Munich RE

Group Annual Report 2014
Munich Re

2014

WE DRIVE INNOVATION AS ONE

Key figures (IFRS)[1, 2]

Munich Re at a glance

» Key figures (IFRS) – Munich Re (XLS, 45 KB)

		2014	2013	2012	2011	2010
Gross premiums written	€bn	48.8	51.1	52.0	49.5	45.5
Net earned premiums	€bn	47.4	49.2	50.5	47.3	43.1
Net expenses for claims and benefits	€bn	–39.7	–39.9	–41.0	–40.9	–36.6
Net operating expenses	€bn	–12.0	–12.4	–12.6	–12.0	–11.1
Operating result	€m	4,028	4,398	5,349	1,180	3,978
Taxes on income	€m	312	–108	–878	552	–692
Consolidated result	€m	3,171	3,333	3,204	712	2,430
Attributable to non-controlling interests	€m	18	29	16	10	8
Earnings per share	€	18.31	18.45	17.94	3.94	13.06
Dividend per share	€	7.75	7.25	7.00	6.25	6.25
Dividend payout	€m	1,298	1,254	1,255	1,110	1,110
Share price at 31 December	€	165.75	160.15	136.00	94.78	113.45
Munich Re's market capitalisation at 31 December[3]	€bn	28.7	28.7	24.4	17.0	21.4
Book value per share	€	178.22	146.23	152.34	129.99	126.31
Investments	€bn	218.9	202.2	213.8	201.7	193.1
Insurance-related investments	€bn	8.5	7.3			
Equity	€bn	30.3	26.2	27.4	23.3	23.0
Return on equity	%	11.3	12.5	12.5	3.3	10.4
Off-balance-sheet unrealised gains and losses[4]	€bn	17.4	8.7	11.0	5.7	3.6
Net technical provisions	€bn	198.4	187.7	186.1	181.2	171.1
Balance sheet total	€bn	273.0	254.3	258.4	247.6	236.4
Staff at 31 December		43,316	44,665	45,437	47,206	46,915

Reinsurance

» Key figures (IFRS) – Reinsurance (XLS, 40 KB)

		2014	2013	2012	2011	2010
Gross premiums written	€bn	26.8	27.8	28.2	26.0	23.6
Investments (incl. insurance-related investments)	€bn	88.0	79.2	83.8	79.5	83.7
Net technical provisions	€bn	63.5	60.5	61.1	62.7	56.6
Major losses (net)	€m	–1,162	–1,689	–1,799	–5,048	–2,228
Natural catastrophe losses	€m	–538	–764	–1,284	–4,538	–1,564
Combined ratio property-casualty[5]	%	92.7	92.1	91.0	113.8	100.5

ERGO

» Key figures (IFRS) – ERGO (XLS, 41 KB)

		2014	2013	2012	2011	2010
Gross premiums written	€bn	16.7	16.7	17.1	17.4	17.5
Investments (incl. insurance-related investments)	€bn	135.5	126.7	124.9	117.0	121.8
Net technical provisions	€bn	132.4	125.1	122.8	116.1	111.2
Combined ratio property-casualty Germany	%	95.3	96.7	98.0		
Combined ratio international	%	97.3	98.7	99.8		

Munich Health

» Key figures (IFRS) – Munich Health (XLS, 41 KB)

		2014	2013	2012	2011	2010
Gross premiums written	€bn	5.3	6.6	6.7	6.0	5.1
Investments (incl. insurance-related investments)	€bn	3.9	3.6	4.2	4.6	4.1
Net technical provisions	€bn	2.5	2.2	2.2	2.4	3.3
Combined ratio[6]	%	98.8	98.3	100.2	99.5	99.7

1 Previous years' figures adjusted owing to IFRS 8 and IAS 8; see "Changes in accounting policies and other adjustments".
2 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for 2011 have been adjusted accordingly. Comparability with the year 2010 is thus limited.
3 For 2010, 2013 and 2014, this contains own shares earmarked for retirement.
4 Including those apportionable to minority interests and policyholders.
5 The figures for 2011 are not adjusted for relief of 1.4 percentage points from economic risk transfer to the capital markets.
6 Excluding health insurance conducted like life insurance.

Munich Re's global presence[1]

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

- Reinsurance
- Primary insurance
- Reinsurance and primary insurance

1 Including Munich Health's primary insurance and reinsurance activities in the health market as at 31 December 2014.

North America
Bermuda
Canada
USA

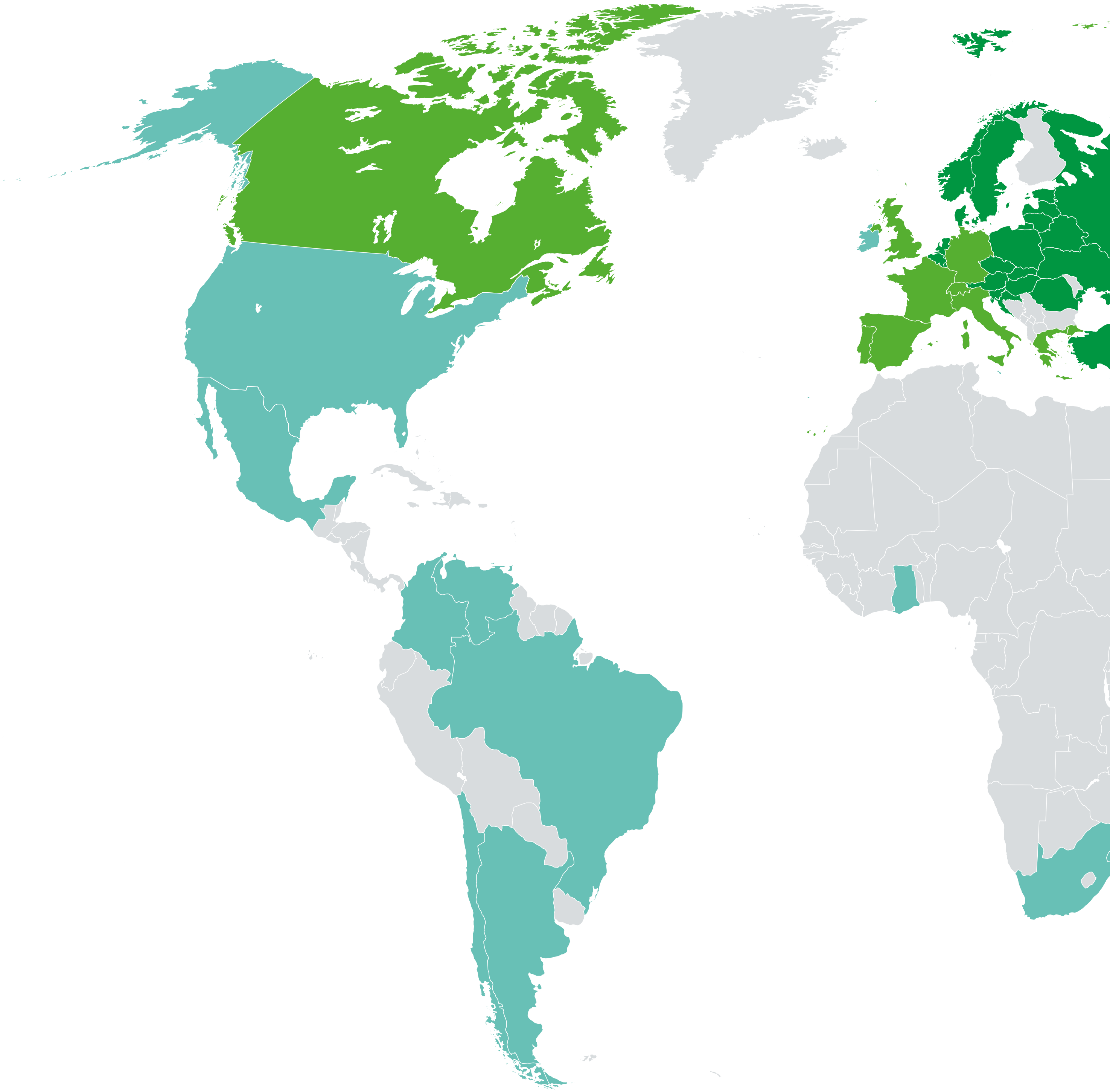
Latin America
Argentina
Brazil
Chile
Colombia
Mexico
Venezuela

