technical provisions	78	88	737	3,028		
Provision for future policy benefits	18	258	3,798	573		
Provision for outstanding claims	-1	-6	1,414	1,792		
Other technical result	1	3	205	302		
Gross expenses for claims and benefits	4,804	3,855	42,323	37,747		
Ceded share						
Claims and benefits paid	34	24	1,114	1,452		
Change in technical provisions	-	-	24	-4		
Provision for future policy benefits	27	-3	285	-179		
Provision for outstanding claims	-	-	1	1		
Other technical result	-	-	-135	-106		
Expenses for claims and benefits - Ceded share	61	21	1,289	1,164		
Net						
Claims and benefits paid	4,674	3,488	35,055	30,600		
Change in technical provisions	78	88	713	3,032		
Provision for future policy benefits	-9	261	3,513	752		
Provision for outstanding claims	-1	-6	1,413	1,791		
Other technical result	1	3	340	408		
Net expenses for claims and benefits	4,743	3,834	41,034	36,583		

¹ After elimination of intra-Group transactions across segments.

The change in the provision for future policy benefits (net) contains -€259m (275m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, €972m (1,308m) is for the allocation to the provision for premium refunds on the basis of national regulations, €42m (240m) for the change in the provision for deferred premium refunds recognised in the income statement, and €397m (329m) for direct crediting. The "other technical result" for life primary insurance mainly includes interest on policyholders' accumulated credit.

Expenses for profit commission in reinsurance are shown under operating expenses, not under expenses for claims and benefits.

32 // Operating expenses

Operating expenses¹

	Reinsurance			
	Life		Property-casualty	
€m	2011	Prev. year	2011	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	2,265	2,306	3,844	3,588
Administrative expenses	310	297	1,077	1,104
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	-35	-245	-118	-114
Gross operating expenses	2,540	2,358	4,803	4,578
Ceded share of acquisition costs, profit commission and reinsurance commission paid	139	193	86	209
Ceded share of changes in deferred acquisition costs and contingent commissions	-6	-35	30	7
Operating expenses - Ceded share	133	158	116	216
Net operating expenses	2,407	2,200	4,687	4,362

	Primary insurance					
	Life		Health		Property-casualty	
€m	2011	Prev. year	2011	Prev. year	2011	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	894	861	618	614	1,185	1,155
Administrative expenses	250	252	167	159	702	671
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	170	53	-93	-62	-65	-102
Gross operating expenses	1,314	1,166	692	711	1,822	1,724
Ceded share of acquisition costs, profit commission and reinsurance commission paid	15	16	5	4	34	21
Ceded share of changes in deferred acquisition costs and contingent commissions	2	1	-	-	-	11
Operating expenses - Ceded share	17	17	5	4	34	32
Net operating expenses	1,297	1,149	687	707	1,788	1,692

→	Munich Health		Total	
€m	2011	Prev. year	2011	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	959	892	9,765	9,416
Administrative expenses	170	139	2,676	2,622
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	5	-23	-136	-493
Gross operating expenses	1,134	1,008	12,305	11,545
Ceded share of acquisition costs, profit commission and reinsurance commission paid	11	4	290	447
Ceded share of changes in deferred acquisition costs and contingent commissions	-	-	26	-16
Operating expenses – Ceded share	11	4	316	431
Net operating expenses	1,123	1,004	11,989	11,114

¹ After elimination of intra-Group transactions across segments.

33 // Investment result

Investment result by type of investment and segment (before deduction of income from technical interest)¹

€m	Reinsurance			
	Life		Property-casualty	
	2011	Prev. year	2011	Prev. year
Land and buildings, including buildings on third-party land	22	25	107	140
Investments in affiliated companies	7	-1	-9	-10
Investments in associates	13	7	62	35
Loans	2	4	5	10
Other securities held to maturity	-	-	-	-
Other securities available for sale				
Fixed-interest	580	599	1,858	2,286
Non-fixed-interest	71	51	316	265
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	-	-	11	16
Non-fixed-interest	-	-	-	1
Derivatives	-63	23	-268	-44
Designated at fair value through profit or loss				
Fixed-interest	-	-	-	-
Non-fixed-interest	-	-	-	-
Deposits retained on assumed reinsurance, and other investments	285	146	-46	-20
Investments for the benefit of life insurance policyholders who bear the investment risk	-	-	-	-
Expenses for the management of investments, other expenses	34	35	165	167
Total	883	819	1,871	2,512

Continued on next page

	Primary insurance					
	Life		Health		Property-casualty	
€m	2011	Prev. year	2011	Prev. year	2011	Prev. year
Land and buildings, including buildings on third-party land	57	98	59	39	40	30
Investments in affiliated companies	5	-9	-20	-9	263	35
Investments in associates	-	7	5	6	-4	-4
Loans	1,465	1,381	635	650	100	105
Other securities held to maturity	1	3	-	-	-	-
Other securities available for sale						
Fixed-interest	792	1,681	395	565	183	275
Non-fixed-interest	-24	141	3	108	-38	69
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	11	6	-	-	-	-
Non-fixed-interest	-	-	-	-	-	-
Derivatives	563	76	-6	-46	-107	-3
Designated at fair value through profit or loss						
Fixed-interest	-7	10	-	-	-	-
Non-fixed-interest	-3	-4	-	-	-	-
Deposits retained on assumed reinsurance, and other investments	-8	-8	-5	-7	-2	-
Investments for the benefit of life insurance policyholders who bear the investment risk	-263	271	-	-	-	-
Expenses for the management of investments, other expenses	162	172	55	49	27	36
Total	2,427	3,481	1,011	1,257	408	471

	Munich Health		Asset management		Total	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
€m						
Land and buildings, including buildings on third-party land	3	3	4	4	292	339
Investments in affiliated companies	1	-5	4	8	251	9
Investments in associates	4	9	21	-10	101	50
Loans	-	-	-	-	2,207	2,150
Other securities held to maturity	-	-	-	-	1	3
Other securities available for sale						
Fixed-interest	118	91	5	2	3,931	5,499
Non-fixed-interest	10	7	-	-6	338	635
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	-	-	-	-	22	22
Non-fixed-interest	-	-	-	-	-	1
Derivatives	-9	1	-	-	110	7
Designated at fair value through profit or loss						
Fixed-interest	-	-	-	-	-7	10
Non-fixed-interest	-	-	-	-	-3	-4
Deposits retained on assumed reinsurance, and other investments	1	-	4	3	229	114
Investments for the benefit of life insurance policyholders who bear the investment risk	-	-	-	-	-263	271
Expenses for the management of investments, other expenses	9	5	1	-	453	464
Total	119	101	37	1	6,756	8,642

¹ After elimination of intra-Group transactions across segments.

The result for land and buildings includes rental income of €340m (340m). The result from investments in affiliated companies contains in particular the gain of €257m on the disposal of Capital Square Pte. Ltd., Singapore. The gain is recognised under the item "investment income". The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling €43m (53m). We earned interest income of €2,174m (2,123m) on loans and €1m (3m) on other securities held to maturity. Other securities available for sale earned regular income of €4,647m (4,686m).

Investment income by segment (before deduction of income from technical interest)¹

€m	Reinsurance			
	Life		Property-casualty	
	2011	Prev. year	2011	Prev. year
Regular income	942	788	1,977	1,957
Thereof:				
Interest income	751	680	1,615	1,703
Income from write-ups	711	470	1,298	558
Gains on the disposal of investments	870	481	3,164	2,108
Other income	-	-	-	-
Total	2,523	1,739	6,439	4,623


Primary insurance

€m	Primary insurance			
	Life		Health	
	2011	Prev. year	2011	Prev. year
Regular income	3,186	3,205	1,414	1,297
Thereof:				
Interest income	2,973	2,999	1,250	1,185
Income from write-ups	725	660	144	71
Gains on the disposal of investments	586	466	225	265
Other income	137	353	-	-1
Total	4,634	4,684	1,783	1,632


Munich Health
Asset management
Total

€m	Munich Health		Asset management		Total	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
	Regular income	140	99	30	7	8,039
Thereof:						
Interest income	126	85	8	5	7,033	6,991
Income from write-ups	26	20	3	-	2,953	1,817
Gains on the disposal of investments	96	41	1	-	5,438	3,743
Other income	-	-	3	4	141	357
Total	262	160	37	11	16,571	13,666

¹ After elimination of intra-Group transactions across segments.

Investment expenses by segment (before deduction of income from technical interest)¹

€m	Reinsurance			
	Life		Property-casualty	
	2011	Prev. year	2011	Prev. year
Write-downs of investments	892	539	1,684	755
Losses on the disposal of investments	684	304	2,613	1,119
Management expenses, interest charges and other expenses	64	77	271	237
Thereof:				
Interest charges	23	41	104	69
Total	1,640	920	4,568	2,111

€m	Primary insurance					
	Life		Health		Property-casualty	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
Write-downs of investments	1,375	658	431	85	141	153
Losses on the disposal of investments	242	263	267	228	310	147
Management expenses, interest charges and other expenses	590	282	74	62	34	46
Thereof:						
Interest charges	29	24	9	9	9	10
Total	2,207	1,203	772	375	485	346

€m	Munich Health		Asset management		Total	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
Write-downs of investments	54	20	1	10	4,578	2,220
Losses on the disposal of investments	78	33	-	-	4,194	2,094
Management expenses, interest charges and other expenses	11	6	-1	-	1,043	710
Thereof:						
Interest charges	3	2	-	-	177	155
Total	143	59	-	10	9,815	5,024

¹ After elimination of intra-Group transactions across segments.

Write-downs of investments

€m	2011	Prev. year
Land and buildings, including buildings on third-party land	145	120
Investments in affiliated companies	22	13
Investments in associates	6	6
Loans	62	19
Other securities available for sale	1,721	283
Other securities held for trading	2,610	1,776
Other investments	12	3
Total	4,578	2,220

34 // Other operating result

Other operating result¹

€m	Reinsurance			
	Life		Property-casualty	
2011	Prev. year	2011	Prev. year	
Other operating income	107	74	278	295
Other operating expenses	57	41	201	201



€m	Primary insurance					
	Life		Health		Property-casualty	
2011	Prev. year	2011	Prev. year	2011	Prev. year	
Other operating income	116	107	49	50	149	127
Other operating expenses	133	144	105	97	206	236



€m	Munich Health		Asset management		Total	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
Other operating income	77	95	67	59	843	807
Other operating expenses	64	86	42	44	808	849

¹ After elimination of intra-Group transactions across segments.

Other operating income mainly comprises income of €486m (470m) from services rendered, interest and similar income of €118m (125m), income of €181m (125m) from the release/reduction of miscellaneous provisions and adjustments of values for receivables, and income of €45m (64m) from owner-occupied property, some of which is also leased out.

In addition to expenses of €335m (323m) for services rendered, other operating expenses chiefly include interest charges and similar expenses of €136m (136m), other write-downs of €63m (68m), and other tax of €47m (34m).

They also contain expenses of €44m (45m) for owner-occupied property, some of which is also leased out.

35 // Other non-operating result, impairment losses of goodwill and finance costs

Other non-operating result, impairment losses of goodwill and finance costs¹

	Reinsurance			
	Life		Property-casualty	
€m	2011	Prev. year	2011	Prev. year
Other non-operating income	587	730	1,034	1,519
Other non-operating expenses	676	744	1,273	1,609
Impairment losses of goodwill	1	-	4	-
Finance costs	71	73	186	179

	Primary insurance					
	Life		Health		Property-casualty	
€m	2011	Prev. year	2011	Prev. year	2011	Prev. year
Other non-operating income	153	263	299	703	264	268
Other non-operating expenses	231	347	349	756	432	455
Impairment losses of goodwill	-	-	-	-	20	109
Finance costs	6	5	-	-	12	24

	Munich Health		Asset management		Total	
	2011	Prev. year	2011	Prev. year	2011	Prev. year
Other non-operating income	392	351	7	5	2,736	3,839
Other non-operating expenses	457	370	25	12	3,443	4,293
Impairment losses of goodwill	-	-	-	-	25	109
Finance costs	12	10	1	2	288	293

¹ After elimination of intra-Group transactions across segments.

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 €2,582m (3,683m), the other non-operating income contains other non-technical income of €154m (156m).

The other non-operating expenses comprise foreign currency exchange losses of €2,812m (3,736m), write-downs of €110m (135m) on other intangible assets and other non-technical expenses of €521m (422m), such as expenses unrelated to the accounting period, project costs and other amounts that cannot be allocated elsewhere and restructuring expenses.

By finance costs we understand all interest and other expenses directly attributable to strategic debt. Debt has a strategic character for us if it does not have an original, direct link with our operative business.

Finance costs by financing instrument

€m	2011	Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich	241	249
Senior notes of Munich Re America Corporation, Wilmington	26	23
Bank borrowing of Munich Reinsurance Company, Munich	12	12
Subordinated bonds of BACAV AG, Vienna	6	6
Other	3	3
Total	288	293

Information on the Group's strategic debt can be found in the management report on page 104 and under (19) Subordinated liabilities and (26) Bonds and notes issued.

36 // Taxes on income

This item shows the corporation tax and municipal trade earnings tax paid by the German consolidated companies (including solidarity surcharge) and the comparable taxes on earnings paid by the foreign consolidated companies in the Group. In accordance with IAS 12, the determination of taxes on income includes the calculation of deferred taxes.

Recognised tax expenses/income broken down according to Germany and other countries

€m	2011	Prev. year
Current tax	631	1,065
Germany	381	673
Other countries	250	392
Deferred tax	-1,183	-373
Germany	-965	-183
Other countries	-218	-190
Taxes on income	-552	692

Main components of tax expenses/income

€m	2011	Prev. year
Current tax for financial year	984	1,138
Current tax for other periods	-353	-73
Deferred tax resulting from the occurrence or reversal of temporary differences	-798	-441
Deferred tax resulting from the occurrence or utilisation of loss carry-forwards	76	325
Valuation allowances for deferred taxes/loss carry-forwards	-462	-244
Effects of changes in tax rates on deferred tax	1	-13
Taxes on income	-552	692

The current tax 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

€m	2011	Prev. year
Result before taxes on income (after "other tax")	160	3,122
Group tax rate in %	33.0	33.0
Derived taxes on income	53	1,030
Tax effect of:		
Tax rate differences	-129	-155
Tax-free income	-59	-84
Non-deductible expenses	253	205
Valuation allowances for deferred taxes/loss carry-forwards	-462	-244
Change in tax rates and tax legislation	1	-13
Tax for prior years	-250	-92
Trade tax adjustments	1	7
Other	40	38
Taxes on income shown	-552	692

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 tax relief of 345% (previous year: tax burden of 22%).

"Tax-free income" is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividends and other tax-free income.

The non-deductible expenses mainly comprise losses on the disposal of equities, goodwill impairments and interest on back tax payments.

The tax effect of €462m (244m) from changes in valuation allowances for deferred taxes/loss carry-forwards mainly involves an amount of €300m (-) in income from the subsequent recognition of deferred tax assets for loss carry-forwards from prior years and €180m (246m) 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.

The income from changes in tax rates and tax legislation primarily relates to the UK, Italy and Switzerland.

"Tax for prior years" is for expected changes to tax assessments for previous years.

Disclosures on risks from insurance contracts and financial instruments

Munich Re's reporting is based on various legal regulations governing risks it is exposed to as a result of its business operations:

IFRS 4 prescribes disclosures on the type and extent of risks from insurance contracts. Under IFRS 7, analogous disclosures on risks from financial instruments are required. Besides this, Section 315 para. 2 item 2 of the German Commercial Code prescribes disclosures in the management report on risk management objectives and methods, hedging transactions and risks in connection with financial instruments. These requirements are specified in more detail in the German Accounting Standard No. 15 (DRS 15) for management reports as well as DRS 5 and DRS 5-20 for risk reporting and risk reporting at insurance companies.

Risk reporting concerns not only accounting but also the activities of integrated risk management (IRM) at Munich Re. To take both perspectives into account, information on risks is provided in the risk report within the management report, in the disclosures on risks from insurance contracts and in the disclosures on financial instruments in the notes to the financial statements. The disclosures in the risk report largely adopt a purely economic view. The report provides a detailed account of the organisation of risk management and Munich Re's risk strategy, briefly outlines the main risks we are exposed to and describes in detail the economic risk capital calculated by means of our internal risk model and available financial resources. Information on specific risk complexes completes the report.

The notes to the financial statements deal in detail with the various risks from insurance contracts and describe uncertainties in measuring them. In accordance with the requirements of IFRS 4, the effects of a change in the assumptions underlying the measurement of insurance contracts and/or in the market environment are also quantified. For risks from financial instruments, IFRS 7 stipulates that the disclosures must comprise information on the maximum credit risk exposure, the remaining terms, the rating, and a sensitivity analysis regarding the market risk. This information is also relevant for assessing the risk.

To obtain a complete overview of the risks to which Munich Re is exposed, the reader needs to refer to both the risk report and the disclosures on risks from insurance contracts and financial instruments in the notes to the financial statements, along with further information in the notes. Where necessary, we refer to the relevant information in the risk report and information on the respective items.

37 // Risks from life and health insurance business

The risks presented in this section concern business from the segments life and health primary insurance, life reinsurance and Munich Health. The Munich Health segment comprises primary insurance and reinsurance contracts. Since the disclosures are geared to the presentation of the relevant risks, Munich Health is not shown separately but reflected either in primary insurance or reinsurance, depending on the type of business involved.