Africa
Ghana
Kenya
Mauritius
South Africa
Swaziland

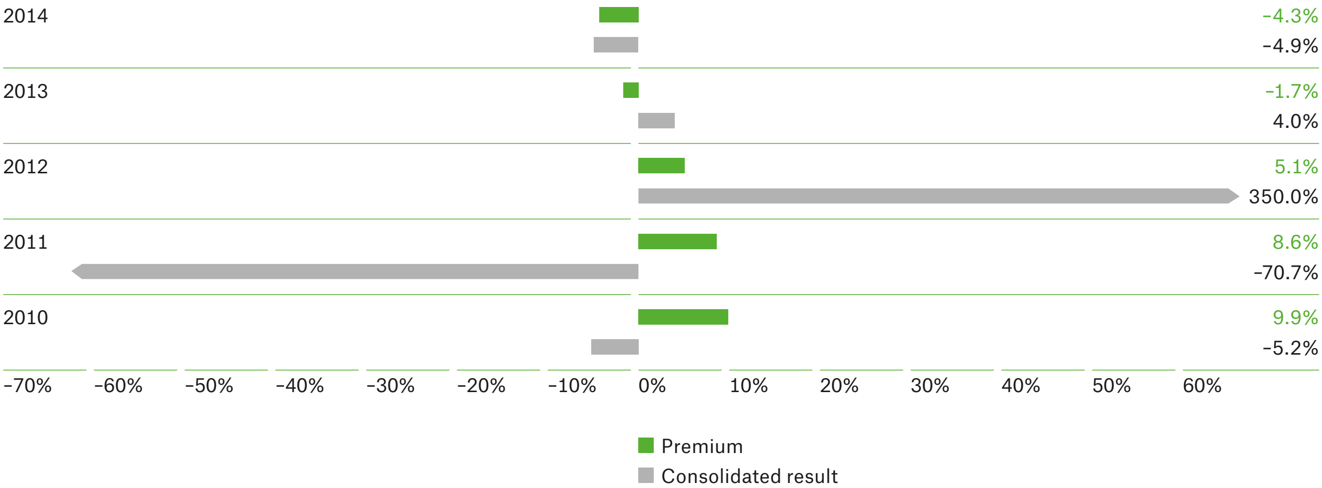
Europe
Austria
Belgium
Belarus
Croatia
Cyprus
Czech Republic
Denmark
Estonia
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Sweden
Switzerland
Slovakia
Slovenia
Spain
Turkey
United Kingdom
Ukraine

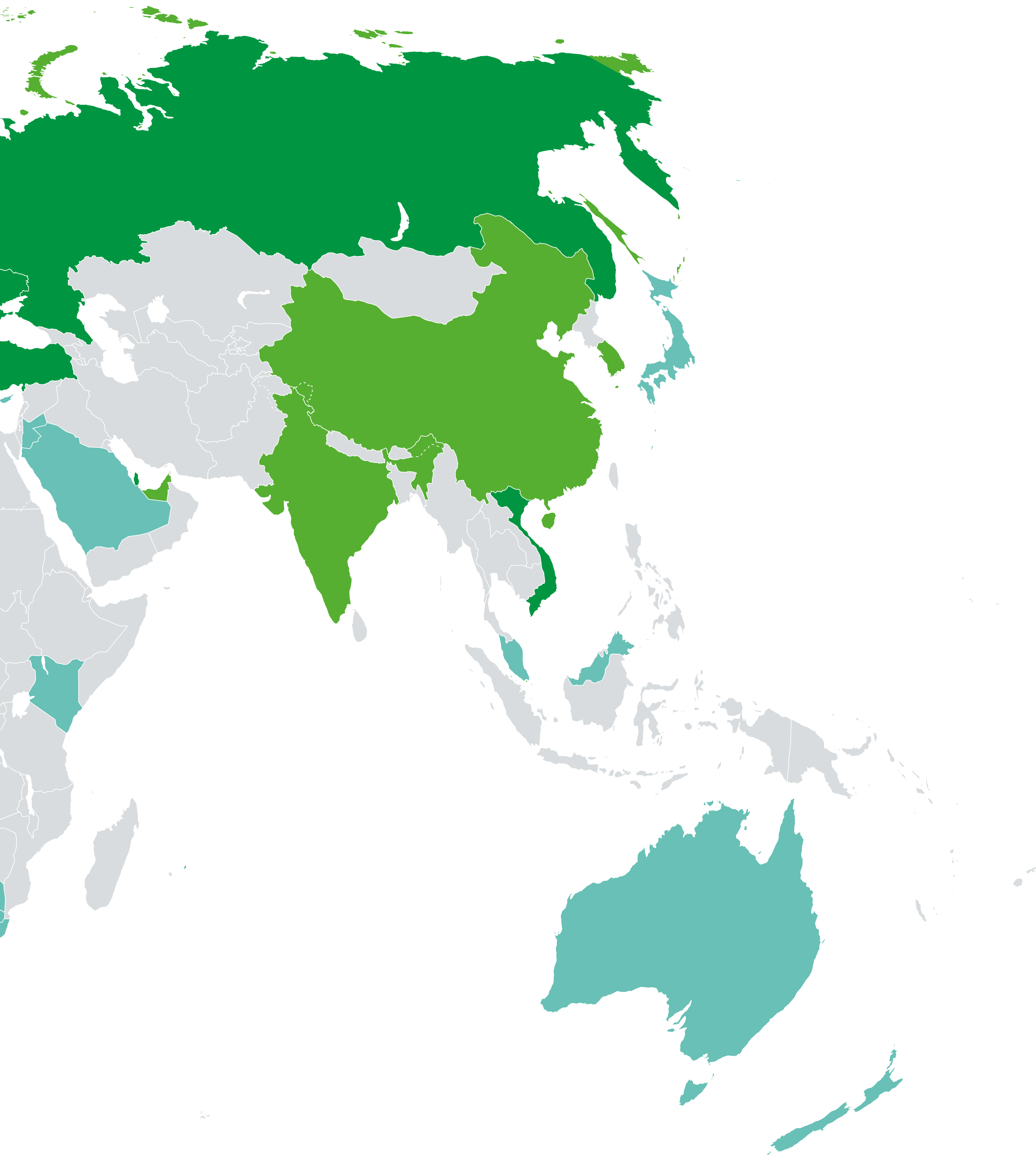
Asia
Bahrain
China
Hong Kong
India
Japan
Jordan
Malaysia
Qatar
Saudi Arabia
Singapore
South Korea
United Arab Emirates
Vietnam

Australia/ New Zealand



Premium/result development





Contents

Group Annual Report 2014

More detailed lists of contents
are provided on the pages
separating the individual sections.

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

To our shareholders

1

Contents

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

Dear Shareholders,

The seemingly erratic ups and downs in the financial markets are increasingly perplexing, not only for investors, but also for the general public. Such high volatility is not an inevitable feature of a globalised economy, but the consequence of growth that has often been overly dependent on debt and a financial system overflowing with liquidity. This leads to a rapid rise in the prices of many investments, which makes subsequent price falls all the more likely and dramatic. The larger a growth bubble becomes, the greater the risk of a shock correction when it bursts.

From my point of view, it would be preferable to see a slower and more constant rise in values. High volatility in the financial markets hampers stronger long-term growth, and major fluctuations in the capital markets generally go hand-in-hand with a less equitable distribution of income and assets.

Governments and central banks should therefore reflect on how much they intend to contribute to these effects, for example by not imposing restrictions on new debt or by pursuing a relaxed monetary policy. Interest is not a hurdle placed by evil forces in the way of sensible and sustainable investments; it is first and foremost an indication of the risk associated with an investment as assessed by the market. An investment that is made only because the associated costs of the risk have been artificially reduced will usually prove to be unsustainable. And reduced demand for credit is not necessarily a negative economic indicator; it may also indicate that companies are financing their business models and households are making their investments (such as buying a house) in a more sustainable way. A reduction in debt is normal in the wake of a severe financial and economic crisis, and not something that has to be resisted at all costs.

Against this background, a critical view should be taken of the relaxed monetary and liquidity policy of major central banks. The European Central Bank recently even increased access to cheap money when it took the decision in January to purchase government bonds. In my opinion, this was a step in the wrong direction. The main argument for doing this – to counter an apparent threat of deflation – does not really hold water. And even if the analysis of deflation was correct, the purchase of government bonds by the ECB would not be the right solution, as it would cause considerable collateral damage while hardly alleviating any deflation that may occur. In view of the continuing rise in market liquidity, there will be a greater risk of substantial disruption to price structures and creation of price bubbles for some investments. This has already happened to many bonds. There is also less pressure on eurozone countries to introduce sustainable reforms to stimulate their economies, to reduce unemployment for young people in particular, and to consolidate their finances.

The flood of liquidity in important markets means that Munich Re can expect lower returns on its investments again in 2015. However, our strategy for a number of years has been to base our profitability primarily on the technical result achieved in our insurance business. That strategic decision is paying off in the current capital market environment. We are also attempting to diversify our investments even more – for example by increasing our investments in alternative asset classes such as infrastructure. In primary insurance, a new generation of products in German life insurance, which we have also been offering for company pension schemes since January, provides an innovative and forward-looking answer to the challenges posed by low interest rates.

Not only the capital markets but also the reinsurance markets will remain challenging in 2015. We have to be prepared to face continuing fierce competition, which is being fuelled by excess market liquidity. Rigorous cycle management and underwriting discipline, and excellent client service, will therefore still be extremely important. At the same time, we intend to use innovations to secure new profitable business. There is potential for growth not only from a geographical perspective, as in the growth regions of Asia, but also in the risks not – or not fully – covered in the market. Examples of this are cyber risk, energy, supply chain and business interruption, and protection of reputation.

Much of this business potential lies at the interface between insurance and reinsurance. With our strategy of combining primary insurance and reinsurance under one roof, we are well positioned to move into previously untapped fields of business. As a Group, we are more innovative; this is a further advantage of our structure in addition to synergy effects and greater diversification.

Looking back, 2014 was a good year for Munich Re – despite the difficult environment. We were able to surpass our original result target of €3bn. Under the share buy-back programme approved last year, we will have repurchased €1bn worth of shares by the 2015 Annual General Meeting. We are proposing to the Annual General Meeting an increase in the dividend to €7.75 per share in order to allow you, our shareholders, to participate commensurately in the Group's success. Our dividend policy, and our business, are based on the principle of sustainability. Although the dividend is being raised substantially by €0.50, or almost 7%, we are increasing it only to a level that we can maintain even after a less successful year and that will permit us to comfortably finance profitable growth and innovation.

Ladies and gentlemen, on behalf of my colleagues on the Board of Management and all our staff across the world, I would like to thank you for the confidence you have shown in us. We will, of course, make every effort to fulfil your expectations again this year.

Yours sincerely,

Nikolaus von Bomhard

Q1

15 January 2014
A risk rating system for industrial projects has been developed by Munich Re and TÜV SÜD. The new system facilitates the assessment of complex investment projects and thus the taking of investment decisions. The basis of Project Risk Rating (PRR) is a modular system of individual risk components reflecting an investment project's main risks. These components take account of macroeconomic, technical, ecological and contractual aspects of the project.

19 March 2014
The Supervisory Board appoints two new Board of Management members:

Doris Höpke

Pina Albo

Q2

1 April 2014
ERGO's new customer and sales division commences operations – combining all client-centric functions associated with applications, contracts, and services. True to its slogan "To insure is to understand", the primary insurer gears its management even more closely to clients' needs. The new division is headed by Silke Lautenschläger, who transfers from the Board of Management of DKV to that of ERGO. Life and health insurance is pooled in a single division for insurances of the person, headed by Dr. Clemens Muth. At the same time, the new ERGO Beratung und Vertrieb AG is launched. It provides uniform client-consulting and quality assurance tools to ERGO's tied-agency sales forces, which have been amalgamated into two units from a former total of five. The reorganisation of ERGO's sales forces in Germany is thus completed.

Q3

2 July 2014
Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Munich Re support the establishment of a risk transfer system for agriculture in Peru. For this purpose, they launch the project "Integrated Financial Management of Climate Risks in Peru's Agricultural Sector". The aim is to develop, together with the Peruvian authorities, a legal, institutional and structural framework for a system to protect agricultural production against weather-related risks.

27 August 2014
Munich Re's primary insurance subsidiary Great Lakes Australia (GLA) reaches an agreement to support Australia's largest broker network, the Steadfast Group (Steadfast) in their proposed acquisition of Calliden Group Ltd (Calliden). Munich Re acquires the insurance company, Calliden Insurance Limited. At the same time, GLA

Q4

1 October 2014
MEAG expands its infrastructure investments to include debt investments. To cover long-term payment obligations in its core business, Munich Re aims to make (equity and debt) investments of up to €8bn in infrastructure, renewable energy and new technology projects of an appropriate quality via its asset manager MEAG in the coming years.

15 October 2014
MEAG sets up two new bond funds, once again making the competence it has acquired in investing the Group's funds also available to private and institutional investors. MEAG Emerging Markets Rent invests in bonds issued by emerging markets and developing countries, and MEAG GlobalRent diversifies its investments globally in pursuit of absolute returns.

Doris Höpke (47) takes over responsibility for the Health Division from the Chairman of the Board of Management of Munich Re, Nikolaus von Bomhard, with effect from 1 May 2014. Höpke, who is a lawyer, has been Head of Munich Re in Madrid since 2011, and has worked for Munich Re since 1999.

Pina Albo (51) is appointed a member of the Board of Management with effect from 1 October 2014. Albo takes on responsibility for the Europe and Latin America Division in conjunction with Georg Daschner from 1 October 2014, assuming sole charge of the Division as from 1 January 2015. Daschner, who has been a member of the Board of Management since 2003, retires on 31 December 2014. Albo, also a lawyer, has been working at Munich Reinsurance America, Inc. since 2009 as President of the Reinsurance Division in the USA, and joined Munich Re in 1992.

20 March 2014
Munich Re's Board of Management avails itself of the authorisation granted at the Annual General Meeting on 30 April 2013 to buy back shares. On 20 March 2014, it resolves to acquire in the period between 1 May 2014 and, at the latest, the next Annual General Meeting on 23 April 2015 up to 13 million Munich Re shares for a maximum total purchase price of €1bn via the stock exchange. The repurchased shares are to be retired in order to optimise the Company's capital structure.

30 April 2014
Munich Re pays an increased dividend of €7.25 per share for the financial year 2013 (previous year: €7.00). This puts Munich Re's overall payout to shareholders at more than €1.3bn.

26 May 2014
Munich Re and the German software company RIB sign an exclusive agreement to jointly develop the first global IT-based insurance product for major construction projects, covering elements of unplanned increases in construction costs. The innovative solution is geared to project owners and combines RIB's iTWO Technology with Munich Re's risk know-how.

20 June 2014
ERGO enters the insurance market in Singapore and acquires all of the shares in the property-casualty insurer SHC Insurance Pte. Ltd., thereby expanding its presence in southeast Asia. This acquisition marks a further significant milestone and positions the company very well for taking advantage of the city-state's plans to become the region's insurance centre. The insurer, which is renamed ERGO Insurance in October, provides a broad spectrum of property-casualty insurance covers.

obtains access to a leading-edge underwriter platform for commercial insurance covers and key expert personnel, previously part of Calliden, to strengthen GLA's business package and commercial insurance product distribution.

12 September 2014
Since severe weather events are increasing, protection against floods is becoming more important – not only in the vicinity of rivers. With its new product line for homeowners' comprehensive insurance, ERGO pioneers insurance cover against flooding and heavy rainfall in all areas, including for residential buildings in regions with extreme exposure to flooding. Another core element of this product line is the "Get your house back" guarantee. If a house has been destroyed, ERGO covers not only the costs of reconstruction, but also of demolition and disposal, as well as the costs for an architect.


Rainer Tögel

30 October 2014
The Supervisory Board of property-casualty insurer ERGO Versicherung AG appoints Rainer Tögel to the Board of Management with effect from 1 January 2015. Tögel is responsible for plan business, i.e. above all for personal lines insurance.

22 December 2014
Munich Re acquires shares in a wind farm in the USA with an installed capacity of 287 megawatts. MEAG thus makes Munich Re's first infrastructure investment in North America. Miami Wind Energy Center is located in northern Texas, in one of the windiest regions of the USA.

Members of the Board of Management
From left to right

Joachim Wenning
Board member responsible for personnel and welfare matters
Life
Human Resources

Peter Röder
Global Clients and North America

Ludger Arnoldussen
Germany, Asia Pacific and Africa
Central Procurement
(since 1 January 2015)
Services

Nikolaus von Bomhard
Chairman of the Board of Management, Chairman of the Group Committee
Group Development
Group Investments
Group Communications
Group Compliance
Group Audit
Health (until 30 April 2014)

Doris Höpke (since 1 May 2014)
Health

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

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

Giuseppina Albo
(since 1 October 2014)
Europe and Latin America
(until 31 December 2014 together with Georg Daschner)

Thomas Blunck
Special and Financial Risks
Reinsurance Investments
Central Procurement
(until 31 December 2014)

Munich Re shares

- Munich Re shares showed solid performance: The share price increased by 3.5% in 2014, giving a return (including dividends) of 8.2%
- Supervisory Board and Board of Management to again propose payment of an increased dividend of €7.75 per share at the Annual General Meeting
- In 2014, own shares were repurchased with a transaction value of €1.4bn
- Since 2001, Munich Re shares have been listed in all the main sustainability indexes and have received excellent ratings

The investment year 2014 was dominated by declining interest rates and geopolitical risks on the one hand, and economic hopes and expansionary monetary policies of central banks on the other. At the end of 2014, the yield on ten-year German government bonds reached a new historical low of only around 0.5%. Shares thus became more attractive again given their generally higher dividend yield. The unresolved sovereign debt crisis drew much less attention in the capital markets than in previous years.