Of primary importance for these insurance contracts are biometric risks, interest-rate risks and lapse risks. The measurement of technical provisions and deferred acquisition costs is based on biometric calculation tables, i.e. on assumptions with regard to mortality, disablement and morbidity, and on the respective contract- or plan-specific discount rates and actuarial interest rates. Besides this, measurement includes assumptions regarding the lapse rate and profit sharing. In addition, other market risks from unit-linked contracts and risks from embedded derivatives, as well as the liquidity risk, have to be taken into account.

Biometric risks Our portfolios' degree of exposure to biometric risks depends on the type of insurance contracts:

Biometric risks

Product category	Characteristics	Important risks
Life primary insurance		
Endowment and term life insurance	<ul style="list-style-type: none"> - 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 	<p>Mortality (short term):</p> <ul style="list-style-type: none"> - Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) <p>Mortality (long term):</p> <ul style="list-style-type: none"> - Increase in claims expenditure due to sustained rise in mortality in the portfolio
Annuity insurance	<ul style="list-style-type: none"> - In most cases, guaranteed lifetime annuity payment - Actuarial assumptions mainly fixed when contract is concluded 	<p>Longevity:</p> <ul style="list-style-type: none"> - Increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
Disability insurance	<ul style="list-style-type: none"> - Long-term contracts with a guaranteed limited annuity in the event of disablement - Actuarial assumptions fixed when contract is concluded 	<p>Disablement:</p> <ul style="list-style-type: none"> - 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 <p>Longevity:</p> <ul style="list-style-type: none"> - Increased expenditure due to rise in the average duration of annuity period
Life reinsurance	<ul style="list-style-type: none"> - Largely long-term contracts under which mainly mortality, longevity and disability risks are assumed from cedants 	<p>Mortality (short term):</p> <ul style="list-style-type: none"> - Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) <p>Mortality (long term):</p> <ul style="list-style-type: none"> - Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios <p>Disablement:</p> <ul style="list-style-type: none"> - Increased expenditure for disability insurances in cedants' portfolios <p>Longevity:</p> <ul style="list-style-type: none"> - Increase in expected expenditure for annuities due to a sustained rise in life expectancy in cedants' portfolios.
Health primary insurance	<ul style="list-style-type: none"> - Largely long-term contracts guaranteeing assumption of costs for medical treatment; provisions are established for covering increased costs on ageing - Variable actuarial assumptions; premium adjustment generally possible if there are sustained changes in the cost structure 	<p>Morbidity:</p> <ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - In most cases, short-term contracts under which morbidity risks are assumed from cedants 	<p>Morbidity (short term):</p> <ul style="list-style-type: none"> - Increase in costs of medical treatment within the risk period - Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)

The quantitative structure of our business is shown in the notes under (21) Provision for future policy benefits.

The biometric assumptions we use for measuring insurance contracts in our portfolios are regularly reviewed on the basis of updated portfolio information. Especially in primary insurance, this includes considering country-specific reviews by supervisory authorities.

We also take account of market standards when checking the adequacy of biometric actuarial assumptions and the trend assumptions included in them. This may result in a change in the provision for adverse deviation allowed for in the actuarial assumptions. The amount of the technical provisions or the deferred acquisition costs is not directly affected as long as there is provision for adverse deviation. In the view of the appointed actuaries, the biometric actuarial assumptions used by us are deemed sufficient. However, in long-term health insurance, we are proceeding on the assumption that there will be further advances in medical treatment, potentially giving rise to higher costs. For this business, it is generally possible to modify the actuarial assumptions by means of a premium adjustment to reflect the changes.

For short-term health insurance business, on the other hand, the main risk is a sudden increase in expenses due to exceptional one-off events.

Interventions by legislators or courts in the distribution of risks and rewards underlying the contracts concluded between the parties to insurance may mask or aggravate the biometric risks described, making it necessary to adjust the provision.

We measure sensitivity to changes in biometric assumptions in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. [page 258](#).

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 ¹	31.12.2011	Prev. year
Without discount rate	2,625	2,519
Discount rate ≤ 2.5%	719	180
2.5% < discount rate ≤ 3.5%	172	573
3.5% < discount rate ≤ 4.5%	2,405	2,032
4.5% < discount rate ≤ 5.5%	4,044	3,151
5.5% < discount rate ≤ 6.5%	1,120	1,458
6.5% < discount rate ≤ 7.5%	453	426
Discount rate > 7.5%	126	120
Covered by deposits retained on assumed reinsurance	7,815	5,121
Total	19,479	15,580

¹ After elimination of intra-Group transactions across segments.

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 €1,096m (1,146m), 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)

€m ¹	Life 31.12.2011	Health 31.12.2011	Total 31.12.2011	Total Prev. year
Without discount rate	4,516	1,450	5,966	6,146
Discount rate ≤ 2.5%	7,366	49	7,415	6,172
2.5% < discount rate ≤ 3.0%	18,244	15	18,259	18,736
3.0% < discount rate ≤ 3.5%	26,644	1,288	27,932	27,720
3.5% < discount rate ≤ 4.0%	14,100	2,706	16,806	16,064
4.0% < discount rate ≤ 4.5%	26	2,720	2,746	2,788
4.5% < discount rate ≤ 5.0%	5	18,026	18,031	18,308
Discount rate > 5.0%	14	108	122	136
Total	70,915	26,362	97,277	96,070

¹ After elimination of intra-Group transactions across segments.

Besides this, in German health primary insurance, a discount rate of 3.5% (3.5%) is applied for calculating the provision for premium loadings and the provision for future premium reductions totalling €3,480m (3,086m), which are part of the provision for premium refunds; in principle, however, this rate can be altered by way of a premium adjustment.

Provisions in reinsurance and primary insurance that are not covered by deposits retained are covered by investments. In the case of a discrepancy between the durations of these investments and the liabilities ("duration mismatch"), the main risk lies in the fact that if interest rates fall markedly over the remaining settlement period of the liabilities, the return on the reinvested assets may be lower than the discount rates and thus necessitate further expenses. But a complete duration matching of liabilities with fixed-interest investments of identical maturities would not be expedient, because if interest rates rise significantly, policyholders might make increasing use of their surrender rights, resulting in a liquidity requirement for premature payouts.

We measure sensitivity to this interest-rate risk using an embedded value analysis; cf. page 258.

Other market risks and embedded derivatives In reinsurance, other market risks are generally ruled out through suitable treaty design. Some reinsurance contracts contain derivative components of variable annuities. These are measured separately and their changes in value are recognised in the investment result. The valuation of these embedded derivatives is sensitive to share prices, exchange rates and interest rates, but these sensitivities are nearly fully compensated for by the fact that such derivatives are for the most part directly matched by financial derivatives for hedging purposes.

In primary insurance, the risks to be considered – besides the interest-rate guarantee, which we analyse in the modelling of the interest-rate risk – are particularly risks from unit-linked life insurance and the lump-sum option in the case of deferred annuity policies. Other embedded derivatives are financially insignificant.

For the unit-linked insurance contracts in our portfolios, the investments are held for the benefit of life insurance policyholders who bear the investment risk, meaning that there is no direct market risk. Appropriate product design ensures that the necessary premium portions for payment of a guaranteed minimum benefit on occurrence of death are based on the current fund assets.

The lump-sum option in the case of deferred annuity policies gives policyholders the option of having their annuity paid out in a single payment at a fixed date. As a result, there is a potential risk if an unexpectedly large number of policyholders exercise their option at an interest-rate level markedly higher than the discount rate used for the annuity calculation. But there is no direct interest-rate sensitivity or market sensitivity, since the exercise of the option by the policyholder is determined to a crucial extent by individual factors and relates to the insurance components. This option is specifically taken into account when applying the liability adequacy test prescribed by IFRS 4 to technical provisions.

Lapse risks In reinsurance, a lapse risk derives primarily from the indirect transfer of lapse risks from cedants. As a rule, both this risk and the financial risk from extraordinary termination of reinsurance contracts are largely ruled out through appropriate contract design.

In life primary insurance, the reported technical provision in the case of contracts with a surrender option is generally at least as high as the relevant surrender value. 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.

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.

For the business (including variable annuities) at the balance sheet date, this results in the future expected technical payment balance 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)^{1,2}

€m	31.12.2011	Prev. year
Up to one year	-1,485	-2,342
Over one year and up to five years	-10,336	-9,061
Over five years and up to ten years	-17,828	-17,222
Over ten years and up to 20 years	-39,712	-36,543
Over 20 years ³	-120,086	-141,399

¹ Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).

² After elimination of intra-Group transactions across segments.

³ The reduction in this estimate from the previous year to 2011 is due to an adjustment in the underlying assumptions.

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

Further information on the liquidity risk is provided in the risk report on [page 127](#).

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 98% (99%) of the amounts shown under (21) Provision for future policy benefits is apportionable to such contracts. Given the relevant margins in the actuarial assumptions, it is also possible to fulfil the future guaranteed obligations without adjusting the provisions in the case of moderate changes in assumptions. Of great significance for risk-balancing in the case of adverse developments are parts of the provision for premium refunds based on national regulations, parts of the provision for deferred premium refunds resulting from other revaluations, and unrealised gains and losses on investments taken as a basis for posting the provision for deferred premium refunds. Reference is made to (23) Other technical provisions.

In health primary insurance, there is the additional possibility of adjusting premiums for most long-term contracts. If it is foreseeable that the assumptions behind the calculation are permanently inadequate to cover expenses for claims or the actual mortalities deviate significantly from the calculated ones, premiums can be raised accordingly, thus closely limiting the financial and balance sheet effects of cost increases in healthcare and permanent changes in morbidity.

For information on our risk management processes, reference is made to the risk report, [pages 120–123](#) and [page 125](#).

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 60](#). This covers 100% (100%) of the long-term business in reinsurance and more than 94% (94%) of the long-term business in primary insurance.

The sensitivities given below measure the impact of changes in the calculation bases and capital market parameters on the calculated economic value of our business. They take account of our risk minimisation measures and tax effects.

Munich Re continues to adhere to the strict rules of market-consistent evaluation as at the end of the year. The low interest-rate level and high volatility at the reporting date of 31 December 2011 result in distortions in life primary insurance in particular, owing to the long-term interest-rate guarantees. Besides this, there are impacts from the losses in value of our bonds from peripheral eurozone countries. Further details are provided in the management report, [pages 60](#) and [86](#).

Embedded value sensitivities

€m	Reinsurance		Primary insurance	
	2011	Prev. year	2011	Prev. year
Embedded value at the balance sheet date	9,992	8,284	875	4,108
Change in the event of a sustained increase in interest rates of 100 BP	-337	-294	2,369	1,099
Change in the event of a sustained decrease in interest rates of 100 BP	230	260	-4,009	-1,632
Change in the event of a 10% decrease in the value of equities and real estate	-17	-	-210	-143
Change in the event of an increase in mortality by 5%				
in the case of contracts mainly covering the mortality risk	-1,647	-1,479	-48	-29
Change in the event of a decrease in mortality by 5%				
in the case of contracts mainly covering the longevity risk	-53	-34	-186	-58
Change in the event of an increase in morbidity by 5%	-272	-281	-85	-28
Change in the event of an increase in the lapse rate by 10% ¹	-570	-10	112	14

¹ In reinsurance, the change in this sensitivity from the previous year to 2011 derives mainly from a refinement of the model.

38 // Risks from property-casualty insurance business

The risks presented in this section concern business from the primary insurance and reinsurance property-casualty segments.

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

The basis for measuring the risk assumed is an estimate of the claims frequency to be expected for a contract or a portfolio of contracts. In addition, an estimation of the claims amount is necessary, from which a mathematical distribution of the expected losses is derived. The result of these two steps is an estimation of the expected overall claims in a portfolio. A third element comprises the expected cash flows to settle claims incurred, a process which frequently extends over several years.

As the proportion of business ceded is small, the following analysis of underwriting risks largely adopts a gross approach.

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

Premiums, loss ratios and combined ratios by class of business

	2011	2010	2009	2008	2007
Gross premiums written in €m					
Reinsurance					
Liability	2,127	2,112	2,162	2,118	2,227
Accident	241	278	353	503	547
Motor	3,623	2,793	2,218	2,441	2,643
Marine, aviation, space	1,837	1,838	1,900	1,836	1,730
Fire	4,553	4,350	4,339	3,998	3,932
Engineering	1,566	1,658	1,536	1,457	1,286
Credit and bonding	696	744	632	825	710
Other classes of business	2,260	1,928	1,847	1,561	1,149
Primary insurance	5,637	5,498	5,131	5,105	5,639
Loss ratio in %					
Reinsurance					
Liability	85.4	101.1	108.7	80.0	80.4
Accident	152.1	114.4	102.7	108.6	118.6
Motor	70.5	74.6	66.7	86.6	80.9
Marine, aviation, space	52.5	65.2	64.6	69.9	63.5
Fire ¹	131.5	62.8	35.4	57.1	52.6
Engineering	53.8	63.2	46.6	58.5	53.9
Credit and bonding	-0.7	48.1	131.1	59.4	43.3
Other classes of business	64.3	50.7	70.3	63.3	76.8
Primary insurance	63.7	63.1	60.3	58.4	58.6
Combined ratio in %					
Reinsurance					
Liability	115.1	133.1	139.3	114.2	111.0
Accident	190.3	144.3	144.7	148.8	160.2
Motor	100.2	102.0	92.2	111.6	104.6
Marine, aviation, space	82.3	94.1	90.8	96.1	93.3
Fire ¹	156.6	89.8	61.0	84.6	78.0
Engineering	94.0	104.0	83.2	89.7	87.3
Credit and bonding	41.3	82.4	173.4	98.3	85.6
Other classes of business	95.6	89.8	102.3	94.3	100.4
Primary insurance	97.8	96.8	93.2	90.9	93.4

¹ The figure for 2011 is not adjusted for relief of 4.8 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 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 the combined ratios for the reinsurance property-casualty segment, including and excluding natural catastrophes:

Combined ratio for the last ten years

%	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002 ²
Including natural catastrophes ¹	113.6	100.5	95.3	99.4	96.4	92.6	111.7	98.9	96.5	123.7
Excluding natural catastrophes	84.8	89.5	93.9	93.2	91.7	91.6	92.5	93.9	94.8	120.3

¹ The figure for 2011 is not adjusted for relief of 1.3 percentage points from economic risk transfer to the capital markets.

² Thereof World Trade Center and reserve strengthening at Munich Re America: 17.1%.

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 and very large losses in reinsurance according to individual calendar years (net)

€m	2011	2010	2009	2008	2007
Large and very large losses	5,126	2,228	1,158	1,509	1,103
Thereof losses from natural catastrophes	4,544	1,564	196	832	634
Thereof other accumulation losses ¹	582	664	962	677	469

¹ Special impact for 2009: In credit and surety business, defaults triggered by the financial crisis led to a claims burden of €510m.

Further information on risks from large and accumulation losses can be found in the risk report on [page 131 f.](#)

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

The measurement of the provision for outstanding claims is based on an analysis of the historical loss development data for the different classes of business. We use a range of well-established actuarial methods for this purpose, which embed various pricing, coverage and benefit/inflation levels. In so doing, we draw on the specialist knowledge present in our claims and underwriting departments and take all foreseeable future trends into account. As part of our regular results monitoring process, we keep a close eye on trends to ensure that the assumptions underlying the measurement of the provisions always reflect the latest developments. Consequently, in the course of reserve run-off, it may be necessary to revise the original estimates of the claims expenditure required and to adjust the provisions accordingly.

The development of our claims reserves and the corresponding run-off results are shown under (22) Provision for outstanding claims.

A particular sensitivity exists in the case of contracts with long run-off periods. This characteristic applies especially to casualty insurance, where liabilities may manifest themselves with a considerable time lag. In addition, changes in court verdicts, class actions, inflation in medical care costs and modifications in general life expectancy can influence the valuation of reserves. The following section discusses the areas in the current reserve portfolio where, within the framework of an appropriate reserve estimate, the uncertainty is the greatest.

Asbestos insurance liabilities currently emanating predominantly from the US and some European countries are an area of concern for the entire insurance and reinsurance industry. Since the mid-1980s industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. This also applies to Munich Re. In our case, the policies mainly cover claims which manifest themselves after a latency period of as long as 30 to 50 years. In response, we have posted provisions for claims under long-cancelled general liability policies which provided coverage according to the then-applicable legal environment.

Time lags in claims settlement may assume significant dimensions, especially in reinsurance. Loss notification often involves a long "chain": exposure to the loss, manifestation of an injury, possible filing of a lawsuit against a defendant and adjudication of the suit, reporting and payment of an insurance recovery and then, finally, notification to the reinsurer. Therefore, besides monitoring these developments on a claim-by-claim level, we also monitor the development from an industry perspective, as this may be considered an important early indicator.

Provisions for asbestos and environmental claims

€m ¹	31.12.2011		Prev. year	
	Gross	Net	Gross	Net
Asbestos	1,815	1,476	1,996	1,597
Environmental	433	333	476	381

¹ The previous year's figures have been adjusted to eliminate currency translation effects.

In addition, there are loss scenarios which are highly influenced by the continuously evolving practice of jurisprudence under tort law, but also by a growing number of class actions. The main lines of business affected are product liability and professional liability in the USA. Besides this, we see increased uncertainties in the assessment of the liability scenarios for pure financial losses as a result of the massive change in economic parameters. We continue to carefully monitor trends and respond to the emergence of new information as appropriate.

In the area of bodily injury losses, Munich Re carries a significant amount of reserves for individual claims where the claimant is severely injured and is in need of a high degree of individual, specialised medical treatment and care. US workers' compensation business and motor liability business in some European countries are particularly affected by such claims. In both instances, coverage is provided for permanent disability cases where the claimant is expected to live for a considerable length of time and requires significant medical attention. Accordingly, the loss provisions are highly sensitive especially to inflation of medical care costs and to the trend with regard to general life expectancy. Owing to unexpectedly high price inflation, we have repeatedly had to increase these provisions in the past. Actual claims reported are compared with projected amounts to check whether the loss development patterns used are still appropriate for projecting future claims payments.

Risk minimisation measures With our underwriting policy geared to systematic diversification, i.e. the greatest possible mix and spread of individual risks, we substantially reduce the volatility for our insurance portfolio as a whole.

Another important measure for controlling underwriting risks is the cession of a portion of our risks to other carriers via external reinsurance or retrocession; cf. (12) Ceded share of technical provisions and (29) Premiums. All our companies have intra-Group and 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 120–125](#).

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)

€m ¹	Reinsurance		Primary insurance		Total	
	31.12.2011	Prev. year	31.12.2011	Prev. year	31.12.2011	Prev. year
Discount rate ≤ 2.5%	20	15	197	169	217	184
2.5% < discount rate ≤ 3.5%	201	223	554	511	755	734
3.5% < discount rate ≤ 4.5%	1,561	1,863	63	68	1,624	1,931
Discount rate > 4.5%	-	-	-	-	-	-
Total	1,782	2,101	814	748	2,596	2,849

¹ After elimination of intra-Group transactions across segments.

The major part of the discounted provisions in reinsurance are for US workers' compensation business, for which the discount rates are governed by supervisory law and are determined prospectively per accident year. We currently do not expect any changes in the US regulatory authorities' approval procedure. A sustained reduction in market interest rates is taken into account through conservative discount rate assumptions for future provisions for outstanding claims. If the discount rate were subsequently lowered by 100 BP, this would necessitate additional reserving of €169m (222m), 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 15.0% (14.1%) 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 constitutes only a fraction of the total payments to be made and is temporally stable according to our experience. Consequently, the liquidity risks in respect of these payments can also be minimised by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation has always been positive. Not explicitly considered in the quantification is the fact that owing to our far-reaching asset-liability management for payments of claims incurred in prior years, even extremely large losses (from natural-catastrophe and non-natural-catastrophe scenarios) are covered by our liquidity position. Besides this, we pursue a consistent asset-liability management approach in our investment strategy. The structure and characteristics of the payment obligations from insurance business determine the investments selected. This also applies to our ability to respond to shock scenarios. To this end, we regularly simulate the impact of major shock scenarios on our liquidity situation. The losses simulated in these scenarios exceed the demands of very large claims burdens sustained in the past (e.g. from the recent earthquakes or, in the past, from major hurricanes or the attack on the World Trade Center) in terms of both absolute amount and speed of settlement.

Payment flows and liquid funds in the individual calendar years (gross)

€m	2011	2010	2009	2008	2007
Premiums received	22,152	20,834	19,759	19,491	19,021
Claims payments for financial year	5,930	5,213	4,378	4,393	4,264
Claims payments for previous years	8,096	8,613	7,589	7,675	7,597
Costs	6,808	6,517	5,956	5,728	5,717
Liquid funds	1,318	491	1,836	1,695	1,443

Further information on the liquidity risk is provided in the risk report on [page 127](#).

Impact of changes in underwriting assumptions on equity and the consolidated income statement As part of the monitoring of our portfolio, we check whether original assumptions need to be adjusted. By means of the IFRS 4 liability adequacy test, we review expected claims expenditure in the light of updated assumptions, taking into account our risk minimisation measures. If this test shows that an adjustment to technical provisions is required, the amount is recognised in the consolidated income statement.

39 // Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is also of relevance. For our reinsurance and retrocessions to be placed externally, we choose only business partners that meet the requirements of our Retro Security Guideline and analogous regulations.

The credit ratings of our retrocessionaires and reinsurers for the externally ceded share of our provisions are given on [page 134](#) of the risk report, which also includes further information on credit risks on [page 126 f.](#)

48% (50%) of the ceded share of provisions is directly collateralised through deposits, so the credit risk can be ignored for this portion.

Apart from this, there are credit risks from the underwriting of credit reinsurance contracts. Information on these can be found under (38) Risks from property-casualty insurance business. We do not conduct any active credit insurance business in our primary insurance.

40 // Market risks from financing instruments – Sensitivity analysis

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

The analysis of equities and equity derivatives is based on a change in market value of $\pm 10\%$, $\pm 30\%$ of the delta-weighted exposure. For interest-rate-sensitive instruments, on the other hand, the change in market value resulting from a global change in interest rates of ± 200 BP, ± 100 and -50 BP is determined using duration and convexity. Owing to the low market interest-rate level, an assumed reduction in interest rates by 200 BP would lead to interest rates becoming partially negative. By contrast, an interest-rate increase of 200 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. By contrast, changes in exchange rates affect both interest-rate-sensitive and share-price-sensitive instruments. The sensitivity of instruments in foreign currency is determined by multiplying the euro market value by the assumed change of $\pm 10\%$ in the exchange rates. Alternative investments (private equity, hedge funds and commodities) are analysed together with the equities.

The effects of the capital market events listed in the following table do not take account of tax or the provision for premium refunds (gross disclosure), i.e. the analysis does not take into account the effects resulting from policyholders' participation in surplus in insurances of the person. The impact on the results and equity shown below would be substantially reduced if these effects were considered. It is also assumed that changes in the capital markets occur instantaneously, preventing our limit systems and active counter-measures from taking effect. The analysis considers around 99% of Munich Re's investments.

Market risk - Share prices The impact of a change on the stock markets in terms of absolute amounts decreased in the year under review. This is due to our reduction of equity positions and derivative hedging measures. A change in the stock market by 10% has an impact of 8.2% (11.2%) on the market value of the equity portfolio. The recognition of the hedging transactions in profit or loss has the effect that in the case of rising share prices, the overall impact on the consolidated income statement is nevertheless negative.

The non-linear effects of equity options or other asymmetrical strategies are not taken into account in this presentation owing to the delta-weighted approach selected.

Change in market value of investments sensitive to share prices

Change in share prices	31.12.2011			Prev. year		
	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
€bn						
Increase of 30%	-0.325	1.774	1.905	0.401	2.290	3.087
Increase of 10%	-0.123	0.591	0.620	0.120	0.763	1.015
Decrease of 10%	-0.334	-0.134	-0.620	-0.393	-0.489	-1.014
Decrease of 30%	-1.063	-0.341	-1.859	-1.560	-1.085	-3.040
Market values			7.541			9.057

¹ Gross before tax and policyholder participation in surplus.

Market risk - Interest rates The change in the market price of investments sensitive to interest rates is calculated using a parallel shift of the interest-rate curve and a revaluation of the fixed-interest securities and interest-rate derivatives on the basis of their duration and convexity. Cash positions and other derivatives are not included in the calculation. The main strategic interest-rate derivatives are receiver swaps and swaptions. Bond futures are used for tactical management of the portfolio.

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	31.12.2011			Prev. year		
	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
€bn						
Increase of 200 BP	-0.826	-12.026	-21.146	-0.930	-11.342	-18.909
Increase of 100 BP	-0.539	-6.454	-11.521	-0.596	-5.957	-10.147
Decrease of 50 BP	0.364	3.558	6.471	0.396	3.193	5.593
Decrease of 100 BP	0.790	7.337	13.416	0.858	6.528	11.531
Market values			171.288			162.777

¹ Gross before tax and policyholder participation in surplus.

Market risk - Exchange rates Our asset-liability management gears the currency structure of our assets to that of our liabilities. As a substantial portion of our non-euro liabilities is in US dollars, around 56% of the investments' sensitivity to exchange rates shown above stems from the US dollar. The pound sterling and the Canadian dollar contribute a further 26%. In this analysis, an increase of 10% in the exchange rate means that the foreign currency appreciates by 10% against the euro.

Change in market value of investments sensitive to exchange rates

Change in exchange rates	31.12.2011			Prev. year		
	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
€bn						
Increase of 10%	4.774	0.376	5.150	4.006	0.463	4.469
Decrease of 10%	-4.774	-0.376	-5.150	-4.006	-0.463	-4.469
Market values			55.014			52.053

¹ Gross before tax and policyholder participation in surplus.

Other information

41 // Parent

The Group parent is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich), Königinstrasse 107, 80802 München.

Its registered seat is Munich, Germany.

In addition to its function as a reinsurer, the parent also fulfils the function of holding company for the Group.

42 // Related parties

Information on the remuneration of Board members and transactions with these persons can be found in the remuneration report, starting on [page 32](#) and under (46) Remuneration report. Transactions between Munich Reinsurance Company and subsidiaries that are to be deemed related parties have been eliminated in consolidation and are not disclosed in the notes. Business relations with unconsolidated subsidiaries are of subordinate importance as a whole; this also applies to business relations with associates.

Munich Reinsurance Company has established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. The Munich Re pension scheme is considered a related party in accordance with IAS 24. Contributions to the pension scheme are recognised as expenses for defined contribution plans; cf. (25) Other accrued liabilities.

43 // Personnel expenses

The following personnel expenses are included in the operating expenses, in the expenses for claims and benefits (for claims adjustment) and in the investment result:

Breakdown of personnel expenses

€m	2011	Prev. year
Wages and salaries	2,532	2,534
Social security contributions and employee assistance	457	472
Expenses for employees' pensions	214	208
Total	3,203	3,214

44 // Long-Term Incentive Plan

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 receive a certain number of stock appreciation rights.

The relevant initial share price for the stock appreciation rights is calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to plan commencement. The obligations arising from the long-term incentive plans are covered by Munich Reinsurance Company shares.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in the fair value of the underlying options. The fair value recognises not only the intrinsic value (difference between current share price and initial share price of the stock appreciation rights) but also the possibility of growth in value up to the date of forfeiture or expiry of the rights and is determined on the basis of recognised valuation models, taking into account the exercise conditions. At each balance sheet date, the fair value is calculated and reserved; this amount is recognised in full. In the year under review, provisions of €12.0m (36.7m) 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 2011, this resulted in income of €18.3m (-15.1m). The weighted average share price for the stock appreciation rights exercised in 2011 was €118.35 for plan year 2004 and €122.85 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €0.7m at the balance sheet date.

Munich Reinsurance Company's Long-Term Incentive Plans 2004-2010

	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	€88.65	€88.10	€108.87	€134.07	€121.84	€97.57	€109.11
Intrinsic value 2011 for one right	€4.13	€4.68	-	-	-	-	-
Fair value 2011 for one right	-	€5.07	€2.99	€1.83	€3.64	€7.78	€6.43
Number of rights on 31 Dec. 2004	456,336						
Additions	1,697	485,527	-	-	-	-	-
Forfeited	2,005	-	-	-	-	-	-
Number of rights on 31 Dec. 2005	456,028	485,527	-	-	-	-	-
Additions	-	-	443,609	-	-	-	-
Exercised	119,363	-	-	-	-	-	-
Forfeited	-	-	1,019	-	-	-	-
Number of rights on 31 Dec. 2006	336,665	485,527	442,590	-	-	-	-
Additions	-	-	6,123	341,737	-	-	-
Exercised	85,652	84,329	-	-	-	-	-
Forfeited	-	3,892	8,514	503	-	-	-
Number of rights on 31 Dec. 2007	251,013	397,306	440,199	341,234	-	-	-
Additions	-	-	-	4,013	444,104	-	-
Exercised	31,582	31,716	-	-	-	-	-
Forfeited	1,069	-	5,388	5,848	3,063	-	-
Number of rights on 31 Dec. 2008	218,362	365,590	434,811	339,399	441,041	-	-
Additions	-	-	-	-	463	459,271	-
Exercised	8,906	19,213	-	-	-	-	-
Forfeited	-	715	2,904	2,804	4,194	-	-
Number of rights on 31 Dec. 2009	209,456	345,662	431,907	336,595	437,310	459,271	-
Additions	-	-	-	-	-	-	675,029
Exercised	120,331	72,662	-	-	-	-	-
Forfeited	1,833	1,936	1,653	1,379	1,462	1,287	-
Number of rights on 31 Dec. 2010	87,292	271,064	430,254	335,216	435,848	457,984	675,029
Additions	-	-	-	-	-	-	6,546
Exercised	54,081	122,681	-	-	-	-	-
Forfeited	33,211	957	4,631	5,333	7,623	7,338	16,266
Number of rights on 31 Dec. 2011	-	147,426	425,623	329,883	428,225	450,646	665,309
Exercisable at year-end	-	147,426	425,623	329,883	428,225	450,646	-

From 2002 to 2009, ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as the MEAG companies, also set up long-term incentive plans at yearly intervals and with terms of seven years each. The persons eligible for participation – Board of Management members, managing directors and, in individual cases, also top executives – were granted a defined number of stock appreciation rights in respect of Munich Re shares. In 2010, these share-price-related remuneration plans were only provided for senior management at the MEAG companies and for the managing directors of MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH. The design of the plans is identical to that of Munich Re's long-term incentive plans and they are accounted for in the same way. The obligations arising from the long-term incentive plans are covered by Munich Re shares or options on Munich Re shares. In the year under review, provisions of €2.8m (8.9m) 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 2011, this resulted in income of €3.2m (-0.8m). The weighted average share price for the stock appreciation rights exercised in 2011 was €122.65 for plan year 2004 and €120.61 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €0.1m at the balance sheet date.

Long-Term Incentive Plans 2004–2010 of ERGO and MEAG

	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	€88.65	€88.10	€108.87	€134.07	€121.84	€97.57	€109.11
Intrinsic value 2011 for one right	€4.13	€4.68	-	-	-	-	-
Fair value 2011 for one right	-	€5.07	€2.99	€1.83	€3.64	€7.78	€6.43
Number of rights on 31 Dec. 2004	154,189	-	-	-	-	-	-
Additions	-	211,941	-	-	-	-	-
Forfeited	32,130	24,411	-	-	-	-	-
Number of rights on 31 Dec. 2005	122,059	187,530	-	-	-	-	-
Additions	-	-	173,682	-	-	-	-
Exercised	31,390	-	-	-	-	-	-
Forfeited	-	3,072	-	-	-	-	-
Number of rights on 31 Dec. 2006	90,669	184,458	173,682	-	-	-	-
Additions	-	-	-	121,821	-	-	-
Exercised	30,372	34,879	-	-	-	-	-
Forfeited	-	-	7,483	10,422	-	-	-
Number of rights on 31 Dec. 2007	60,297	149,579	166,199	111,399	-	-	-
Additions	-	-	-	-	173,153	-	-
Exercised	10,304	24,219	-	-	-	-	-
Forfeited	-	-	3,966	1,597	601	-	-
Number of rights on 31 Dec. 2008	49,993	125,360	162,233	109,802	172,552	-	-
Additions	-	-	-	-	-	148,834	-
Exercised	2,859	14,851	-	-	-	-	-
Forfeited	-	-	2,046	1,578	1,803	-	-
Number of rights on 31 Dec. 2009	47,134	110,509	160,187	108,224	170,749	148,834	-
Additions	-	-	-	-	-	-	39,046
Exercised	32,555	45,130	-	-	-	-	-
Forfeited	-	-	241	1,856	2,506	-	-
Number of rights on 31 Dec. 2010	14,579	65,379	159,946	106,368	168,243	148,834	39,046
Exercised	8,437	37,021	-	-	-	-	-
Forfeited	6,142	-	281	176	275	255	-
Number of rights on 31 Dec. 2011	-	28,358	159,665	106,192	167,968	148,579	39,046
Exercisable at year-end	-	28,358	159,665	106,192	167,968	148,579	-

Each stock appreciation right entitles the holder to draw in cash the difference between the Munich Re share price at the time when the right is exercised and the initial share price. The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than the initial price. In addition, Munich Re shares must have outperformed the EURO STOXX 50 twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

When the stock appreciation rights are exercised, the cash payment is made (in the respective national currency) by the company that granted the rights. Stock appreciation rights not exercised on the last trading day of the plan term are exercised on the participant's behalf insofar as the prerequisites for this are met. If the prerequisites are not met, the stock appreciation rights are forfeited. If another company acquires control of Munich Reinsurance Company or if the latter's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants from Munich Re may exercise their stock appreciation rights within 60 days after the change of control becomes effective, even if the prerequisites for exercising the rights are not yet met at that juncture.

45 // Mid-Term Incentive Plan

Since 1 January 2009, Munich Reinsurance Company has set up mid-term incentive plans, each with a term of three years. Entitled to participate in these cash-settled share-price-related remuneration plans are members of 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 three following years and are allocated according to responsibilities.

The share-based factor TSR represents the total return on Munich Re shares and comprises share price performance plus dividends paid over a certain observation period. The initial TSR value and the final TSR value are determined from the average of the last 60 calendar days prior to plan commencement and plan termination respectively.