After gaining around 20% in value in the previous year, share prices worldwide grew only moderately in the first three months of 2014. Although the global economy seemed to have found its feet again, there were also a number of factors that caused some nervousness among investors. The US Federal Reserve gradually reduced the vast increase in money supply that was being used to stimulate the economy. Additional uncertainties resulted from turbulences in a number of emerging countries, the Crimean crisis, and doubts about the growth and stability of China.

In the second quarter, the stock markets continued to be volatile. Whilst a few historical highs were still reached in March, prices in some stock markets dropped by mid-April to below the levels recorded at the beginning of the year. Poor economic data, especially from Europe, were responsible for this development. Thereafter, hopes for economic recovery in the second half of the year alternated with fears of a reduction in the expansive monetary policy. The ECB's announcement that it intended to maintain its loose monetary policy caused the DAX to break the 10,000-point mark for the first time in June.

Stock market growth in the third quarter of 2014 was mainly driven by central bank measures and by significant amounts of liquidity, and alternated with rising concerns about global economic growth.

A correction on the stock markets beginning in September was a reaction to negative economic signals, and carrying on into October it caused the DAX to fall to an annual low of 8,355 points. This was rapidly followed by a rally, partly triggered by the falling oil price, which was seen as a boost to the economy. The DAX reached a new all-time high in early December, but by the end of the year rising oil price turbulences and concerns about the developments in Greece caused the DAX to slow again.

1 European share price index = DJ EURO STOXX 600

The European insurance sector continued its positive development

The European insurance industry continued to perform well in 2014, surpassing the development of the European share price index[1] for the third consecutive time. Once again it outperformed the European bank index[2] and the German DAX 30, mainly on account of the moderate economic recovery and decreased risk perception among investors. Given the improved growth perspectives and the prospects of increasing dividends, primary insurers benefited especially from these developments and their share prices responded positively.

Buoyed by higher bond prices, carrying amounts in the insurance sector improved further. Due to higher share prices across the board, by the end of the year the pricing levels for insurance stocks were thus about the same as in the previous year.

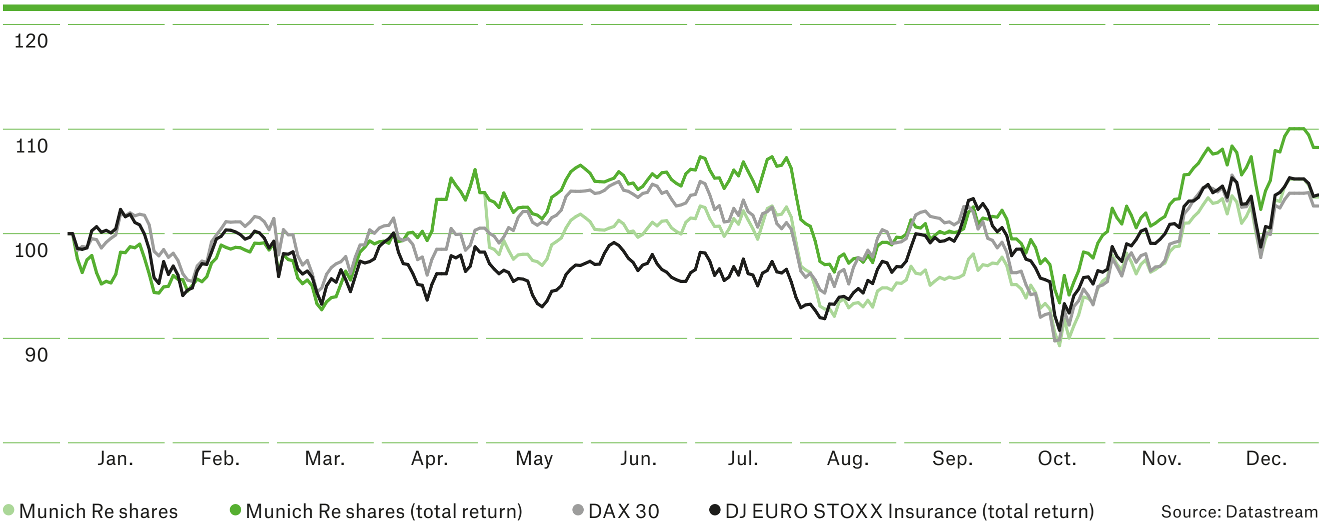
In the year under review, the price development of reinsurance company shares fell short of those for several primary insurance companies, despite the comparatively low incidence of major losses. Overcapacity and intense competition in the reinsurance market – combined with the entry of new market players, such as pension funds, and stagnating demand – led to significant pressure on margins. This was aggravated by lower income from investments. However, given the comfortable capital situation of reinsurers, distributions in the form of higher dividends, share buy-backs and special dividends were important investment criteria.

Having seen gratifying performance in the previous year, Munich Re shares again increased in value in 2014, despite the challenging environment, thus reaffirming their attractiveness as an investment. The price performance was underpinned by the still robust growth in operating earnings, and by the fact that our original profit guidance issued at the beginning of 2014 was again exceeded, the latter benefiting from the relatively low levels of major losses. Munich Re's capitalisation continued to be very comfortable, so that a new share buy-back programme totalling €1bn was launched by the Board of Management in May 2014. This underscores the Board's commitment to disciplined and responsible capital management in line with shareholders' interests.

Return of 8.2% on Munich Re shares

Munich Re shares closed the year at €165.75, equivalent to a 3.5% increase. Including the dividend paid for the financial year 2014, the return was a gratifying 8.2%. The DAX 30 rose by only 2.7%, whilst the European insurance index increased by 3.7%. Taking a longer period as a basis, the return on Munich Re shares including dividends has grown more strongly than the European insurance index over the last three- and five-year periods.

Share price performance 1.1.2014 = 100



2 European bank index = DJ EURO STOXX Banks

Around 40 analysts from banks and brokerage houses regularly evaluate our shares. At the end of December 2014, some 24% of the analysts gave our shares a positive assessment, 55% a neutral one, and 21% a negative rating. You can find the analysts' current recommendations and result estimates on our website.

Weighting of Munich Re shares as at 31 December 2014

	%
DAX 30	3.1
DJ EURO STOXX 50	1.3
DJ EURO STOXX Insurance	12.0
MSCI EURO	1.1
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.3
FTSE4Good Global Index	0.2

→ More information on sustainability ratings is available on our website www.munichre.com/cr/SRI-en

From a sustainability perspective, Munich Re shares remain an interesting investment. Since 2001, Munich Re has been an ever-present member of the Dow Jones Sustainability Index (DJSI) and the FTSE4Good. It is also listed on the MSCI Global Sustainability, the STOXX ESG Leaders and the Euronext World 120, and it is a member of the ETHIBEL Pioneer and Excellence investment registers.

Munich Re's rating by specialised sustainability rating agencies, e.g. Sustainalytics, oekom, MSCI, Vigeo and RobecoSAM, has been consistently excellent, and it is thus one of the best in the insurance sector. In 2014, Munich Re came in first compared with its peers in the same market capitalisation category of the Sustainalytics rating.

Munich Re won the German Investors' Award for Responsible Business Practices (Deutscher Investorenpreis für verantwortliches Wirtschaften) in December 2014. This was the fourth time that publishing house DuMont Verlag and Deutsche Asset & Wealth Management conferred the award on companies that understand sustainability to be a strategic objective and implement it in an exemplary way.

Active capital management is an integral component of our business policy. We therefore strive to give our shareholders an appropriate share in our corporate success. As a rule, we pay out at least 25% of the annual result as a dividend. Our policy is to at least maintain – and where possible even to increase – our level of dividend of the previous year. The last time we reduced our dividend was in 1970; we use share buy-backs as a more flexible means of managing our capitalisation.

Dividend of €7.75 proposed

For the financial year 2014, the Board of Management and the Supervisory Board intend to propose a dividend of €7.75 (previous year €7.25) at the Annual General Meeting on 23 April 2015. Altogether, this would mean a total payout of €1.3bn (previous year: €1.3bn). Subject to approval by the Annual General Meeting, the dividend will be paid on 24 April 2015. With an increase in the dividend, we are again underlining the profitability of our business model and the solidity of our capital position.

With a dividend yield of approximately 4.7% (dividend for the 2014 financial year in relation to the year-end share price), Munich Re shares remain an attractive equity investment in the DivDAX, a subindex of Deutsche Börse AG featuring the 15 DAX companies with the highest dividend yields.

Securities reference numbers

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

Munich Re shares are no-par-value registered shares. First admitted to trading on the stock exchange in Munich on 21 March 1888, they are today traded on all German stock exchanges.

Around 185 million Munich Re shares with a total volume of some €27.8bn were traded on German stock exchanges in the year under review, putting our shares in 13th place among the DAX stocks. In terms of market capitalisation, we ranked 15th with free-float market capitalisation of around €25bn.

Key figures for our shares

		2014	2013
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	172.9	179.3
Year high	€	170.40	162.70
Date		29.4.2014	2.12.2013
Year low	€	141.10	130.85
Date		16.10.2014	17.1.2013
Year-end closing price	€	165.75	160.15
Annual performance (excluding dividend)	%	3.5	17.8
Beta 250 relative to DAX (daily, raw)	%	0.8	1.0
Market capitalisation at 31 December	€bn	28.7	28.7
Market value/equity at 31 December[1]		0.9	1.1
Average trading volume	'000	700	667
Earnings per share[2]	€	18.31	18.45
Dividend per share	€	7.75	7.25
Dividend yield at 31 December	%	4.7	4.5
Dividend payout (status at 25 February 2015)	€bn	1.3	1.3

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

→ An overview of Munich Re's ratings can be found on page 100

For many years, Munich Re has been awarded consistently excellent ratings by the leading rating agencies. In the financial year 2014, the outlook for all Munich Re's ratings remained stable at a high level.

Our strategy

- Group's business model covers the relevant sections of the insurance industry's value chain
- Disciplined financial management ensures appropriate capitalisation at all times
- New insurance solutions secure competitive edge, generate profitable growth and win clients' loyalty
- A forward-looking and responsible approach is an integral part of our corporate strategy

Turning risk into sustainable value

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

We combine primary insurance and reinsurance under one roof. This set-up allows us to cover all sections of the insurance industry's value chain. It benefits our clients, because we can offer them customised solutions that draw on our full spectrum of knowledge. As a Group, we are also less dependent on market cycles in individual insurance and reinsurance segments, and in national markets. We thus aim to secure an attractive return while simultaneously maintaining relatively low volatility.

Risk diversification reduces capital requirements

The risks that we write differ greatly in nature. Their predominant non-correlation in terms of potential loss occurrence enables us to balance the risks in the portfolio over time, across regions and across fields of business – a diversification benefit that is key for our success. The size and mix of the risks assumed mean we can cover a comparatively large number of risks with the capital available. This broad diversification and a risk underwriting strategy geared to technical profitability enable us to generate stable and sustainable profits and detach ourselves to a large extent from the fluctuations of the capital markets.

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

Our risk management encompasses much more than just the risks from our insurance business. It includes investment, credit and operational risks, and also models interactions between these different risks. Our investment policy takes into account the due dates, the currencies and the inflation sensitivity of our underwriting liabilities, thus reducing reinvestment, currency and inflation risks. With our active capital management, we ensure that Munich Re's capitalisation is always appropriate. Our economic equity covers the capital requirement derived from our internal risk model and takes into account the stipulations of regulators and rating agencies. Excess capital is returned to our shareholders in the form of dividends and share buy-backs.

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

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

Corporate responsibility is one of our success factors

For Munich Re, a value-based, long-term approach is a basic prerequisite for business success. Mandatory rules for compliance with legal and ethical standards, responsible business practice and our environmental protection activities are part of our corporate strategy and are key factors in our success.

To meet our own requirements and those of our stakeholders, we have committed ourselves not only to the ten principles of the UN Global Compact, but also throughout our Group to codes and principles that go beyond what the law requires. Examples of this are the Principles for Sustainable Insurance (PSI), to which we were among the first signatories, and the Principles for Responsible Investment (PRI) for specific sustainability criteria on the investment side. By systematically anchoring the aspects of ecology, social responsibility and corporate governance (ESG aspects) in our core business and investments, we are able to identify risks even more extensively, and devise solutions for them together with our clients.

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

The protection of ecological resources – with the objective of Munich Re being carbon neutral worldwide by 2015 – and our social commitment, together with our three corporate foundations, are two further key focal points for our corporate responsibility. All these efforts are aimed at making an unambiguous value contribution for our clients, shareholders and staff members, as well as for the environment and society.

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

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

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

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

ERGO gears itself consistently to the needs and requirements of its clients and aims to measurably further improve through close communication with them. This encompasses high-quality, needs-oriented, customer-centric sales advice, clear and comprehensible communication, innovative services and rapid assistance in the event of a loss via efficient processes and a lean organisation. A central customer and sales division supports this ambition. In combination with its solid financial strength, this makes ERGO and its specialists reliable partners for insurance and pension product requirements.

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

The international healthcare market will continue to grow strongly. The ageing of societies in many countries and medical advances are leading to rising healthcare costs, often putting immense pressure on social security systems and increasing the need for private insurance solutions. We tap this business potential via primary insurance and reinsurance offerings in our business field Munich Health. We service a broad spectrum of clients – from governments to private or state health insurers to private end customers – with a health-sector risk management approach tailored to their specific needs. Munich Health is thus active worldwide as a risk carrier and service provider, driving forward high-quality medical care and ensuring it remains financeable.

Corporate governance

2

Dr. Bernd Pischetsrieder
Chairman of the
Supervisory Board

Ladies and gentlemen,

In the financial year 2014, the Supervisory Board fulfilled all the tasks and duties incumbent upon it by law and under the Articles of Association and its rules of procedure. No member of the Supervisory Board or of the committees attended fewer than half the meetings. We monitored the Board of Management in its conduct of the business, and gave advice on all matters of importance for the Group. No inspection measures in accordance with Section 111 (2) sentence 1 of the German Stock Corporation Act (AktG) were required at any time.

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

Outside of Supervisory Board meetings, the Board of Management informed us promptly about important events in the Group, including the election of employee representatives to the Supervisory Board carried out in line with Munich Re's co-determination agreement, and ERGO's acquisition of the Greek insurance company ATE Insurance and the property-casualty insurer SHC Insurance Pte. Ltd. The shareholder representatives and the employee representatives met with the Chairman of the Board of Management regularly before the meetings for separate discussions of strategic issues and other matters of essential importance.

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

Focal points of the meetings of the full Supervisory Board
There were seven meetings of the Supervisory Board in the year under review. Two representatives of the German Federal Financial Supervisory Authority (BaFin) routinely attended one of the meetings as guests. We regularly held in depth discussions with the Board of Management about Munich Re's business performance and current topics, with a special focus on strategic considerations of the Board of Management with respect to the individual business fields. In this context, we also always critically examined developments in life primary insurance. The Board of Management reported regularly on the situation of Munich Re's investments, addressing the development of the global economy and financial markets in detail, and their impact on the Group's assets and earnings. It also kept us informed about the relevant supervisory requirements, particularly regarding the developments in Solvency II, Europe's new supervisory regime. We also dealt with the following topics in the individual meetings in 2014:

The meeting on 19 March focused on the Company and Group financial statements for 2013 and the motions for resolution by the 2014 Annual General Meeting. We conferred and took decisions regarding two new appointments to the Board of Management and regarding the extension of another appointment, and on related adjustments to the Board of Management's distribution of responsibilities. In addition, we established the personal objectives for the Board members' variable remuneration for 2014. We also asked for an overview of the Group's restructured compliance organisation, and the Board of Management informed us about developments in the reinsurance markets and Munich Re's positioning in those markets.

The meeting on 29 April was devoted solely to matters involving the Board of Management, specifically the evaluation of the individual Board members' annual performance for 2013 and their multi-year performance for 2011–2013. The personal objectives for a newly appointed member of the Board of Management were also set for 2014.

On 30 April, directly prior to the Annual General Meeting, we heard the Board of Management's report on the present status of business performance in 2014. We also used the meeting to make last-minute preparations for the impending Annual General Meeting.

Immediately after the Annual General Meeting, we held the constituent meeting of the newly elected Supervisory Board, at which we addressed in particular the election of the Chairman and first deputy of the Supervisory Board, and the election of members of the five Supervisory Board committees.

At the meeting held on 15 July, we dealt with the focal points of human resources work in the Group, and were briefed on the 2013 compensation report in accordance with the German Remuneration Regulation for Insurance Companies (VersVergV). During his regular report on current issues, Dr. Nikolaus von Bomhard also referred to important provisions contained in the Life Insurance Reform Act (LVRG).