At plan commencement, the PSUs are granted on the basis of the set target amount for 100% achievement of objectives and the initial TSR value. The total return index of the Xetra listing of Munich Re shares, starting on 22 January 1996, is used for the TSR. The basis for the full and partial allocation of the PSUs is the first plan year.

The final number of PSUs is calculated by multiplying the number of PSUs at plan commencement by the percentage achievement of the performance target at plan termination. The number of PSUs may fluctuate between 0 and 1.5 times the initially allocated number. Payment is capped if the TSR doubles. The maximum amount payable is limited to 150% of the target amount for members of the Board of Management and company management, and to 300% of the target amount for senior management.

The Mid-Term Incentive Plan at the reporting date is valued indirectly at the fair value of the liabilities. The fair value takes account of the value-based performance target and the total shareholder return (TSR) during the performance period. To this end, the TSR index value observable in the market is updated with the current dividend yield of Munich Re shares at the termination date and discounted with appropriate market interest rates.

Munich Re's Mid-Term Incentive Plans 2009-2011

	Incentive Plan 2009	Incentive Plan 2010	Incentive Plan 2011
	1.1.2009	1.1.2010	1.1.2011
Plan commencement	1.1.2009	1.1.2010	1.1.2011
Plan end	31.12.2011	31.12.2012	31.12.2013
Fair value 2011 for one right	€171.48	€183.20	€195.41
Number of rights (for 100% achievement of objectives) on 1 January 2009	87,347	-	-
Additions	89	-	-
Forfeited	-	-	-
Number of rights (for 100% achievement of objectives) on 31 December 2009	87,436	-	-
Number of rights (for 100% achievement of objectives) on 1 January 2010	87,436	38,284	-
Additions	-	-	-
Forfeited	245	-	-
Number of rights (for 100% achievement of objectives) on 31 December 2010	87,191	38,284	-
Number of rights (for 100% achievement of objectives) on 1 January 2011	87,191	38,284	63,769
Additions	-	-	-
Forfeited	842	843	-
Number of rights (for 100% achievement of objectives) on 31 December 2011	86,349	37,441	63,769

In the financial year 2011, expenses of €8.5m (11.3m) were recognised for the Mid-Term Incentive Plan. The provision at the reporting date amounted to €35.1m (27.0m).

46 // Remuneration report

The members of Munich Reinsurance Company's Board of Management received remuneration totalling €9.8m (11.7m). The total remuneration of Munich Reinsurance Company's Supervisory Board amounted to €1.5m (1.6m); not included in this figure is €0.2m (0.2m) for membership of supervisory boards at other Group companies, so that the overall amount came to €1.7m (1.8m).

Payments to retired members of the Board of Management or their surviving dependants totalled €5.8m (5.6m).

Personnel expenses were not incurred for retired members of the Board of Management. After deduction of plan assets held by a separate entity (under a contractual trust agreement), there were no pension provisions or provisions for comparable benefits for retired members of the Board of Management or their surviving dependants.

There are no pension commitments for former members of the Supervisory Board or their surviving dependants.

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. Neither were there any notifiable transactions between Board members and Munich Re. Nor, apart from the above-mentioned remuneration for membership of supervisory boards at other Group companies, were any payments made or advantages extended to members of the Supervisory Board for services provided internally within the meaning of item 5.4.6 para. 3 of the German Corporate Governance Code.

All other disclosures on the remuneration of Board members, on share trading and shares held by the members of the Board of Management and the Supervisory Board, and on the structure of the Board of Management's remuneration system can be found in the remuneration report on page 32.

47 // Number of staff

The number of staff employed by the Group at year-end totalled 24,299 (24,537) in Germany and 22,907 (22,378) in other countries.

Breakdown of number of staff

	31.12.2011	Prev. year
Reinsurance	11,215	11,370
Primary insurance	31,311	30,887
Munich Health	3,927	3,899
Asset management	753	759
Total	47,206	46,915

48 // Auditor's fees

For services rendered to the parent and consolidated subsidiaries by the Group auditor (KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, and its affiliated companies within the meaning of Section 271 para. 2 of the German Commercial Code), the following fees have been recognised as an expense in the financial year:

Breakdown of auditor's fees

€k	2011	Prev. year
Audits of financial statements	7,374	8,601
Other assurance and appraisal services	2,767	3,131
Tax consultancy services	1,368	1,427
Other services	918	1,295
Total	12,427	14,454

The affiliated companies of KPMG Bayerische Treuhandgesellschaft AG comprise the following entities: KPMG Germany, KPMG Spain, KPMG Switzerland, KPMG LLP (UK), KPMG Belgium, KPMG Netherlands, KPMG Luxembourg, KPMG Turkey, KPMG Russia, KPMG Georgia, KPMG Ukraine, KPMG Armenia, KPMG Kazakhstan, KPMG Kyrgyzstan, KPMG Norway, KPMG Kuwait, KPMG Jordan and KPMG Saudi Arabia.

49 // Contingent liabilities, other financial commitments

Munich Re enters into contingent liabilities in connection with its normal business operations. In this context, the obligations from guarantees total €68m (106m), those from legal disputes €30m (4m), and those from letters of support €4m (8m). As a result of the sale of Capital Square Pte. Ltd. (cf. (17) Non-current assets and disposal groups held for sale), guarantees exist in the amount of the purchase price at most. All information on risks arising from legal disputes can be found on [page 138](#) in the risk report.

The application of fiscal regulations may be unresolved at the time of calculation of tax refund claims and tax liabilities. The calculation of tax items is based on the regulations most likely to be applied in each case. Regardless of this, the fiscal authorities may be of a deviating opinion in this area, which may give rise to additional tax liabilities.

In accordance with the German Insurance Control Act (VAG), all German life and health insurers of our Group are obliged to be members of a protection fund. For life insurers, the protection fund can levy special contributions of up to one per mille of total net technical provisions, in addition to a regular contribution of 0.2 per mille of total net technical provisions. For the health insurers, there is no pre-financing, but the fund may levy special contributions of up to two per mille of net technical provisions to fulfil its functions. This could give rise to a potential payment obligation of €111m (113m) 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 €205m (218m) for work and service contracts and €1,037m (1,001m) for investment obligations. At the reporting date, there were loan commitments amounting to €507m (9m), which mainly have to be settled on 12 January 2012. These figures represent undiscounted nominal amounts. There are other financial commitments amounting to €4m (4m).

There are no other financial commitments of significance for the assessment of the Group's financial position. No contingent liabilities have been entered into for the benefit of Board members.

50 // Restrictions regarding transfer of capital

Our subsidiaries Munich Re America und Munich American Reassurance Company show a negative earned surplus in their local financial statements as at 31 December 2011 (Statutory Accounting Principles). For this reason, the companies can only pay dividends or transfer capital to the parent company with the approval of the competent US regulatory authority.

51 // Leasing

Munich Re as lessee At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €406m (455m).

Due dates

€m	31.12.2011	Prev. year
Not later than one year	106	114
Later than one year and not later than five years	214	267
Later than five years	86	74
Total	406	455

Payments from operating 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. In the period under review, minimum lease payments of €82m (74m) and contingent lease payments of €7m (9m) were recognised as an expense. The total of future minimum sublease payments expected to be received under non-cancellable subleases was €22m (24m) at the reporting date.

The finance leases concern in particular rents for offices and business premises of the Group. They include extension options as well as restrictions regarding the agreement of subleases. The following table shows the future minimum lease payments and their present value for finance leases at 31 December 2011.

Due dates

	31.12.2011			Prev. year		
	Minimum lease payments	Interest component	Present value of minimum lease payments	Minimum lease payments	Interest component	Present value of minimum lease payments
€m						
Not later than one year	7	-	7	8	2	6
Later than one year and not later than five years	27	3	24	27	5	22
Later than five years	8	-	8	15	2	13
Total	42	3	39	50	9	41

The total of future minimum sublease payments expected to be received under non-cancellable subleases was €1m (2m) 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 €974m (911m).

Due dates

€m	31.12.2011	Prev. year
Not later than one year	175	164
Later than one year and not later than five years	474	447
Later than five years	325	300
Total	974	911

There were several finance leases for property at the balance sheet date:

Due dates

	31.12.2011			Prev. year		
	Gross investment	Interest element	Net investment	Gross investment	Interest element	Net investment
€m						
Minimum lease payments not later than one year	1	1	-	-	-	-
Minimum lease payments later than one year and not later than five years	2	-	2	-	-	-
Minimum lease payments later than five years	74	57	17	-	-	-
Total minimum lease payments	77	58	19	-	-	-
Unguaranteed residual values	41	37	4	-	-	-
Total	118	95	23	-	-	-

Net investments in leases correspond to the carrying amounts of the lease payments receivable at the balance sheet date.

52 // Events after the balance sheet date

The accident involving cruise ship Costa Concordia is likely to result in a claims burden for us in the mid double-digit million euro range. Besides costs for the vessel under hull insurance, further losses may arise due to liability claims from passengers, salvage of the wreck, and potential environmental liability claims. Therefore, it is not possible at this stage to put a final figure on the exact loss amount for Munich Re.

53 // Earnings per share

Diluting effects to be disclosed for the calculation of earnings per share were not present either in the financial year or in the previous year. Earnings per share can be potentially diluted in future through the issue of shares or subscription rights from amounts authorised for increasing the share capital and from contingent capital.

Earnings per share

		2011	Prev. year
Consolidated result attributable to			
Munich Reinsurance Company equity holders	€m	702	2,422
Weighted average number of outstanding shares		177,982,144	185,422,866
Earnings per share	€	3.94	13.06

The number of outstanding shares has decreased owing to the repurchase of 2,789,833 (11,531,594) shares in the course of the financial year 2011.

54 // Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2011 according to its financial statements prepared on the basis of the German Commercial Code amount to €1,118,842,577.07. 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 €6.25 per dividend-bearing share, with the remaining amount apportionable being carried forward to new account.

List of shareholdings as at 31 December 2011 in accordance with Section 313 para. 2 of the German Commercial Code

The following disclosures relate to companies in which our directly and indirectly held shareholdings (as defined in Section 16 paras. 2 and 4 of the German Stock Companies Act) add up to 20% or more of the share capital, and large companies (as defined in Section 267 para. 3 of the German Commercial Code) in which our directly and indirectly held shareholdings add up to more than 5% of the voting rights.

Company and registered seat	% share of capital	Company and registered seat	% share of capital
Consolidated subsidiaries			
40, Rue Courcelles SAS, Paris	100.0000	American Modern Surplus Lines Insurance Company, Amelia, Ohio	100.0000
80e LIMITED, Bristol	100.0000	American Southern Home Insurance Company, Jacksonville, Florida	100.0000
Adelfa Servicios a Instalaciones Fotovoltaicas, S.L., Santa Cruz de Tenerife	100.0000	American Western Home Insurance Company, Oklahoma City, Oklahoma	100.0000
AEVG 2004 GmbH, Frankfurt/Main ⁴	0.0000	Amicus Legal Ltd., Colchester	100.0000
aktiva Vermittlung von Versicherungen und Finanz-Dienstleistungen GmbH, Cologne	100.0000	Amicus Ltd., Colchester	100.0000
ALICE GmbH, Düsseldorf	100.0000	Arkansas Life Insurance Company, Phoenix, Arizona	100.0000
Allfinanz Limited, Dublin	100.0000	avanturo GmbH, Düsseldorf	100.0000
almeda GmbH, Munich	100.0000	B&C International Insurance, Hamilton, Bermuda	100.0000
almeda Versicherungs-Aktiengesellschaft, Munich	100.0000	Bank Austria Creditanstalt Versicherung AG, Vienna	90.0000
American Alternative Insurance Corporation, Wilmington, Delaware	100.0000	Beaufort Dedicated No. 1 Ltd, London	100.0000
American Family Home Insurance Company, Jacksonville, Florida	100.0000	Beaufort Dedicated No. 2 Ltd, London	100.0000
American Modern Home Insurance Company, Amelia, Ohio	100.0000	Beaufort Dedicated No. 5 Ltd, London	100.0000
American Modern Home Service Company, Amelia, Ohio	100.0000	Beaufort Underwriting Agency Limited, London	100.0000
American Modern Insurance Company of Florida, Inc., Jacksonville, Florida	100.0000	Bell & Clements (Bermuda) Ltd., Hamilton, Bermuda	100.0000
American Modern Insurance Group, Inc., Amelia, Ohio	100.0000	Bell & Clements (London) Ltd, London	100.0000
American Modern Life Insurance Company, Amelia, Ohio	100.0000	Bell & Clements (USA) Inc, Reston, Virginia	100.0000
American Modern Lloyds Insurance Company, Dallas, Texas	100.0000	Bell & Clements Inc, Reston, Virginia	100.0000
American Modern Select Insurance Company, Amelia, Ohio	100.0000	Bell & Clements Ltd, London	100.0000
		Bos Incasso B.V., Groningen	90.0240
		CAPITAL PLAZA Holding GmbH & Co. Singapur KG, Düsseldorf	100.0000
		CJSIC "European Travel Insurance", Moscow	100.0000
		Compagnie Européenne d'Assurances, Nanterre	100.0000
		Compania Europea de Seguros S.A., Madrid	100.0000

Company and registered seat	% share of capital	Company and registered seat	% share of capital
D.A.S. Defensa del Automovilista y de Siniestros - Internacional, S.A. de Seguros y Reaseguros, Barcelona	100.0000	ERGO Direkt Lebensversicherung AG, Schwechat	100.0000
D.A.S. Deutscher Automobil Schutz Allgemeine Rechts-schutz-Versicherungs-Aktiengesellschaft, Munich	100.0000	ERGO DIREKT Versicherung AG, Fürth	100.0000
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens	99.9983	ERGO Élétbiztosító Zrt., Budapest	100.0000
D.A.S. Jogvédelmi Biztosító Részvénytársaság, Budapest	100.0000	ERGO Emeklilik ve Hayat A.S., Istanbul	99.9999
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen	99.9500	ERGO Eurosolar GmbH & Co. KG, Nuremberg	100.0000
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn	100.0000	ERGO Funds AS, Tallinn	100.0000
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	99.9800	ERGO General Insurance Company S.A., Athens	99.9999
D.A.S. poist'ovna právnej ochrany, a.s., Bratislava	100.0000	ERGO Generales Seguros y Reaseguros, S.A., Madrid	100.0000
D.A.S. pojist'ovna právní ochrany, a.s., Prague	100.0000	ERGO Grubu Holding A.S., Istanbul	100.0000
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	99.9800	ERGO Grundstücksverwaltung GbR, Düsseldorf	100.0000
D.A.S. Towarzystwo Ubezpieczen Ochrony Prawnej S.A., Warsaw	99.9000	ERGO Immobilien-GmbH 14. Victoria & Co. KG, Kreien	100.0000
DAS Assistance Limited, Bristol	100.0000	ERGO Immobilien-GmbH 5. Hamburg-Mannheimer & Co.KG, Kreien	100.0000
DAS Holding N.V., Amsterdam	51.0000	ERGO Insurance N.V., Brussels	99.9999
DAS Law Limited, Bristol	100.0000	ERGO International Aktiengesellschaft, Düsseldorf	100.0000
DAS Legal Expenses Insurance Co., Ltd., Seoul	100.0000	ERGO International Services GmbH, Düsseldorf	100.0000
DAS Legal Expenses Insurance Company Limited, Bristol	100.0000	ERGO Invest SIA, Riga	100.0000
DAS Legal Finance B.V., Amsterdam	100.0000	ERGO Italia Business Solutions S.c.r.l., Milan	100.0000
DAS Legal Protection Insurance Company Ltd., Toronto	100.0000	ERGO Italia Direct Network s.r.l., Milan	100.0000
DAS Legal Protection Ireland Limited, Dublin	100.0000	ERGO Italia S.p.A., Milan	100.0000
DAS Legal Protection Limited, Christchurch, New Zealand	100.0000	ERGO Kindlustuse AS, Tallinn	100.0000
DAS Legal Protection Limited, Vancouver	100.0000	ERGO Latvija Versicherung AG (ERGO Latvija Apdrošināšanas Akciju Sabiedrība), Riga	100.0000
DAS LEGAL SERVICES LIMITED, Bristol	100.0000	ERGO Lebensversicherung Aktiengesellschaft, Hamburg	100.0000
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	100.0000	ERGO Lietuva draudimo UADB, Vilnius	100.0000
DAS Rechtsschutz-Versicherungs-AG, Lucerne	100.0000	ERGO Life Insurance Company S.A., Thessaloniki	100.0000
DAS Services Limited, Bristol	100.0000	ERGO Life Insurance SE, Vilnius	100.0000
DAS Support B.V., Amsterdam	100.0000	ERGO Pensionsfonds Aktiengesellschaft, Düsseldorf	100.0000
DAS UK Holdings Limited, Bristol	100.0000	ERGO Pensionskasse AG, Düsseldorf	100.0000
DB Platinum IV SICAV (Subfonds Institutional Fixed Income, Inhaber-Anteile I2D), Luxembourg ⁴	100.0000	ERGO Previdenza S.p.A., Milan	100.0000
DKV - Alpha Vermögensverwaltungs GmbH, Cologne	100.0000	ERGO Private Capital Gesundheit GmbH & Co. KG, Düsseldorf	100.0000
DKV BELGIUM S.A., Brussels	100.0000	ERGO Private Capital Leben GmbH & Co. KG, Düsseldorf	100.0000
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne	100.0000	ERGO Private Equity Gesundheit GmbH, Düsseldorf	100.0000
DKV Globality S.A., Luxembourg	100.0000	ERGO Private Equity Komposit GmbH, Düsseldorf	100.0000
DKV Luxembourg S.A., Luxembourg	75.0000	ERGO Private Equity Leben GmbH, Düsseldorf	100.0000
DKV Pflegedienste & Residenzen GmbH, Cologne	100.0000	ERGO RUSS Versicherung AG, St. Petersburg	100.0000
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	100.0000	ERGO Shisn, Moscow	100.0000
EIG, Co., Wilmington, Delaware	100.0000	ERGO SIGORTA A.S., Istanbul	99.9999
Einzelanlage Hohenseefeld GmbH & Co KG, Bremen	100.0000	ERGO Versicherung Aktiengesellschaft, Düsseldorf	100.0000
ERGO ASIGURARI DE VIATA SA, Bucharest	100.0000	ERGO Versicherungsgruppe AG, Düsseldorf	100.0000
ERGO Assicurazioni S.p.A., Milan	100.0000	ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	100.0000
ERGO Austria International AG, Vienna	100.0000	ERGO Zavarovalnica d. d., Ljubljana	100.0000
ERGO Daum Direct General Insurance Co. Ltd., Seoul	100.0000	ERGO životná poistovna, a. s., Bratislava	100.0000
ERGO DIREKT Krankenversicherung AG, Fürth	100.0000	ERGO Zweite Beteiligungsgesellschaft mbH, Düsseldorf	99.9999
ERGO DIREKT Lebensversicherung AG, Fürth	100.0000	Europaeiske Rejseforsikring A/S, Copenhagen	100.0000
		EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	100.0000
		European International Holding A/S, Copenhagen	100.0000
		Europeiska Försäkringsaktiebolaget, Stockholm	100.0000
		Evropska Cestovní Pojistovna A.S., Prague	90.0000
		E&S Claims Management Inc., Reston, Virginia, USA ⁴	0.0000

Company and registered seat	% share of capital	Company and registered seat	% share of capital
FAIRANCE GmbH, Düsseldorf	100.0000	IRIS Capital Fund II German Investors GmbH & Co. KG, Düsseldorf	85.7143
First Legal Protection Limited, St. Albans	100.0000	ITERGO Informationstechnologie GmbH, Düsseldorf	100.0000
First Marine Insurance Company, Amelia, Ohio	100.0000	Itus Verwaltungs AG, Grünwald	100.0000
Flexitel Telefonservice GmbH, Berlin	100.0000	Joint Stock Insurance Company ERGO, Minsk	92.3100
FOTOUNO S.r.l., Turin	100.0000	Jordan Health Cost Management Services W.L.L., Amman	100.0000
FOTOWATIO ITALIA GALATINA S.r.l., Turin	100.0000	K & P Pflegezentrum IMMAC Uelzen Renditefonds GmbH & Co. KG, Düsseldorf	84.8817
Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev	95.2708	KA Köln Assekuranz.Agentur GmbH, Cologne	100.0000
GF 65, Vienna ⁴	100.0000	Kapdom-Invest GmbH, Moscow	100.0000
Global Standards LLC, Wilmington, Delaware	100.0000	Landelijke Associatie van Gerechtsdeurwaarders B.V., Groningen	90.0240
Great Lakes Reinsurance (UK) Plc., London	100.0000	LAVG Associatie van Gerechtsdeurwaarders Zuid Holding B.V., Breda	80.0000
Great Lakes Services Ltd., London	100.0000	LawAssist Limited, Bristol	100.0000
Group Risk Services Limited, London	100.0000	LEGIAL AG, Munich	100.0000
Groves, John & Westrup Limited, London	100.0000	LifePlans Inc., Waltham, Massachusetts	100.0000
Habiriscos – Investimentos Imobiliarios e Turisticos, S.A., Lisbon	100.0000	LifePlans LTC Services, Inc., Ontario	100.0000
Hamburg-Mannheimer Pensionskasse AG, Hamburg	100.0000	Lloyds Modern Corporation, Dallas, Texas	100.0000
Hartford Steam Boiler (M) Sdn. Bhd, Kuala Lumpur	100.0000	Longial GmbH, Düsseldorf	100.0000
Hartford Steam Boiler (Singapore), PTE Ltd., Singapore	100.0000	Marina Salud S.A., Alicante	65.0000
Hartford Steam Boiler International India Pty Ltd., Kolkata	100.0000	Marina Sp.z.o.o., Sopot	100.0000
Hartford Steam Boiler International-GmbH, Rheine	100.0000	MEAG Adam, Munich ⁴	100.0000
HMI Partners N.V., Brussels	100.0000	MEAG ANGLO CELTIC Fund, Munich ⁴	100.0000
HMV GFKL Beteiligungs GmbH, Düsseldorf	100.0000	MEAG Benedict, Munich ⁴	100.0000
HSB Engineering Finance Corporations, Wilmington, Delaware	100.0000	MEAG BLN 2, Munich ⁴	100.0000
HSB Engineering Insurance Limited, London	100.0000	MEAG BLN 3, Munich ⁴	100.0000
HSB Engineering Insurance Services Limited, Oldham	100.0000	MEAG Cash Management GmbH, Munich	100.0000
HSB Group, Inc., Wilmington, Delaware	100.0000	MEAG Consortio, Munich ⁴	100.0000
HSB Japan KK, Minato-KU, Tokyo	100.0000	MEAG EDL CurryGov, Munich ⁴	100.0000
HSB Professional Loss Control, Inc., Lenoir City, Tennessee	100.0000	MEAG EDL EuroValue, Munich ⁴	100.0000
HSB Solomon Associates LLC, Wilmington, Delaware	100.0000	MEAG EDS AGIL, Munich ⁴	100.0000
HSB Technical Consulting & Services (Shanghai) Company, Ltd., Shanghai	100.0000	MEAG EUR Global 1, Munich ⁴	100.0000
Ibero Property Portugal – Investimentos Imobiliarios S.A., Lisbon	100.0000	MEAG Eurak, Munich ⁴	100.0000
Ibero Property Trust S.A., Madrid	100.0000	MEAG Euro 1, Munich ⁴	100.0000
IDEENKAPITAL Financial Engineering GmbH, Düsseldorf	100.0000	MEAG Euro 2, Munich ⁴	100.0000
IDEENKAPITAL Financial Service GmbH, Düsseldorf	100.0000	MEAG EURO-FONDS, Munich ⁴	100.0000
IDEENKAPITAL GmbH, Düsseldorf	100.0000	Meag Eurostar (Spezialfonds), Munich ⁴	100.0000
IDEENKAPITAL Media Finance GmbH, Düsseldorf	50.1000	MEAG EURO-Yield, Munich ⁴	100.0000
IDEENKAPITAL Metropolen Europa GmbH & Co. KG, Düsseldorf	72.3477	MEAG GBP Equities, Munich ⁴	100.0000
iii, Munich ⁴	100.0000	MEAG GBP-Global-STAR, Munich ⁴	100.0000
IK Einkauf Objekt Eins gmbH & Co. KG, Düsseldorf	100.0000	MEAG German Prime Opportunities (GPO), Munich ⁴	100.0000
IK Einkauf Objektmanagement GmbH, Düsseldorf	100.0000	MEAG Gilagrent, Munich ⁴	100.0000
IK Einkaufsmärkte Deutschland GmbH & Co. KG, Düsseldorf	52.0387	MEAG Golf 1, Munich ⁴	100.0000
IK Premium Fonds GmbH & Co. KG, Düsseldorf	100.0000	MEAG HBG 1, Munich ⁴	100.0000
IK Premium Fonds zwei GmbH & Co. KG, Düsseldorf	100.0000	MEAG HM Renten, Munich ⁴	100.0000
IKFE Properties I AG, Zurich	63.5532	MEAG HM Sach 1, Munich ⁴	100.0000
Imofloresmira – Investimentos Imobiliarios S.A., Lisbon	100.0000	MEAG HM Sach Rent 1, Munich ⁴	100.0000
		MEAG HM2000, Munich ⁴	100.0000
		MEAG HMR1, Munich ⁴	100.0000
		MEAG HMR2, Munich ⁴	100.0000
		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

Company and registered seat	% share of capital	Company and registered seat	% share of capital
MEAG Lambda EUR EM Local, Munich ⁴	100.0000	MR Beteiligungen GBP AG & Co. KG, Grünwald ²	100.0000
MEAG Lambda EUR, Grünwald ⁴	100.0000	MR Beteiligungen USD AG & Co. KG, Grünwald ²	100.0000
MEAG Lambda GBP, Grünwald ⁴	100.0000	MR RENT-Investment GmbH, Munich	100.0000
MEAG Lambda USD, Grünwald ⁴	100.0000	MR Solar GmbH & Co. KG, Nuremberg	100.0000
MEAG Lambda USD-COP, Grünwald ⁴	100.0000	MR SOLAR SAS DER WELIVIT SOLAR ITALIA SRL, Bolzano	100.0000
MEAG Multi Sach 1, Munich ⁴	100.0000	MSP Underwriting Ltd., London	100.0000
MEAG MUNICH ERGO AssetManagement GmbH, Munich	100.0000	MTU Moje Towarzystwo Ubezpieczeniowe S. A., Sopot	100.0000
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich	100.0000	MU068 MR Placem (FCP), Munich ⁴	1.0500
MEAG Munich Re Placemant, Grünwald ⁴	100.0000	Munich American Holding Corporation, Wilmington, Delaware	100.0000
MEAG New York Corporation, Wilmington, Delaware	100.0000	Munich American Life Reinsurance Company, Atlanta, Georgia	100.0000
MEAG NOK-Fonds, Munich ⁴	100.0000	Munich American Reassurance Company, Atlanta, Georgia	100.0000
MEAG OptiMAX, Munich ⁴	100.0000	Munich-American Reassurance Company PAC, Inc., Atlanta, Georgia ⁴	0.0000
MEAG PK-NORD, Munich ⁴	100.0000	Munich Atlanta Financial Corporation, Atlanta, Georgia	100.0000
MEAG PK-WEST, Munich ⁴	100.0000	Munich Health Holding AG, Munich ³	100.0000
MEAG Prestige, Munich ⁴	100.0000	Munich Health North America, Inc., Wilmington, Delaware	100.0000
MEAG RenditePlus, Munich ⁴	100.0000	Munich Holdings Ltd., Toronto	100.0000
MEAG REVO, Munich ⁴	100.0000	Munich Holdings of Australasia Pty. Ltd., Sydney	100.0000
MEAG SAG 1, Munich ⁴	100.0000	Munich Life Management Corporation Ltd., Toronto	100.0000
MEAG Sustainability, Munich ⁴	100.0000	Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.0000
Meag Tandem (Spezialfonds), Munich ⁴	100.0000	Munich Re America Corporation, Wilmington, Delaware	100.0000
MEAG UK Reserve 1, Munich ⁴	100.0000	Munich Re America Services Inc., Wilmington, Delaware	100.0000
MEAG US Dollar Bond, Munich ⁴	100.0000	Munich Re Capital Limited, London	100.0000
MEAG US Real Estate Management Holdings, Inc., Wilmington, Delaware	100.0000	Munich Re Capital Markets New York, Inc., Wilmington, Delaware	100.0000
MEAG US Reserve, Munich ⁴	100.0000	Munich Re do Brasil Resseguradora S.A., São Paulo	100.0000
MEAG USD Equities, Munich ⁴	100.0000	Munich Re Holding Company (UK) Ltd., London	100.0000
MEAG Vertical, Munich ⁴	100.0000	Munich Re of Malta Holding Limited, Floriana	99.9999
MEAG Vidas 4, Munich ⁴	100.0000	Munich Re of Malta p.l.c., Floriana	99.9999
MEAG Vidas Rent 2, Munich ⁴	100.0000	Munich Re Stop Loss, Inc., Wilmington, Delaware	100.0000
MEAG Vidas Rent 3, Munich ⁴	100.0000	Munich Re UK Services Limited, London	100.0000
MEAG Vigifonds, Munich ⁴	100.0000	Munich Re Underwriting Limited, London	100.0000
MEAG VLA, Munich ⁴	100.0000	Munich Reinsurance America, Inc., Wilmington, Delaware	100.0000
MedNet Bahrain W.L.L., Bahrain	100.0000	Munich Reinsurance Company of Africa Ltd, Johannesburg	100.0000
MedNet Greece S.A., Athens	78.1419	Munich Reinsurance Company of Australasia Ltd, Sydney	100.0000
MedNet Gulf E.C., Manama	100.0000	Munich Reinsurance Company of Canada, Toronto	100.0000
MedNet Holding GmbH, Munich	100.0000	Munichre General Services Limited, London	100.0000
MedNet International Ltd., Nicosia	100.0000	N.M.U. (Holdings) Limited, Leeds	100.0000
MedNet Saglik Hizmetleri Yönetim ve Danismanlik Anonim Sirketi, Istanbul	100.0000	Neckermann Lebensversicherung AG, Fürth	100.0000
MedNet Saudi Arabia LLC, Riyadh	100.0000	Neckermann Versicherung AG, Nuremberg	100.0000
MedNet UAE FZ L.L.C., Dubai	100.0000	New Reinsurance Company Ltd., Zurich	100.0000
Merkur Grundstücks- und Beteiligungs-Gesellschaft mit beschränkter Haftung, Düsseldorf	100.0000	Nightingale Legal Services Ltd., Colchester	100.0000
Midland-Guardian Co., Amelia, Ohio	100.0000	NMU Group Limited, London	100.0000
Midwest Enterprises, Inc., Miami, Florida	100.0000	Northern Marine Underwriters Limited, Leeds	100.0000
Modern Life Insurance Company of Arizona, Inc., Phoenix, Arizona	100.0000	OIK Mediclin, Wiesbaden ⁴	66.6672
MR Beteiligungen 1. GmbH, Munich ³	100.0000	Olympic Health Management Services Inc., Bellingham, Washington	100.0000
MR Beteiligungen 18. GmbH & Co. Immobilien KG i.G., 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		

Company and registered seat	% share of capital	Company and registered seat	% share of capital
Olympic Health Management Systems, Inc., Bellingham, Washington	100.0000	VICTORIA US Property Investment GmbH, Düsseldorf	100.0000
P.A.N. GmbH & Co. KG, Grünwald ²	99.0000	VICTORIA US Property Zwei GmbH, Düsseldorf	100.0000
Princeton Eagle Holding (Bermuda) Limited, Hamilton, Bermuda	100.0000	VICTORIA Vierte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
Princeton Eagle Insurance Company Limited, Hamilton, Bermuda	100.0000	Victoria Vierter Bauabschnitt GmbH & Co. KG, Düsseldorf	100.0000
Princeton Eagle West (Holding) Inc., Wilmington, Delaware	100.0000	Victoria Zivotno Osiguranje d.d., Zagreb	74.9000
Princeton Eagle West Insurance Company Ltd., Hamilton, Bermuda	100.0000	VICTORIA-VOLKSBANKEN Eletbiztosító Zrt., Budapest	74.8000
Proserpina Vermögensverwaltungsges. mbH, Munich	100.0000	VICTORIA-VOLKSBANKEN Poist'ovna, a.s., Bratislava	74.8000
Queensley Holdings Limited, Singapore ⁴	100.0000	VICTORIA-VOLKSBANKEN Biztosító Zrt., Budapest	74.8000
Renaissance Hotel Realbesitz GmbH, Vienna	60.0000	VICTORIA-VOLKSBANKEN pojšt'ovna, a.s., Prague	74.5373
Roanoke International Brokers Limited, London	100.0000	VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	74.6269
Roanoke Real Estate Holdings Inc., Schaumburg, Illinois	100.0000	Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	100.0000
Roanoke Trade Services Inc., Schaumburg, Illinois	100.0000	Vorsorge Luxemburg Lebensversicherung S.A., Munsbach	100.0000
San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino	100.0000	Watkins Syndicate Hong Kong Limited, Hong Kong	67.0000
Seminaris Hotel- und Kongreßstätten-Betriebsgesellschaft mbH, Lüneburg	75.0000	Watkins Syndicate Middle East Limited, Dubai	100.0000
Silvanus Vermögensverwaltungsges.mbh, Munich	100.0000	Watkins Syndicate Singapore Pte. Limited, Singapore	100.0000
Solomon Associates Limited, London	100.0000	welivit AG, Nuremberg	100.0000
Sopocki Instytut Ubezpieczen S.A., Sopot	100.0000	WFB Stockholm Management AB, Stockholm ⁴	50.0000
Sopockie Towarzystwo Ubezpieczen Ergo Hestia		Windpark Geisleiden GmbH & Co KG, Bremen	100.0000
Spolka Akcyjna, Sopot	100.0000	Windpark Großberndten 2 GmbH & Co KG, Bremen	100.0000
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot	100.0000	Windpark Hilmendorf GmbH & Co KG, Bremen	100.0000
Specialty Insurance Services Corp., Amelia, Ohio	100.0000	Windpark Klein Bünzow GmbH & Co KG, Bremen	100.0000
Sterling Life Insurance Company, Bellingham, Washington	100.0000	Windpark Kruge GmbH & Co KG, Bremen	100.0000
Temple Insurance Company, Toronto	100.0000	Windpark Langengrassau GmbH & Co KG, Bremen	100.0000
The Atlas Insurance Agency, Inc., Amelia, Ohio	100.0000	Windpark Marwitz GmbH & Co KG, Bremen	100.0000
The Boiler Inspection and Insurance Company of Canada, Toronto	100.0000	Windpark Mittelhausen GmbH & Co KG, Bremen	100.0000
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut	100.0000	Windpark Sassenberg GmbH & Co KG, Bremen	100.0000
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut	100.0000	Windsor Health Group, Inc., Brentwood, Tennessee	100.0000
The Midland Company, Cincinnati, Ohio	100.0000	Windsor Health Plan, Inc., Brentwood, Tennessee	100.0000
The Polytechnic Club, Inc., Hartford	100.0000	Windsor HomeCare Network, LLC, Brentwood, Tennessee	100.0000
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware	100.0000	Windsor Management Services, Inc., Nashville, Tennessee	100.0000
The Roanoke Companies Inc., Schaumburg, Illinois	100.0000	wpd Windpark Wergzahna GmbH & Co KG, Bremen	100.0000
Union Beteiligungsholding GmbH, Vienna	100.0000	wse Solarpark Spanien 1 GmbH & Co. KG, Fürth	75.1243
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa	100.0000		
Van Arkel Gerechtsdeurwaarders B.V., Leiden	79.9000		
Venus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000		
VHDK Beteiligungsgesellschaft mbH, Düsseldorf	100.0000		
VICTORIA Investment Properties Two L.P., Atlanta	100.0000		
VICTORIA Italy Property GmbH, Düsseldorf	100.0000		
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf	100.0000		
Victoria Osiguranje d.d., Zagreb	74.9000		
Victoria US Holdings, Inc., Wilmington, Delaware	100.0000		