On 14 October, we discussed corporate governance issues, including the annual efficiency review and the resolution regarding the Declaration of Conformity. The Board also presented strategies in life reinsurance business, successes and "lessons learned". The personal objectives for a newly appointed member of the Board of Management were set for 2014.

On 9 December, the Chairman of ERGO presented a report on ERGO sales development in Germany, and he set out the current status of implementation of the strategy "Moving forward – My ERGO 2018". The Munich Re Board of Management outlined the strategic and operative orientation of the business field Munich Health. After a comprehensive discussion, we decided on remuneration for the Board of Management as from 1 January 2015 and the financial targets for members of the Board of Management for 2015. We looked into the Group's risk strategy in the course of the report on Munich Re's risk situation by the Group Chief Risk Officer. The Board of Management also reported on Group planning for 2015–2017, and provided explanations in cases where actual business performance deviated from the planning for the year under review.

Details on the composition of the committees can be obtained on page 45 and from our website at www.munichre.com/supervisory-board

Work of the committees

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

The Personnel Committee met six times in 2014. It essentially prepared the resolutions on matters involving the Board of Management already mentioned in the report on the work of the full Supervisory Board. It also dealt with fringe benefits for members of the Board of Management, with seats held by members of the Board of Management on supervisory, advisory and similar boards, and with Group-wide succession planning, especially with respect to Board-level appointments.

At its four meetings in 2014, the Standing Committee dealt with the preparation of Supervisory Board meetings and topics of corporate governance. In addition, the Standing Committee carried out a review of the efficiency of the Supervisory Board's work in 2014, and determined that overall the reporting by the Board of Management and the work of the Supervisory Board was efficient and appropriate. A regular report by Dr. Nikolaus von Bomhard to the Standing Committee covered changes to the shareholder structure and the status of the share buy-back programme. The Committee also received the annual report on expenses for donations and sponsoring.

The Audit Committee met six times in the period under review, and two of these meetings were attended by the external auditors. At these meetings attended by the auditors, the Audit Committee discussed the annual financial statements and the management reports for the Company and for the Group, the auditors' reports, and the Board of Management's proposal for the appropriation of the net retained profits for the financial year 2013. The Committee also concerned itself with the quarterly financial reports in 2014, and discussed the half-year financial report for 2014 in detail with the auditor.

Another key task of the Committee consisted in monitoring the Group's risk situation and risk management, and developing a risk strategy. The Group Chief Risk Officer provided verbal input at several meetings of the Committee and in four written reports. Further issues discussed regularly were the internal control system and compliance topics. The Head of Group Audit informed the members of the Committee in full about the outcome of the audits for 2013 and the audit planning for 2014. The Committee received regular updates on the current status of individual compliance issues and the progress of audits. The Committee took advantage of the opportunity – in the absence of the Board of Management – to confer amongst themselves or with the Head of Group Audit, the Group Chief Compliance Officer, the Group Chief Risk Officer and the external auditors.

The Audit Committee reviewed and monitored the auditors' independence, and received regular reports on auditing and non-audit-related services. At two meetings, the Committee also addressed the potential effects of the European Union's new Directive and Regulation on statutory audits. Pursuant to a resolution taken by the full Committee in November 2013 with respect to the tender for the external audit 2014, the Chair of the Committee commissioned KPMG with the audit for the financial year 2014, and also commissioned the auditor's review of the 2014 half-year financial report.

The Nomination Committee continued the preparations for the election of shareholders' representatives at the Annual General Meeting 2014 that had already begun in 2013. At three meetings held in the first quarter of the year, it discussed the re-election of Supervisory Board members and suitable candidates for election to the Supervisory Board. With regard to the nomination proposals submitted, the Committee took account of the catalogue of criteria and the objectives determined by the Supervisory Board for its composition.

Pursuant to rule 7.5 of the rules of procedure, the Conference Committee for the Supervisory Board did not need to be convened in 2014.

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

Corporate governance and Declaration of Conformity

The Supervisory Board pays close attention to good corporate governance. Together with the Board of Management, we therefore published the mandatory annual Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) in November 2014. We again complied with all recommendations of the German Corporate Governance Code, and intend to continue to comply with it in future. We confirmed the assessment we made in 2013 that all 20 members of the Supervisory Board are to be regarded as independent and that they do not have any relevant conflicts of interests.

Munich Re offered an internal information event to all the members of the Supervisory Board in 2014. Nearly all of them took advantage of the opportunity to enhance their understanding of increasing digitalisation and data management in the insurance industry, particularly at Munich Re, and to hold intensive discussions about these issues. Munich Re also held an induction course for newly elected members of the Supervisory Board. This provided a customised overview of risk management, corporate governance, financial control, accounting and Board remuneration with particular reference to Munich Re.

Changes on the Supervisory Board

The five-year term of office of the Supervisory Board expired at the end of the Annual General Meeting on 30 April 2014. The following shareholders' representatives retired: Annika Falkengren and Peter Löscher. The following employee representatives also retired: Herbert Bach, Dina Bösch, Hans Peter Claußen, Silvia Müller, Reinhard Pasch and Richard Sommer. The Supervisory Board wishes to thank all the retired members for their valuable and constructive counsel and their dedication to the development and supervision of Munich Re, in some cases over many years.

The Annual General Meeting elected Professor Ursula Gather and Gerd Häusler as new members of the Supervisory Board. Prior to the Annual General meeting, the following members of the Supervisory Board were elected by the relevant employee representative bodies on the basis of the co-determination agreement: Dr. Anne Horstmann, Ina Hosenfelder, Beate Mensch, Ulrich Plottke, Gabriele Sinz-Toporzysek, and Angelika Wirtz. The period of office of the new and re-elected members of the Supervisory Board began at the end of the Annual General Meeting.

Dr. Ulrich Hartmann passed away on 13 January 2014. He was a member of the Supervisory Board from December 1993 until April 2009, and acted as the Board's Chairman from December 1996 to May 2004. He proved to be a knowledgeable, far-sighted and valuable advisor, and made a significant contribution to overcoming the challenges faced by Munich Re in this period. We mourn the loss of an exceptional man.

Professor Hubert Markl passed away on 8 January 2015. As a member of the Supervisory Board from December 2002 until April 2009, Professor Markl made an extremely important and valuable contribution because of his extraordinarily wide knowledge and experience, and also because of his scientific perspective. We are extremely grateful to him for this.

Changes on the Board of Management

Dr. Doris Höpke was appointed a member of the Board of Management with effect from 1 May 2014, and has since been responsible for the business field Munich Health. Giuseppina Albo was appointed a member of the Board of Management with effect from 1 October 2014. Until 31 December 2014, she was jointly responsible with Georg Daschner for the Europe and Latin America Division; since 1 January 2015, she has had sole responsibility for this function.

Georg Daschner, who has been a member of the Board of Management since 2003, retired on 1 January 2015. We would like to thank him for his many years of dedicated service to the Group, and for his outstanding contribution to the success of Munich Re over many years.

Company and Group financial statements for 2014

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft duly audited the Company and Group management reports and financial statements as at 31 December 2014 and issued them with an unqualified auditor's opinion. The respective reports and the Board of Management's proposal for appropriation of the net retained profits were subsequently submitted directly to the members of the Supervisory Board. At its meeting on 4 February 2015, the Audit Committee had the opportunity to confer in detail about the preliminary year-end figures as at 31 December 2014. On 9 March 2015, 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 Chair of the Audit Committee briefed the full Supervisory Board about the outcome of its consultations at the balance sheet meeting.

The full Supervisory Board also reviewed the Company and Group financial statements and management reports, and the proposal of the Board of Management for appropriation of the net retained profits. On the basis of this examination and having heard the auditor's report, the Supervisory Board raised no objections to the outcome of the external audit. It approved the Company and Group financial statements on 10 March 2015. The financial statements were thus adopted. Having carefully weighed all relevant aspects, the Supervisory Board followed the proposal of the Board of Management for appropriation of the net retained profits.

Words of thanks to the Board of Management and employees

The Supervisory Board wishes to thank all the members of the Board of Management and staff worldwide. With their work and commitment, they have once again contributed to another gratifying result for Munich Re.

Munich, 10 March 2015

For the Supervisory Board

Dr. Bernd Pischetsrieder
Chairman

Corporate governance report

Corporate governance report[1]

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

Good corporate governance creates lasting value. We therefore apply the highest standards to our operations and activities, complying with all the recommendations and proposals of the German Corporate Governance Code. Beyond this, we have our own Munich Re Code of Conduct specifying high-level ethical and legal requirements that must be met by employees. Since 2013, this has included a reference to the principles of the United Nations (UN) Global Compact, which are included in an annex to the Code of Conduct. Further information on Munich Re's corporate governance is included in the Statement on Corporate Governance. In accordance with Section 289a of the German Commercial Code (HGB), the Statement on Corporate Governance forms part of Munich Reinsurance Company's management report.