Non-consolidated subsidiaries

50 Plus Strategies, Inc., Brentwood, Tennessee	100.0000
Acalter 140014 S.L., Playa del Inglés	100.0000
Agenzia Chianti S.R.L., Milan	100.0000
Aitesacho 5005 S.L., Playa del Inglés	100.0000
Albulzaga 8008 S.L., Playa del Inglés	100.0000
Aleama 150015 S.L., Madrid	100.0000
Allfinanz Inc., Wilmington, Delaware	100.0000
Allfinanz KK, Tokyo	100.0000
Allfinanz PTY, Sydney	100.0000
Allfinanz Software Services GmbH, Grünwald	100.0000
Amladeza 7007 S.L., Playa del Inglés	100.0000
Arridabra 130013 S.L., Madrid	100.0000
ARTES Assekuranzservice GmbH, Düsseldorf	100.0000
ArztPartner almeda AG, Munich	100.0000

Company and registered seat	% share of capital	Company and registered seat	% share of capital
Associated Asset Management Corporation B.V., 's-Hertogenbosch	51.0000	DAS Incasso Arnhem B.V., Arnhem	100.0000
B&D Acquisition B.V., Amsterdam	80.0000	DAS Incasso Den Bosch B.V., 's-Hertogenbosch	95.0000
B&D Business Solutions B.V., Utrecht	100.0000	DAS Incasso Rotterdam B.V., Rotterdam	80.0000
Badozoc 1001 S.L., Madrid	100.0000	DAS Legal Protection Pty. Ltd., Sydney	100.0000
Bank Austria Creditanstalt Versicherungsdienst GmbH, Vienna	100.0000	DAS Lex Assistance, S.L., Barcelona	100.0000
Bqueda 7007 S.L., Madrid	100.0000	De Wit Vissers Incasso Holding B.V., Breda	95.0000
Beaufort Dedicated No. 3 Ltd, London	100.0000	Diana Vermögensverwaltungs AG, Munich	100.0000
Beaufort Dedicated No. 4 Ltd, London	100.0000	DKV - Beta Vermögensverwaltungs GmbH, Cologne	100.0000
Beaufort Dedicated No. 6 Ltd, London	100.0000	DKV Immobilienverwaltungs GmbH, Cologne	100.0000
Beaufort Underwriting Services Limited, London	100.0000	DKV Residenz am Tibusplatz gGmbH, Münster	100.0000
Bell & Clements Underwriting Managers Ltd, London	100.0000	DKV Servicios, S.A., Saragossa	100.0000
Beteiligung HMM Hamburg-Mannheimer Erste Bürogebäude-Verwaltungsgesellschaft mbH, Hamburg	100.0000	DKV-Residenz in der Contrescarpe GmbH, Bremen	100.0000
Beteiligung HMM Hamburg-Mannheimer Zweite Bürogebäude-Verwaltungsgesellschaft mbH, Hamburg	100.0000	DRA Debt Recovery Agency B.V., The Hague	100.0000
BioEnergie Elbe-Elster GmbH & Co. KG, Elsterwerda	100.0000	Economic Data Research B.V., Leidschendam	100.0000
BioEnergie Verwaltungs-GmbH, Elsterwerda	100.0000	Economic Data Resources B.V., Leidschendam	100.0000
Blitz 01-807 GmbH, Munich	100.0000	EDR Acquisition B.V., Amsterdam	80.0000
Bobasbe 6006 S.L., Madrid	100.0000	EDR Credit Services B.V., The Hague	100.0000
Botedazo 8008 S.L., Madrid	100.0000	ERGO Alpha GmbH, Düsseldorf	100.0000
Bureau voor kredietinformaties Janssen B.V., The Hague	100.0000	ERGO Asia Management Pte. Ltd., Singapore	100.0000
Bureau voor kredietinformaties Janssen Holding B.V., The Hague	100.0000	ERGO Bilisim Teknolojisi Limited Sirketi, Istanbul	100.0000
Callopio 5005 S.L., Madrid	100.0000	ERGO Business Solutions s.r.l., Bucharest	100.0000
Camcichu 9009 S.L., Madrid	100.0000	ERGO Eurosolar der welivit Solar Italia GmbH & Co. KG, Bolzano	100.0000
CAPITAL PLAZA Holding GmbH, Düsseldorf	100.0000	ERGO GmbH, Herisau	100.0000
Caracuel Solar Catorce S.L., Madrid	100.0000	ERGO Gourmet GmbH, Düsseldorf	100.0000
Caracuel Solar Cinco S.L., Madrid	100.0000	ERGO Immobilien-GmbH 1. DKV & Co. KG, Kreien	100.0000
Caracuel Solar Cuatro S.L., Madrid	100.0000	ERGO Immobilien-GmbH 15. Victoria & Co. KG, Kreien	100.0000
Caracuel Solar Dieciocho S.L., Madrid	100.0000	ERGO Immobilien-GmbH 4. DKV & Co. KG, Kreien	100.0000
Caracuel Solar Dieciseis S.L., Madrid	100.0000	ERGO Immobilien-GmbH 6. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
Caracuel Solar Diecisiete S.L., Madrid	100.0000	ERGO Immobilien-GmbH 7. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
Caracuel Solar Diez S.L., Madrid	100.0000	ERGO Immobilien-Verwaltungs-GmbH, Kreien	100.0000
Caracuel Solar Doce S.L., Madrid	100.0000	ERGO Insurance Service GmbH, Vienna	99.6000
Caracuel Solar Dos S.L., Madrid	100.0000	ERGO Neunte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
Caracuel Solar Nueve S.L., Madrid	100.0000	ERGO PORTFÖY YÖNETİMİ A.S., Istanbul	99.9999
Caracuel Solar Ocho S.L., Madrid	100.0000	ERGO Private Capital GmbH, Düsseldorf	100.0000
Caracuel Solar Once S.L., Madrid	100.0000	ERGO Private Capital Zweite GmbH & Co. KG, Düsseldorf	100.0000
Caracuel Solar Quince S.L., Madrid	100.0000	ERGO Sigorta ve Emeklilik Satis Aracılık Hizmetleri Limited Sirketi, Istanbul	100.0000
Caracuel Solar Seis S.L., Madrid	100.0000	ERGO Specialty GmbH, Hamburg	100.0000
Caracuel Solar Siete S.L., Madrid	100.0000	ERGO Trust Erste Beteiligungsgesellschaft mbH i.L., Munich	100.0000
Caracuel Solar Trece S.L., Madrid	100.0000	ERGO Versicherungs- und Finanzierungs-Vermittlung GmbH, Hamburg	100.0000
Caracuel Solar Tres S.L., Madrid	100.0000	ERIN Sigorta Aracılık Hizmetleri Limited Sirketi, Istanbul	99.9950
Caracuel Solar Uno S.L., Madrid	100.0000	ERV (China) Travel Service and Consulting Ltd., Beijing	100.0000
CarePlus Gesellschaft für Versorgungsmanagement mbH, Cologne	100.0000	ERV Seyahat Sigorta Aracılık Hizmetleri ve Danışmanlık Ltd.Sti., Istanbul	99.0000
Chobocuga 150015 S.L., Playa del Inglés	100.0000	Esoleme 120012 S.L., Playa del Inglés	100.0000
Ciborum GmbH, Munich	100.0000	Etics, s.r.o., Prague	100.0000
Copper Leaf Research, Bingham Farms, Michigan	100.0000	Etoblete 160016 S.L., Madrid	100.0000
Corion Pty Limited, Sydney	100.0000		
Cotatrillo 100010 S.L., Madrid	100.0000		
Daman Health Insurance - Qatar LLC, Doha, Qatar	100.0000		
DAS Consultancy & Detachering Rotterdam B.V., Rotterdam	65.0200		

Company and registered seat	% share of capital	Company and registered seat	% share of capital
Etogibon 100010 S.L., Playa del Inglés	100.0000	Horbach GmbH, Düsseldorf	70.1000
Etolede 6006 S.L., Playa del Inglés	100.0000	HSB Associates, Inc, New York	100.0000
EUREKA GmbH, Düsseldorf	99.9999	HSB Inspection Quality, Limited, Oldham	100.0000
Euro Alarm Assistance Prague, Prague	100.0000	HSB Investment Corporation, Hartford, Connecticut	100.0000
Euro-Center (Cyprus) Ltd., Larnaca	100.0000	HSB Reliability Technologies LLC, Wilmington, Delaware	100.0000
Euro-Center (Thailand) Co. Ltd., Bangkok	100.0000	HSB Ventures, Inc., Wilmington, Delaware	100.0000
Euro-Center Cape Town (Pty) Ltd., Cape Town	100.0000	Humanity B.V., The Hague	100.0000
Euro-Center China (HK) Co., Ltd., Beijing	100.0000	Ibero Property Guadalix S.A., Madrid	100.0000
Euro-Center Holding A/S, Copenhagen	83.3330	IDEENKAPITAL Anlagebetreuungs GmbH, Düsseldorf	100.0000
Euro-Center Holding North Asia (HK) Pte. Ltd., Hong Kong	100.0000	Ideenkapital Client Service GmbH, Düsseldorf	100.0000
Euro-Center Ltda., Rio de Janeiro	100.0000	Ideenkapital erste Investoren Service GmbH, Düsseldorf	100.0000
Euro-Center USA, Inc., New York	100.0000	Ideenkapital Fonds Treuhand GmbH, Düsseldorf	100.0000
Euro-Center Yerel Yardim, İstanbul	100.0000	Ideenkapital Media Treuhand GmbH, Düsseldorf	100.0000
Euro-Center, S.A. (Spain), Palma de Mallorca	100.0000	IDEENKAPITAL Metropolen Europa Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
Europäische (UK) Ltd., London	100.0000	IDEENKAPITAL PRORENDITA EINS Treuhandgesellschaft mbH, Düsseldorf	100.0000
European Assistance Holding GmbH, Munich	100.0000	IDEENKAPITAL Schiffsfonds Treuhand GmbH, Düsseldorf	100.0000
Evaluación Médica TUW, S.L., Barcelona	90.7508	Ideenkapital Treuhand GmbH, Düsseldorf	100.0000
Everything Legal Ltd., Bristol	100.0000	Ideenkapital Treuhand US Real Estate eins GmbH, Düsseldorf	100.0000
EVV Logistik Management GmbH, Düsseldorf	100.0000	IK Einkauf Objektverwaltungsgesellschaft mbH, Düsseldorf	100.0000
Exolvo GmbH, Hamburg	100.0000	IK Einkaufsmärkte Deutschland Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
First Marine Financial Services, Amelia, Ohio	100.0000	IK FE Fonds Management GmbH, Düsseldorf	100.0000
Forst Ebnath AG, Ebnath	96.7315	IK FE Management GmbH, Düsseldorf	100.0000
Gamaponti 140014 S.L., Madrid	100.0000	IK Objekt Bensheim GmbH, Düsseldorf	100.0000
GBG Vogelsanger Straße GmbH, Cologne	94.0000	IK Objekt Frankfurt Theodor-Heuss-Allee GmbH, Düsseldorf	100.0000
Gebäude Service Gesellschaft Überseering 35 mbH, Hamburg	100.0000	IK Pflegezentrum Uelzen Verwaltungs-GmbH, Düsseldorf	100.0000
GEMEDA Gesellschaft für medizinische Datenerfassung und Auswertung sowie Serviceleistungen für freie Berufe mbH, Cologne	100.0000	IK Premium GmbH, Düsseldorf	100.0000
Genius II Vermögensverwaltungsgesellschaft mbH, Munich	100.0000	IK Property Eins Verwaltungsgesellschaft mbH, Hamburg	100.0000
goDentis - Gesellschaft für Innovation in der Zahnheilkunde mbH, Cologne	100.0000	IK Property Treuhand GmbH, Düsseldorf	100.0000
goMedus Gesellschaft für Qualität in der Medizin mbH, Cologne	100.0000	IK US Portfolio Invest DREI Verwaltungs-GmbH, Düsseldorf	100.0000
goMedus GmbH & Co. KG, Cologne	100.0000	IK US Portfolio Invest Verwaltungs-GmbH, Düsseldorf	100.0000
goMedus Partnerkliniken GmbH, Cologne	100.0000	IK US Portfolio Invest ZWEI Verwaltungs-GmbH, Düsseldorf	100.0000
GRANCAN Sun-Line S.L., Madrid	100.0000	InterAssistance Gesellschaft für Dienstleistungen mit beschränkter Haftung, Munich	100.0000
Great Lakes Marine Insurance Agency Pty Ltd, Sydney	100.0000	ISVICRE SIGORTA KIBRIS LIMITED, Istanbul	51.0000
Great Lakes Re Management Company (Belgium) S.A., Brussels	100.0000	Janus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Guanzu 2002 S.L., Madrid	100.0000	Jupiter Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Hamburger Hof Management GmbH, Hamburg	100.0000	Juventus Vermögensverwaltungs AG, Hamburg	100.0000
Hamburg-Mannheimer ForsikringService A/S, Copenhagen	100.0000	K & P Objekt Hamburg Hamburger Straße GmbH, Düsseldorf	100.0000
Hamburg-Mannheimer Rechtsschutz Schaden-Service GmbH, Hamburg	100.0000	K & P Objekt Munich Hufelandstraße GmbH, Düsseldorf	100.0000
Hartford Steam Boiler Colombia Ltda., Bogotá, Colombia	100.0000	KQV Solarpark Franken 1 GmbH & Co. KG, Fürth	100.0000
Health OÜ, Tallinn	100.0000	Kuik & Partners Credit Management BVBA, Brussels	98.9000
Hestia Advanced Risk Solutions Sp. z o.o., Sopot	100.0000		
Hestia Kontakt Sp. z o.o., Sopot	100.0000		
Hestia Loss Control Sp. z o.o., Sopot	100.0000		
HMI Ceska republika, spol. s.r.o., Prague	100.0000		
HMI S.r.l., Verona	100.0000		
HMI Sp. z o.o., Warsaw	100.0000		