How we view corporate governance

Corporate governance stands for a form of responsible company management and control geared to long-term creation of value. One of our aims in this context is to foster the confidence of investors, clients, employees and the general public. 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 are also very important for us.

What rules apply to Munich Re?

The benchmarks of good corporate governance are determined by national and international requirements, and by internal principles. As a result of its international organisation, Munich Re has to consider corporate governance rules in different national legal systems. We observe not only the respective national standards, but also internationally recognised best practices. In Germany, where Munich Reinsurance Company has its headquarters, corporate governance rules are set out in the Stock Corporation Act (AktG) and the German Corporate Governance Code. The German Insurance Supervision Act (VAG) and the European supervisory regulations (Solvency II implementation rules) formalise the requirements for the business organisation of insurance companies and the "fit and proper" criteria for their Board members and members of the Supervisory Board. The Insurance Supervision Act also provides particular rules for insurance companies' remuneration systems. These rules formed the basis for the Remuneration Regulation for Insurance Companies (VersVergV) issued by the German Federal Ministry of Finance.

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

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

The Declaration of Conformity is available at www.munichre.com/cg-en

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

We have underscored our approach to corporate responsibility by adopting international guidelines. First and foremost among these is the UN Global Compact, which we joined in 2007. Its ten principles provide the fundamental framework for our corporate responsibility strategy. Since signing up to the agreement, we also report annually in our "Communication on Progress" on our progress in implementing the principles. Guidelines for investments geared to sustainability criteria are provided by the Principles for Responsible Investment (PRI), which we have implemented via our asset manager MEAG since 2006. In 2012, we signed up to the Principles for Sustainable Insurance (PSI). We also report annually on our progress with these two initiatives.

Corporate legal structure

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

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

Board of Management

→ An overview of the composition of the Board of Management and the distribution of responsibilities can be found on page 43

→ The remuneration system for the Board of Management and the remuneration tables are provided on page 49 ff. of the management report

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 sustainable long-term increase in the Company's value. The Board of Management is responsible for effecting adequate risk management and risk control in the Company. It must ensure compliance with statutory requirements and internal company guidelines. The Group Compliance Division of Munich Reinsurance Company reports directly to the Chairman of the Board of Management. At the instigation of the Board of Management, we have established another channel to complement the external independent ombudsman and thus strengthen the compliance system: the compliance whistleblowing portal. Employees and third parties can use this portal to anonymously report criminal behaviour such as bribery and corruption, fraud, conduct liable to cause damage to reputation, and contraventions of antitrust, insider trading and data protection laws.

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

Pursuant to Article 16 of the Articles of Association, the Board of Management must consist of at least two members; beyond this, the number of members is determined by the Supervisory Board. The Board of Management of Munich Reinsurance Company had eight to ten members in the year under review (taking into account the two new appointments to the Board during the course of the year). In the period under review, the Supervisory Board appointed two women to the Board of Management who have extensive international experience and thus strengthen its diversity und internationality.

Collaboration between Board of Management and Supervisory Board

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

Supervisory Board

→ An overview of the composition of the Supervisory Board can be found on page 43 ff. More details about the work of the Supervisory Board can be found in the Statement on Corporate Governance and in the Report of the Supervisory Board on page 21 ff.

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

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

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

- The main criteria for selecting future members of the Supervisory Board are professional knowledge, personal abilities and experience (especially of an international nature), independence, commitment to sustained corporate profitability, and enterprise of the nominated persons.
- The Supervisory Board should have at least 16 independent members within the meaning of Section 5.4.2 of the German Corporate Governance Code, including at least eight shareholder representatives. No members of the Supervisory Board should have any relevant conflicts of interest.
- In selecting candidates for membership, the Supervisory Board should pay due regard to diversity, especially in terms of age, internationality and gender. The Supervisory Board set itself the objective that at the beginning of the current term of office at least 20% of the members should be women, with this figure increasing to at least 30% by the start of the following term of office (scheduled for 2019). This objective has already been surpassed: in the period under review, there were five women on the Supervisory Board until 30 April 2014, and eight after this date. This means that women made up 25% of the members until 30 April 2014 and 40% after that date.

The aforementioned objectives apply to the Supervisory Board as a whole. Shareholder and employee representatives will each contribute towards meeting these objectives. The Supervisory Board's Nomination Committee, which selects candidates for the shareholder representatives, and the European Electoral Board, which is responsible for the election of the employee representatives, both have a corresponding catalogue of criteria at their disposal. Besides the objectives mentioned, the catalogue includes criteria such as special professional skills and personal qualities.

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

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

Annual General Meeting

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

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

Share trading and shares held by Board members

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

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

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

Management report

3

Munich Re

- Innovative insurance solutions push back the boundaries of insurability and tap new business potential in reinsurance.
- The majority of primary insurance operations are concentrated in ERGO Insurance Group.
- Munich Health streamlines its organisation and consolidates its market position in order to tap into growth opportunities in the international health insurance market.

Group structure

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

Munich Re combines primary insurance and reinsurance under one roof. This enables the Group to cover large stretches of the value chain in the risk market. At the same time, it leverages synergies in revenue and costs, whilst reducing the risk-based capital required through broad diversification. Almost all reinsurance units operate worldwide under the uniform brand of Munich Re. The ERGO Insurance Group (ERGO) is active in nearly all lines of life, health and property-casualty insurance. International business is increasingly gaining in importance for ERGO. The Group has taken this into account by changing our internal management reporting and thus also our segment reporting as of the fourth quarter of 2014. Our international health reinsurance business and health primary insurance outside Germany are combined under the Munich Health brand. Munich Re's investments worldwide are managed by MEAG, which also offers its expertise to private and institutional investors outside the Group. As of the fourth quarter of 2014, we are no longer showing asset management as a separate segment because MEAG's activities focus on intra-Group business.

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

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

In ERGO, we combine all Munich Re's primary insurance activities with the exception of health insurance business outside Germany, which is handled by Munich Health, and the monoliners in reinsurance. Some 77% (78%) of gross premiums written by ERGO derive from Germany, and 23% (22%) from international business, mainly from central and eastern European countries. ERGO has also extended its activities to Asian markets such as India, China, Vietnam and Singapore.

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

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

Segmentation

Reinsurance

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

As reinsurers, we write our business in direct collaboration with primary insurers, but also via brokers and increasingly within the framework of exclusive, strategic partnerships. In addition to traditional reinsurance business, we participate via our operating field Risk Solutions in the primary insurance business of industrial clients. Our risk expertise and solution-focused approach are key to our success.

Munich Re is already catering to an ever-increasing demand for capital optimisation, and other complex solutions for clients. This is a decisive element in our value proposition. We now bundle this expertise in the new business unit Capital Partners in the Special and Financial Risks Division. With the new unit, which has been set up to actively generate new business opportunities, we can offer our entire product range from a single source, and provide our clients with comprehensive and individual solutions. The new unit will start operations on 1 July 2015.

The reinsurance divisions

Our international life business is written in the Life Division. This is split into four geographical regions and one international unit responsible for global activities in the area of risk and capital management, particularly the reinsurance of guarantees for savings products and transactions in the area of corporate financial management. In order to ensure proximity to our clients, we are represented in many markets with local subsidiaries and branches.

Four other divisions conduct property-casualty reinsurance. We further strengthened our competitiveness in 2014 by introducing various structural adjustments.

Global Clients and North America handles our accounts with major international insurance groups, globally operating Lloyd's syndicates and Bermuda companies. It also pools our know-how in the North American market. It is responsible for our property-casualty subsidiaries there, and for international special lines business such as workers' compensation.

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

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 risk solutions for industrial clients. Insurance risk securitisation and risk transfer to the capital markets are handled by our Risk Trading Unit. In addition, the division is responsible for handling our own reinsurance requirements (retrocession). Global marine business, previously split between different divisions, has been centralised and allocated to this division as a new divisional unit. The bundling of this business will further enhance underwriting quality, service for our clients worldwide, and product development.