Company and registered seat	% share of capital	Company and registered seat	% share of capital
Kuik & Partners Gerechtsdeurwaarders & Incasso-bureau B.V., Eindhoven	100.0000	Münchener de Argentina Servicios Técnicos S. R. L., Buenos Aires	100.0000
Larus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000	Münchener de Colombia S.A. Corredores de Reaseguros, Santa Fe de Bogotá D.C.	100.0000
LAVG Zuid B.V., Breda	100.0000	Münchener de Mexico S. A., Mexico	100.0000
Legal Net GmbH, Munich	100.0000	Münchener de Venezuela C.A. Intermediaria de Reaseguros, Caracas	100.0000
Longial Versicherungsmakler GmbH, Düsseldorf	100.0000	Münchener Ecoconsult GmbH i.L., Munich	100.0000
m:editerran Power der welivit Solar Italia GmbH & Co. KG, Bolzano	100.0000	Münchener Finanzgruppe AG Beteiligungen, Munich	100.0000
m:editerran POWER FRANCE GmbH, Nuremberg	100.0000	Münchener Vermögensverwaltung GmbH, Munich	100.0000
m:editerran POWER GmbH & Co. KG, Nuremberg	100.0000	Munich Canada Systems Corporation, Toronto	100.0000
MAM Munich Asset Management GmbH, Munich	100.0000	Munich Columbia Square Corp., Wilmington, Delaware	100.0000
Marbury Agency, Inc., Amelia, Ohio	100.0000	Munich Health Daman Holding Ltd., Abu Dhabi	51.0000
MAYFAIR Financing GmbH, Munich	100.0000	Munich Management Pte. Ltd., Singapore	100.0000
MAYFAIR Holding GmbH & Co. Singapur KG, Düsseldorf	71.4285	Munich Re America Brokers, Inc., Wilmington, Delaware	100.0000
MAYFAIR Holding GmbH, Düsseldorf	100.0000	Munich Re America Management Ltd., London	100.0000
MEAG Hong Kong Limited, Hong Kong	100.0000	Munich Re Capital Markets GmbH, Munich	100.0000
MEAG Luxembourg S.à r.l., Luxembourg	100.0000	Munich Re General (UK) plc, London	100.0000
MEAG Property Management GmbH, Munich	100.0000	Munich Re India Services Private Limited, Mumbai	100.0000
MEAG Real Estate Erste Beteiligungsgesellschaft, Munich	100.0000	Munich Re Japan Services K. K., Tokyo	100.0000
Mechanical & Materials Engineering, Wilmington, Delaware	100.0000	Munich Re Life and Health (UK) Plc., London	100.0000
Mediastream Consulting GmbH, Grünwald	100.0000	Munich Re Underwriting Agents (DIFC) Limited, Dubai	100.0000
Mediastream Dritte Film GmbH, Grünwald	100.0000	Munich Reinsurance Company Life Reinsurance Eastern Europe / Central Asia i.L., Moscow	100.0000
Mediastream Film GmbH, Grünwald	100.0000	Munich-American Global Services (Munich) GmbH, Munich	100.0000
Mediastream Vierte Medien GmbH, Grünwald	100.0000	Munich-American Risk Partners GmbH, Munich	100.0000
Mediastream Zweite Film GmbH, Grünwald	100.0000	Munich-Canada Management Corp. Ltd., Toronto	100.0000
MedNet Europa GmbH, Munich	100.0000	MunichFinancialGroup AG Holding, Munich	100.0000
MedNet International Offshore SAL, Beirut	99.6700	MunichFinancialGroup GmbH, Munich	100.0000
MedWell Gesundheits-AG, Cologne	100.0000	MunichFinancialServices AG Holding, Munich	100.0000
miCura Pflegedienste Berlin GmbH, Berlin	100.0000	Munichre New Zealand Service Limited, Auckland	100.0000
miCura Pflegedienste Bremen GmbH, Bremen	100.0000	Munichre Service Limited, Hong Kong	100.0000
miCura Pflegedienste Dachau GmbH, Dachau	51.0000	Naretoblera 170017 S.L., Madrid	100.0000
miCura Pflegedienste Düsseldorf GmbH, Düsseldorf	100.0000	Nassau Incasso Services Den Haag B.V., The Hague	100.0000
miCura Pflegedienste GmbH, Cologne	100.0000	Nerruze 120012 S.L., Madrid	100.0000
miCura Pflegedienste Hamburg GmbH, Hamburg	100.0000	Nicamballo 1001 S.L., Playa del Inglés	100.0000
miCura Pflegedienste Krefeld GmbH, Krefeld	100.0000	OHM Services of Texas, Inc., Bellingham, Washington	100.0000
miCura Pflegedienste Munich GmbH, Munich	100.0000	Olbodeca 4004 S.L., Playa del Inglés	100.0000
miCura Pflegedienste Munich Ost GmbH, Munich	65.0000	One State Street Intermediaries, Hartford, Connecticut	100.0000
miCura Pflegedienste Münster GmbH, Münster	100.0000	Oracuet 160016 S.L., Playa del Inglés	100.0000
miCura Pflegedienste Nürnberg GmbH, Nuremberg	51.0000	Oragulno 9009 S.L., Playa del Inglés	100.0000
MR Beteiligungen 14. GmbH, Munich	100.0000	Oraunte 130013 S.L., Playa del Inglés	100.0000
MR Beteiligungen 15. GmbH, Munich	100.0000	Orrazipo 110011 S.L., Madrid	100.0000
MR Beteiligungen 16. GmbH, Munich	100.0000	Otusleme 3003 S.L., Playa del Inglés	100.0000
MR Beteiligungen 18. GmbH, Grünwald	100.0000	P.A.N. Verwaltungs GmbH, Grünwald	99.0000
MR Beteiligungen AG, Grünwald	100.0000	PLATINIA Verwaltungs-GmbH, Munich	100.0000
MR ERGO Beteiligungen GmbH, Munich	100.0000	PRORENDITA DREI Verwaltungsgesellschaft mbH, Hamburg	100.0000
MR Parkview Holding Corporation, Wilmington, Delaware	100.0000	PRORENDITA EINS Verwaltungsgesellschaft mbH, Hamburg	100.0000
MR RENT-Management GmbH, Munich	100.0000	PRORENDITA FÜNF Verwaltungsgesellschaft mbH, Hamburg	100.0000
MR Solar Beneixama GmbH, Nuremberg	100.0000	PRORENDITA VIER Verwaltungsgesellschaft mbH, Hamburg	100.0000
Multiasistencia Europea, S.A., Madrid	100.0000		
Münchener Consultora Internacional S.R.L., Santiago de Chile	100.0000		

Company and registered seat	% share of capital	Company and registered seat	% share of capital
PRORENDITA ZWEI Verwaltungsgesellschaft mbH, Hamburg	100.0000	VICTORIA Immobilien-Fonds GmbH, Düsseldorf	100.0000
ProVictor Immobilien GmbH, Düsseldorf ⁷	50.0000	VICTORIA US Beteiligungsgesellschaft mbH, Munich	100.0000
ProVictor Property Fund IV Management, Inc., Atlanta	51.0000	Victoria Vierter Bauabschnitt Management GmbH, Düsseldorf	100.0000
ProVictor Property Fund V Management, Inc., Atlanta	51.0000	Victoria VIP II, Inc., Wilmington, Delaware	100.0000
ProVictor Property Fund VI Management, Inc., Atlanta	51.0000	Viwis GmbH, Munich	100.0000
ProVictor US Corporation, Atlanta	100.0000	Vorsorge Service GmbH, Düsseldorf	100.0000
Ra-Hart Investment Company, Dallas, Texas	100.0000	VV-Consulting Gesellschaft für Risikoanalyse, Vorsorgeberatung und Versicherungsvermittlung GmbH, Vienna	100.0000
Reaseguradora de las Américas S. A., La Habana	100.0000	VV-Consulting Többesügynöki Kft., Budapest	100.0000
Roanoke International Insurance Agency Inc., Schaumburg, Illinois	100.0000	VV-Immobilien Gesellschaft für Haus- und Grundbesitzverwaltung GmbH, Vienna	100.0000
Roanoke Trade Insurance Inc., Schaumburg, Illinois	100.0000	welivit New Energy GmbH, Fürth	100.0000
Roanoke Trade Services of Texas Inc., Schaumburg, Illinois	100.0000	welivit Solar España GmbH, Nuremberg	100.0000
Romney Holdings Limited, Dublin	100.0000	Welivit Solar Italia s.r.l., Bolzano	100.0000
Schloss Hohenkammer GmbH, Hohenkammer	100.0000	Windpark Langengrassau Infrastruktur GbR, Bremen	83.3300
Schrömbgens & Stephan GmbH, Versicherungsmakler, Düsseldorf	100.0000	Windpark Osterhausen-Mittelhausen Infrastruktur GbR, Bremen	85.7100
Seldac 1. Kommunaler-Rendite-Fonds GmbH & Co. KG, Düsseldorf	100.0000	Windsor DME Operations, Inc., Brentwood, Tennessee	100.0000
Seldac 1. Verwaltungs-GmbH, Düsseldorf	100.0000	Windsor Long Term Care, LLC, Brentwood, Tennessee	100.0000
Solarfonds Garmisch-Partenkirchen 2011 GmbH & Co. KG, Nuremberg	99.7500	WISMA ATRIA Holding GmbH & Co. Singapur KG, Düsseldorf	65.0000
Sopockie Towarzystwo Doradcze Sp. z o.o., Sopot	100.0000	WNE Solarfonds Süddeutschland 2 GmbH & Co. KG, Nuremberg	100.0000
STARSLUN S.R.L., Corciano	100.0000	Wohnungsgesellschaft Brela mbH, Hamburg	100.0000
Stichting Aandelen Beheer D.A.S. Holding, Amsterdam	100.0000	Zacobu 110011 S.L., Madrid	100.0000
Sydney Euro-Center Pty. Ltd., Sydney	100.0000	Zacuba 6006 S.L., Madrid	100.0000
Synkronos Italia SRL, Milan	60.1000	Zacubacon 150015 S.L., Madrid	100.0000
TAS Assekuranz Service GmbH, Frankfurt/Main	100.0000	Zafacesbe 120012 S.L., Madrid	100.0000
TAS Touristik Assekuranz Service International GmbH, Frankfurt/Main	100.0000	Zagacobi 180018 S.L., Playa del Inglés	100.0000
TAS Touristik Assekuranzmakler und Service GmbH, Frankfurt/Main	100.0000	Zapaceba 170017 S.L., Playa del Inglés	100.0000
Teginago 2002 S.L., Playa del Inglés	100.0000	Zapacubi 8008 S.L., Madrid	100.0000
Tennessee Utilities Assistance Fund, Inc., Brentwood, Tennessee	100.0000	Zarzucolumbu 100010 S.L., Madrid	100.0000
Tenoslema 110011 S.L., Playa del Inglés	100.0000	Zetaza 4004 S.L., Madrid	100.0000
TGR Biztosítás Többesügynöki Zrt., Budapest	100.0000	Zicobucar 140014 S.L., Madrid	100.0000
The National Senior Membership Group, Bellingham, Washington	100.0000	Zucaelo 130013 S.L., Madrid	100.0000
Three Lions Underwriting Ltd., London	100.0000	Zucampobi 3003 S.L., Madrid	100.0000
Tillobesta 180018 S.L., Madrid	100.0000	Zucarrobiso 2002 S.L., Madrid	100.0000
TIS Holdings Inc., Schaumburg, Illinois	100.0000	Zucobaco 7007 S.L., Madrid	100.0000
Titus AG, Düsseldorf	100.0000	Zulazor 3003 S.L., Madrid	100.0000
Trade Insurance Services Inc., Schaumburg, Illinois	100.0000	Zumbicobi 5005 S.L., Madrid	100.0000
Trusted Documents GmbH, Nuremberg	100.0000	Zumcasba 1001 S.L., Madrid	100.0000
US PROPERTIES VA Verwaltungs-GmbH, Düsseldorf	100.0000	Zuncabu 4004 S.L., Madrid	100.0000
VB VICTORIA Zastupanje u Osiguranju d.o.o., Zagreb	74.9000	Zuncolubomcasa 9009 S.L., Madrid	100.0000
Verwaltungsgesellschaft "PORT VICTORIA" GmbH, Hamburg	100.0000		
VFG Vorsorge-Finanzierungsconsulting GmbH, Vienna	100.0000		
VICTORIA Asien Immobilienbeteiligungs GmbH & Co. KG, Munich	100.0000		
VICTORIA Asien Verwaltungs GmbH, Munich	100.0000		
VICTORIA Erste Beteiligungsgesellschaft mbH, Düsseldorf	100.0000		
VICTORIA Immobilien Management GmbH, Munich	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	25.5300
BHS tabletop AG, Selb ¹ (MC €41m)	28.9134
Bloemers Holding B. V., Rotterdam	22.7273
Consorcio Internacional de Aseguradores de Crédito, S.A., Madrid ⁵	19.4982
Consortia Versicherungs-Beteiligungsgesellschaft mbH, Nuremberg	33.7027

Company and registered seat	% share of capital	Company and registered seat	% share of capital
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	49.9920	Associates accounted for at fair value	
DAMAN - National Health Insurance Company, Abu Dhabi	20.0000	"PORT ELISABETH" GmbH & Co. KG, Hamburg	31.9658
Dovull SPV GmbH & Co. KG, Frankfurt/Main	20.0597	"PORT LOUIS" GmbH & Co. KG, Hamburg	26.4129
Europai Utazasi Biztosito Rt., Budapest	26.0000	Agricultural Management Services S.r.l., Verona	33.3333
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna	25.0100	Assistance Partner GmbH & Co. KG, Munich	21.6600
Global Aerospace Underwriting Managers Ltd., London	40.0000	BF.direkt AG, Stuttgart	27.2000
Global Insurance Company, Ho Chi Minh City	25.0000	carexpert Kfz-Sachverständigen GmbH, Walluf	25.0000
HDFC ERGO General Insurance Company Ltd., Mumbai	26.0000	Fernkälte Geschäftsstadt Nord Gesellschaft bürgerlichen Rechts, Hamburg	35.8715
HighTech Beteiligungen GmbH und Co. KG, Düsseldorf	23.1000	Finsure Investments (Private) Limited, Harare	24.5000
KarstadtQuelle Finanz Service GmbH, Düsseldorf	50.0000	Hannover Finanz-Umwelt Beteiligungsgesellschaft mbH, Hillerse	20.0000
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf	50.0000	Hartford Research LLC, Wilmington, Delaware	41.7500
MDP Ventures I L.L.C., New York	50.0000	IFFOXX AG, Rosenheim	28.0020
MEAG Pacific Star Holdings Ltd., Hong Kong	50.0000	IK Objektgesellschaft Frankfurt Theodor-Heuss-Allee GmbH & Co. KG, Düsseldorf	47.4000
MEDICLIN Aktiengesellschaft, Offenburg ¹ (MC €171m)	35.0042	K & P Objekt Hamburg Hamburger Straße Immobilienfonds GmbH & Co.KG, Düsseldorf	36.6889
MEGA 4 GbR, Berlin	34.2569	LCM Logistic Center Management GmbH, Hamburg	50.0000
Millennium Entertainment Partners II L.P., New York	42.2992	MCAF Management GmbH, Düsseldorf	50.0000
Millennium Entertainment Partners L.P., New York	27.5400	MSMR Parkview LLC, Dover, Delaware	38.4600
Millennium Partners LLC, New York	20.3039	Perils AG, Zurich ⁵	11.1100
PICC Asset Management Company Ltd., Shanghai ⁵	19.0000	POOL Sp. z o.o., Warsaw	33.7500
Property Finance France S.A., Luxembourg	45.4605	RehaCare GmbH, Munich	25.1000
Protección Agropecuaria, Compañía de Seguros S.A., Mexico ⁵	19.9900	Reisegarant, Vermittler von Insolvenzversicherungen mbH, Hamburg	24.0000
Rendite Partner Gesellschaft für Vermögens- verwaltung mbH, Frankfurt/Main	33.3333	RM 2264 Vermögensverwaltungs GmbH, Munich	25.0000
RP Vilbeler Fondsgesellschaft mbH, Frankfurt/Main	40.0000	Rumba GmbH & Co. KG, Munich	25.0000
Sana Kliniken AG, Munich	21.7025	Rural Affinity Insurance Agency Pty Limited, Sydney	50.0000
SAS Le Point du Jour, Paris	50.0000	Secundi CBVA, Brussels	33.0000
Saudi National Insurance Company B.S.C.(c), Manama	22.5000	TEGG Corporation, Dover, Delaware	33.3400
Seaflower Health Ventures III L.P., Waltham	28.8434	Teko - Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung, Düsseldorf	30.0000
SEBA Beteiligungsgesellschaft mbH, Nuremberg	48.9931	TERTIANUM Seniorenresidenz Betriebsgesellschaft Munich mbH, Munich	33.3333
Storebrand Helseforsikring AS, Oslo	50.0000	TERTIANUM Seniorenresidenzen Betriebsgesellschaft mbH, Constance	25.0000
Suramericana S.A., Medellín ⁵	18.8669	Trend Capital GmbH & Co. Solarfonds 2 KG, Mainz	34.4234
TERTIANUM Besitzgesellschaft Berlin Passauer Strasse 5-7 mbH, Munich	25.0000	Triple IP B.V., Amsterdam	50.0000
TERTIANUM Besitzgesellschaft Konstanz Marktstätte 2-6 und Sigismundstrasse 5-9 mbH, Munich	25.0000	Verwaltungsgesellschaft "PORT ELISABETH" mbH, Hamburg	50.0000
TERTIANUM Besitzgesellschaft Munich Jahnstrasse 45 mbH, Munich	33.3333	Verwaltungsgesellschaft "Port Hedland" mbH, Hamburg	50.0000
T-Solar Global Operating Assets S.L.U., Madrid	37.0000	Verwaltungsgesellschaft "PORT KELANG" mbH, Hamburg	50.0000
U.S. Property Fund IV GmbH & Co. KG, Munich	21.7286	Verwaltungsgesellschaft "Port Lincoln" mbH, Hamburg	50.0000
U.S. Property Management II L.P., Atlanta	33.3333	Verwaltungsgesellschaft "PORT LOUIS" GmbH, Hamburg	50.0000
U.S. Property Management III L.P., Atlanta	20.0000	Verwaltungsgesellschaft "PORT MAUBERT" mbH, Hamburg	50.0000
Uelzener Lebensversicherungs-AG, Uelzen	23.9750	Verwaltungsgesellschaft "PORT MELBOURNE" mbH, Hamburg	50.0000
US PROPERTIES VA GmbH & Co. KG, Düsseldorf	45.8348	Verwaltungsgesellschaft "PORT MENIER" mbH, Hamburg	50.0000
VICTORIA-VOLKS BANKEN Pensionskassen Aktiengesellschaft, Vienna	47.5028	Verwaltungsgesellschaft "PORT MOODY" mbH, Hamburg	50.0000
VICTORIA-VOLKS BANKEN Vorsorgekasse AG, Vienna	50.0000	Verwaltungsgesellschaft "PORT MORESBY" mbH, Hamburg	50.0000
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		

Company and registered seat	% share of capital
Verwaltungsgesellschaft "PORT MOUTON" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT NELSON" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT RUSSEL" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT SAID" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT STANLEY" GmbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT STEWART" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT UNION" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Williams" mbH, Hamburg	50.0000
VisEq GmbH, Grünwald	34.0000
Volksbanken-Versicherungsdienst GmbH, Vienna	25.2319
VV Immobilien GmbH & Co. GB KG, Düsseldorf	40.9241
VV Immobilien Verwaltungs GmbH, Munich	30.0000
VV Immobilien Verwaltungs und Beteiligungs GmbH, Munich	30.0000
WISMA ATRIA Holding GmbH, Düsseldorf	50.0000
Other shareholdings of 20% or more	
ARIES, Wilmington, Delaware ¹⁰ (equity: €2,706k; result for year: -€579k)	21.6000
Capital Dynamics Champion Ventures VI, L.P., Woodside ¹¹ (equity: €44,538k; result for year: €3,939k)	27.3400
FIA Timber Partners II L.P., Wilmington ⁶ (equity: €280k; result for year: -€472k)	21.1600
HRJ Capital Global Buy-Out III (U.S.), L.P., Woodside ¹¹ (equity: €78,350k; result for year: €13,023k)	44.8788
Other shareholdings exceeding 5% of the voting rights in large companies as defined in the German Commercial Code	
Admiral Group plc, Cardiff	10.0219
Adveq Europe II GmbH, Frankfurt/Main	9.7800
Asia Real Estate Income Fund SICAV, Luxembourg	19.8000
Best Doctors, Health Resources and Technology, Inc., Boston	5.9400
Credit Guarantee Insurance Corporation, Johannesburg	7.1000
Crown Premium Private Equity Buyout SICAV, Luxembourg	6.4200
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
Österreichische Volksbanken-AG, Vienna	9.3800
PICC Health Insurance Company Limited, Beijing	5.2100
Protektor Lebensversicherungs-AG, Berlin	10.7600
Swaziland Royal Insurance Corporation, Mbabane	16.0000

¹ The market capitalisation (MC) of this company as at 31 December 2011

- The market capitalisation (MC) of this company as at 31 December 2011.
- 2 This fully consolidated German subsidiary with the legal form of a partnership, as defined in Section 264a of the German Commercial Code, intends to fulfil the conditions required in Section 264b of the German Commercial Code and, in the financial year 2011, 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 264b para. 3 of the German Commercial Code and, in the financial year 2011, 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 Not currently utilised.
- 9 Only significant influence owing to reduced voting power.

¹⁰ No significant influence owing to reduced voting power.

¹¹ No significant influence because, under the articles of association, statutes or other agreement, all key decisions regarding the company's financial and operating policy are subject to a quorum which cannot be obtained by the majority

Drawn up and released for publication, Munich, 2 March 2012.

The Board of Management

The following is a translation of the auditor's opinion in respect of the original German consolidated financial statements and Group management report:

Auditor's report

We have audited the consolidated financial statements prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the consolidated balance sheet, the consolidated income statement, the statement of recognised income and expense, the Group statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2011. 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, 5 March 2012

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Klaus Becker
Wirtschaftsprüfer
(Certified public accountant)

Martin Berger
Wirtschaftsprüfer
(Certified public accountant)

Declaration of the Board of Management

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group."

Munich, 12 March 2012

H. Küng

Wolfgang

Bleisch

Paulus

J. Wörndl

P. H.

Schmid

Kemel

Weinberg



General information

Glossary

Aa

Accumulation // The situation where a number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Actuary // Qualified expert who analyses problems from the area of insurance, home loans, investments and pensions using methods of probability theory and financial mathematics, and develops solutions with due regard to legal and economic parameters.

Asset-liability management // Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, it is the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

Available financial resources // These comprise the economic equity (essentially the IFRS equity, adjusted for various factors) and the hybrid capital (subordinated bonds).

Bb

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, a greater return can only be achieved by assuming more risk.

Captive // An insurance company established as a subsidiary of one or more industrial/trading companies or groups mainly for the purpose of insuring the risks of these companies and their affiliates.

Catastrophe bond // Also referred to as "cat bonds" and "act of God bonds", catastrophe bonds are used to transfer (natural) catastrophe risks to the capital markets. The buyers of such bonds profit from a comparatively high coupon rate, but assume all or part of the (re)insurer's risk with regard to a (natural) catastrophe. If a catastrophe exceeds the predefined parametric trigger, some or all of the capital and interest is used to pay the (re)insurer's financial loss from the (natural) catastrophe instead of being repaid/credited to the buyers.

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 on the assumption that the cumulative loss will rise by the same factor in all accident years. With this method, the overall loss expected is determined exclusively on the basis of historical data on the run-off of losses in the insurer's portfolio.

Combined ratio // Percentage ratio of the sum of net claims expenses plus net operating expenses to net earned premiums. It corresponds to the sum of the loss ratio and the expense ratio.



Composite insurer // Insurer that writes both life and non-life business.

Convexity // A volatility measure to describe how a bond's price will change as interest rates rise or fall. As with duration, the concept of convexity is based on an estimate of the bond's present value. A customary bond with regular coupon payments and complete repayment of the principal on maturity will rise in price more strongly if interest rates decline than it will fall in price if interest rates rise. This phenomenon of convexity is caused by a change in the bond's duration when interest rates change. Falling interest rates result in an increase in the bond's duration and thus in its interest-rate sensitivity, so that if interest rates continue to fall, the price rise accelerates. In the case of rising interest rates, the converse occurs.

Credit Equivalent Exposure (CEE) // A reference figure used to combine and compare the credit exposure from various product types involving credit risk under a common counterparty limit. The CEE is calculated regardless of the likelihood of a counterparty's default and reflects the estimated loss amount in the event of a default.

Cycle management // 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 continuously analysing its course, taking proactive strategic measures and ensuring risk-adequate terms (prices, scope of cover, and conditions) in every phase of the cycle.

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 // Also referred to as delta factor. A measure of the change in the option price relative to a change in the value of an underlying asset by one unit. If, for example, an option has a delta of 2, the option price rises by 2% if the value of the underlying asset increases by 1%.

Deposits retained on assumed reinsurance and ceded business // Receivables which reinsurers have vis-à-vis their cedants for collateral (cash deposits) that has been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.

Duration // The duration in years defines the average term of an interest-sensitive investment (or portfolio), whereas the modified duration (in per cent) indicates how much a bond's overall yield rises or falls when there is a change in interest rate in the market.

Ee

Economic capital buffer // The amount by which the available financial resources exceed the economic risk capital.

Economic risk capital (ERC) // The amount of economic equity that Munich Re needs, with a given risk appetite, to cover unexpected losses in the following year. In Munich Re's risk model, economic risk capital is calculated as 1.75 times value at risk for a 12-month time horizon with a confidence level of 99.5%.



Economic solvency ratio // Calculated by dividing the available financial resources (after dividend and share buy-backs) by the economic risk capital, this ratio is an expression of Munich Re's capital strength.

Embedded value // A valuation measure for long-term insurance business. Embedded value is the total of a company's equity and the value of its in-force covered business and the assets backing the associated liabilities. The latter is the present value of net future profits from the in-force covered business, established using actuarial methods. The value of in-force covered business additionally takes into account the determined cost of holding capital for the whole term of the portfolio. Munich Re calculates embedded value in accordance with the MCEV (Market Consistent Embedded Value) Principles developed by the CFO Forum.

Expense ratio // Percentage ratio of operating expenses to earned premiums.

Ff

Facultative reinsurance // The reinsurer assumes a share of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. obligatory reinsurance).

Fair value // The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing business partners in an arm's length transaction.

Gg

Gross/net // In insurance terminology, the terms gross and net mean before and 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.

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 // The interest-rate curve 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

Longevity // The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio // Percentage ratio of claims expenses to 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 // 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.

Morbidity // The probability that an individual in a given group will develop a certain disease or disorder.

Mortality // The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

Mortality table // Table developed using methods of probability theory for estimating the expected mortality of policyholders in a portfolio of life or health insurance contracts. It shows the probability of future mortality on a differentiated basis according to age and other factors, often taking into account demographic trends. Mortality tables with provision for adverse deviation are generally used for measuring technical provisions.

Nn

Net asset value // The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net expenses for claims and benefits // These include the expenses for claims (claims payments and the change in the provision for outstanding claims), 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, personnel costs and general expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission, plus expenses from amortisation of the present value of future profits (PVFP).

Non-proportional reinsurance // Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Oo

Obligatory reinsurance // With this reinsurance, the primary insurer is obliged to cede all risks specified in the contract to the reinsurer within a certain scope. The reinsurer accepts these risks without assessing them on a case-by-case basis. Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods (cf. facultative reinsurance).

Pp

Pandemic // The spread of a disease or – in the narrower sense – infectious disease across national borders and continents. Unlike an epidemic, which is a disease occurring in a limited area and time, a pandemic is not restricted to a certain geographical area.

Policyholders' bonuses // In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

Premiums // The amount that has to be paid for the insurance cover provided by an insurer. It may be paid as a regular or single premium. Premiums written means all premium income that has become payable in the financial year. The portion of this premium income that constitutes payment for insurance cover in the financial year is referred to as earned premiums. In the case of products that are largely of an investment nature (e.g. financing treaties and unit-linked life insurance), it only includes – under IFRSs – the amount serving to cover the risk and costs. However, under statutory accounting rules in the insurance company's home country, premium income may also include the policyholders' savings premiums from unit-linked life insurance and capitalisation products.

Present value of future profits (PVFP) // When insurance companies or individual insurance portfolios are acquired, the present value of the expected earnings from the business acquired is capitalised as PVFP. 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, and 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 been 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 IASs/IFRSs and the German Commercial Code (provision for deferred premium refunds).

Public private partnership (PPP) // Long-term arrangement between private companies and public bodies with the aim of providing public services in a more economical manner.

Rr

Reinsurance capacity // Amount of cover that a reinsurance company or the market as a whole can make available.

Renewals // Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

Retrocessionaire // Company that reinsures reinsurance business assumed by other insurance companies. Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.



Risk exposure // Essentially, the extent of a risk in terms of its potential deviation from the expected value under certain probability assumptions; in connection with accounting, the term is also used to quantify the potential balance sheet loss resulting for a company from certain assets.

Run-off triangle // Also known as "loss triangle", this is a tabular representation of claims-related data (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).

Stop-loss cover // Non-proportional reinsurance which triggers limited liability if the primary insurer's total loss burden for a specific duration of cover exceeds a predefined value.

Stress test // A special form of scenario analysis. The aim is to make a quantitative statement 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 // As calculated at the end of the calendar year under consideration, the ultimate loss for an accident year indicates the estimated aggregate claims expenditure that will have to be paid to finally settle the claim(s). 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. They are responsible for ensuring the quality and reliability of risk-transfer solutions. Their job is to develop products that best reflect the characteristics of the risks and clients' needs.



Unearned premium // The portion of premium income in the financial year that is attributable to periods after the balance sheet date is accounted for within the technical provisions as unearned premiums.

Unit-linked life insurance // A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

Universal life // Contracts in life primary insurance where the amount of the premiums or benefits is not guaranteed or fixed, and the policyholder can vary the premium payments within certain limits.

Vv

Value at risk // Method of quantifying risk; measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

Variable annuities // A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

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Multi-year overview

		31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Balance sheet						
Investments	€m	201,707	193,108	182,175	174,936	176,155
Equity	€m	23,309	23,028	22,278	21,107	25,294
Net technical provisions	€m	181,161	171,068	163,934	157,101	152,381
Balance sheet total	€m	247,580	236,358	223,412	215,362	214,268
Shares						
Dividend per share	€	6.25	6.25	5.75	5.50	5.50
Amount distributed	€m	1,110	1,110	1,072	1,073	1,124
Share price	€	94.78	113.45	108.67	111.00	132.94
Munich Re's market capitalisation	€bn	17.0	21.4	21.5	22.9	29.0
Other						
Combined ratio						
Reinsurance property-casualty ¹	%	113.6	100.5	95.3	99.4	96.4
Primary insurance property-casualty	%	97.8	96.8	93.2	90.9	93.4
Munich Health	%	99.4	99.7	99.4	-	-
Number of staff		47,206	46,915	47,249	44,209	38,634

€m	2011	2010	2009	2008	2007
Gross premiums written	49,572	45,541	41,423	37,829	37,256
Net earned premiums	47,412	43,075	39,526	35,724	35,670
Income from technical interest	5,897	6,587	5,794	4,804	-
Net expenses for claims and benefits	41,034	36,583	32,392	28,716	30,469
Net operating expenses	11,989	11,114	10,181	9,056	8,878
Technical result	286	1,965	2,747	2,756	-
Investment result	6,756	8,642	7,883	5,916	9,253
Other operating income	843	807	688	707	723
Other operating expenses	808	849	803	741	726
Deduction of income from technical interest	-5,897	-6,587	-5,794	-4,804	-
Non-technical result	894	2,013	1,974	1,078	-
Operating result	1,180	3,978	4,721	3,834	5,573
Other non-operating result	-707	-454	-472	-347	-505
Impairment losses of goodwill	25	109	117	175	11
Finance costs	288	293	304	361	333
Taxes on income	-552	692	1,264	1,372	801
Consolidated result	712	2,430	2,564	1,579	3,923
Attributable to Munich Reinsurance Company equity holders	702	2,422	2,521	1,555	3,840
Attributable to non-controlling interests	10	8	43	24	83

€	2011	2010	2009	2008	2007
Earnings per share	3.94	13.06	12.95	7.74	17.83

¹ The figure for 2011 is not adjusted for relief of 1.3 percentage points from economic risk transfer to the capital markets.

Quarterly figures

		31.12.2011	30.9.2011	30.6.2011	31.3.2011
Balance sheet					
Investments	€m	201,707	199,743	193,725	189,408
Equity	€m	23,309	22,215	20,308	20,506
Net technical provisions	€m	181,161	181,130	177,135	172,776
Balance sheet total	€m	247,580	246,446	237,540	233,068
Shares					
Share price	€	94.78	93.55	105.45	111.00
Munich Reinsurance Company's market capitalisation	€bn	17.0	16.8	18.9	20.9
Other					
Combined ratio					
Reinsurance property-casualty	%	113.6 ¹	117.9 ¹	133.1 ¹	159.4 ²
Primary insurance property-casualty	%	97.8	96.8	96.5	98.2
Munich Health	%	99.4	99.0	99.7	99.8
Number of staff		47,206	47,107	47,039	46,885

¹ Not adjusted for relief from economic risk transfer to the capital markets.

² Including risk transfer to the capital markets.

€m	Total	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Gross premiums written	49,572	12,406	12,217	11,969	12,980
1. Earned premiums					
Gross	49,134	13,024	12,119	11,934	12,057
Ceded	1,722	653	323	359	387
Net	47,412	12,371	11,796	11,575	11,670
2. Income from technical interest	5,897	1,780	1,547	1,147	1,423
3. Expenses for claims and benefits					
Gross	42,323	10,527	9,648	9,599	12,549
Ceded share	1,289	398	252	238	401
Net	41,034	10,129	9,396	9,361	12,148
4. Operating expenses					
Gross	12,305	3,516	2,995	2,860	2,934
Ceded share	316	78	76	85	77
Net	11,989	3,438	2,919	2,775	2,857
5. Technical result (1-4)	286	584	1,028	586	-1,912
6. Investment result					
Investment income	16,571	4,240	4,982	3,755	3,594
Investment expenses	9,815	2,299	3,635	2,243	1,638
Total	6,756	1,941	1,347	1,512	1,956
Thereof:					
Income from associates accounted for using the equity method	100	16	35	43	6
7. Other operating income	843	292	200	166	185
8. Other operating expenses	808	259	189	170	190
9. Deduction of income from technical interest	-5,897	-1,780	-1,547	-1,147	-1,423
10. Non-technical result (6-9)	894	194	-189	361	528
11. Operating result	1,180	778	839	947	-1,384
12. Other non-operating result	-707	-216	-407	2	-86
13. Impairment losses of goodwill	25	-	4	-	21
14. Finance costs	288	74	76	69	69
15. Taxes on income	-552	-144	62	142	-612
16. Consolidated result	712	632	290	738	-948
Thereof:					
Attributable to Munich Reinsurance Company equity holders	702	627	286	736	-947
Attributable to non-controlling interests	10	5	4	2	-1

€	Total	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Earnings per share	3.94	3.53	1.61	4.14	-5.28

Important dates 2012

- // **26 April 2012**
Annual General Meeting
- // **27 April 2012**
Dividend payment
- // **8 May 2012**
Interim report as at 31 March 2012
- // **7 August 2012**
Interim report as at 30 June 2012
- // **7 August 2012**
Half-year press conference
- // **7 November 2012**
Interim report as at 30 September 2012

Important dates 2013

- // **12 March 2013**
Balance sheet press conference
for 2012 consolidated financial statements
- // **25 April 2013**
Annual General Meeting
- // **7 May 2013**
Interim report as at 31 March 2013
- // **6 August 2013**
Interim report as at 30 June 2013
- // **6 August 2013**
Half-year press conference
- // **7 November 2013**
Interim report as at 30 September 2013