The reinsurance units at a glance[1]

Division	Selected subsidiaries and branch offices outside Germany[2]
Life	Munich American Reassurance Company, Atlanta, Georgia Munich Re, Tokyo (Life Branch) Munich Re, Toronto (Life Branch) Munich Reinsurance Company of Australasia Ltd. – New Zealand Branch, Auckland Munich Reinsurance Company of Australasia Ltd., Sydney Munich Re, London (Life Branch)
Global Clients and North America	American Alternative Insurance Corporation, Wilmington, Delaware[3] American Family Home Insurance Company, Jacksonville, Florida American Modern Home Insurance Company, Amelia, Ohio American Modern Insurance Company of Florida, Inc., Jacksonville, Florida American Modern Insurance Group, Inc., Amelia, Ohio American Modern Select Insurance Company, Amelia, Ohio American Modern Surplus Lines Insurance Company, Amelia, Ohio American Southern Home Insurance Company, Jacksonville, Florida American Western Home Insurance Company, Oklahoma City, Oklahoma Beaufort Underwriting Agency Ltd., London Bell & Clements (London) Ltd., London First Marine Insurance Company, Amelia, Ohio Global Standards, LLC, Wilmington, Delaware Groves, John & Westrup Ltd., London HSB Engineering Insurance Ltd., London HSB Group, Inc., Dover, Delaware HSB Professional Loss Control, Inc., Lenoir City, Tennessee HSB Solomon Associates LLC, Dover, Delaware HSB Specialty Insurance Company, Hartford, Connecticut MSP Underwriting Ltd., London Munich Re Holding Company (UK) Ltd., London Munich Reinsurance America, Inc., Wilmington, Delaware[3] Munich Reinsurance Company of Canada, Toronto Munich Re Underwriting Ltd., London NMU Group Ltd., London Roanoke Group Inc., Schaumburg, Illinois Temple Insurance Company, Toronto The Boiler Inspection and Insurance Company of Canada, Toronto The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware The Midland Company, Cincinnati, Ohio

Europe and Latin America	Munich Re do Brasil Resseguradora S.A., São Paulo[3] Munich Re, Madrid[3] Munich Re, Milan Munich Re, Paris Munich Re, London (General Branch)
Germany, Asia Pacific and Africa	Great Lakes, Sydney Great Lakes, Auckland Munich Re, Sydney Munich Holdings of Australasia Pty. Ltd., Sydney Munich Mauritius Reinsurance Co. Ltd., Port Louis Munich Re, Kuala Lumpur Munich Re, Kuala Lumpur (Retakaful Branch) Munich Re, Beijing[3] Munich Re, Hong Kong[3] Munich Re, Seoul[3] Munich Re, Auckland Munich Reinsurance Company of Africa Ltd., Johannesburg Munich Re, Singapore[3]
Special and Financial Risks	Great Lakes Reinsurance (UK) Plc., London[3] Great Lakes, Zurich Great Lakes, Dublin Great Lakes, Milan Munich Re of Malta p.l.c., Ta' Xbiex[3] New Reinsurance Company Ltd., Zurich[3] Munich Re Weather & Commodity Risk Advisors, Wilmington, Delaware

1 A detailed list of shareholdings can be found on page 292 ff. in the notes to the consolidated financial statements.
2 The companies listed are mainly subsidiaries and branches outside Germany with equity capital exceeding €5m.
3 Units that also transact business in Munich Health and are therefore allocated proportionately to reinsurance.

ERGO

Current information is also provided at www.ergo.com

Munich Re's second pillar is primary insurance business, which is conducted by ERGO. Via ERGO, we offer products from all the main classes of insurance: life insurance, German health insurance, and in nearly all lines of property-casualty insurance, as well as travel insurance and legal protection insurance. These products, in combination with the provision of assistance, other services and individual consultancy, cover the needs of private and corporate clients.

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

Segments

International business is increasingly gaining in importance for ERGO. Munich Re responded to this in its accounting in the fourth quarter of 2014 by pooling almost all of its activities outside Germany in the segment ERGO International. We report on business with insurances of the person in Germany in the segment ERGO Life and Health Germany. This includes ERGO Direkt companies' activities in life, health and property-casualty insurance. Travel insurance is also assigned to this segment. In the ERGO Property-casualty Germany segment, we bundle German property-casualty insurance business with the exception of direct insurance.

ERGO at a glance[1]

Segment	Selected subsidiaries[2]
Life/Health Germany	DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne ERGO Direkt Krankenversicherung AG, Fürth ERGO Direkt Lebensversicherung AG, Fürth ERGO Direkt Versicherung AG, Fürth ERGO Lebensversicherung Aktiengesellschaft, Hamburg ERGO Pensionskasse AG, Düsseldorf EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich Victoria Lebensversicherung Aktiengesellschaft, Düsseldorf Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf Vorsorge Luxemburg Lebensversicherung S.A., Grevenmacher
Property-casualty Germany	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich ERGO Versicherung Aktiengesellschaft, Düsseldorf
International	D.A.S. Rechtsschutz 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 General Insurance Company S.A., Athens ERGO Insurance N.V., Brussels ERGO Insurance SE, Tallinn ERGO Life Insurance SE, Vilnius ERGO Previdenza S.p.A., Milan ERGO RUSS Versicherung AG, St. Petersburg ERGO SIGORTA A.S., Istanbul ERGO Versicherung Aktiengesellschaft, Vienna Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot

1 A detailed list of shareholdings can be found on page 292 ff. in the notes to the consolidated financial statements.
2 Only subsidiaries with premium volume exceeding €50m are listed.

Munich Health

Current information is also provided at www.munichhealth.com

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

The set-up of Munich Health

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

In 2014, we streamlined and restructured our organisation from a regional orientation in which primary insurance and reinsurance were combined, to a structure that separates primary insurance and reinsurance. We expect this organisational realignment to align ourselves more closely with the needs of our clients and to strengthen our market positions for growth opportunities.

We manage our worldwide activities in reinsurance via four decentralised units. The regions of Europe and Latin America are managed from Munich. Our North American business is based in Princeton. The Middle East and Africa are managed from Dubai, and the Asia-Pacific region via our office in Singapore. Our primary insurance units are managed centrally from Munich.

Munich Health at a glance[1]

Companies fully allocated to Munich Health

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

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

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

1 A detailed list of shareholdings can be found on page 292 ff. in the notes to the consolidated financial statements. Only Group companies with equity capital generally exceeding €5m are listed.

Important tools of corporate management

Munich Re's management philosophy – based on value creation

Details of our capital management are provided on page 102 f.

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

Details of our risk strategy are available on page 118 ff.

The framework for any business activity is our risk strategy, from which we derive various limitations and reporting thresholds. The core of this is available financial resources, which describe the economic capital position of Munich Re. We observe a range of important additional conditions in managing our business. They include national accounting regulations, tax aspects, liquidity requirements, supervisory parameters, and rating agency requirements. These conditions may even determine a unit's short-term orientation.

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

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

Contrasting aspects have to be considered and evaluated when selecting suitable target figures. On the one hand, undue complexity should be avoided in order to ensure target figures remain transparent for investors, staff, and the public. On the other hand, the challenge lies in reflecting the often complex economic realities as closely as possible and emphasising added value as the Group's overriding guiding principle. As our business activities are multifaceted, the parallel use of different performance indicators is unavoidable.

The Group's performance indicators

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

Economic earnings

Economic earnings are the Group's key performance indicator

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

Information on the calculation of available capital and capital measures can be found on page 133 f.

$$\boxed{\text{Economic earnings}} = \boxed{\text{Available financial resources 31 Dec.}} - \boxed{\text{Available financial resources 1 Jan.}} +/- \boxed{\text{Capital measures}}$$

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

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

Return on risk-adjusted capital (RORAC)

→ Information on the internal risk model is provided on page 126 ff.

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

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

→ We explain how the additional available economic equity is calculated on page 134

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

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

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

Other performance indicators

Market Consistent Embedded Value (MCEV)

For life insurance and most of our health primary insurance business, Group corporate management is carried out on the basis of Market Consistent Embedded Value (MCEV), which is valued on the basis of the European Insurance CFO Forum Market Consistent Embedded Value Principles ©[1]. The change in MCEV within one year, adjusted for effects from exchange-rate fluctuations, acquisition or sale of companies, dividends and capital injections, is shown as the total embedded value earnings. Additional adjustments to eliminate the influences of changes in fiscal and capital market parameters result in the operating embedded value earnings, which are a measure of the operative business performance for one year. This performance indicator can be broken down into parameters including "value added by new business" and "changes in value of in-force business". Our corporate management takes these two parameters into account.

Value added

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

Adjusted result – Cost of equity = Value added

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

We compare the result adjusted in this way with the requisite cost of capital on the basis of risk capital.

IFRS consolidated result

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

Asset-liability management

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

The economic value added by the investment result is calculated collectively for reinsurance and Munich Health due to their joint investment management. The main focus of Munich Re's investment strategy is asset-liability management (ALM), which is a fundamental pillar of our value-based management system, and in which we take into account key characteristics of underwriting and other liabilities in structuring our investment portfolio. With ALM, we aim to ensure that changes in macroeconomic factors influence the value of our investments and that of our technical provisions and

1 © Stichting CFO Forum Foundation 2008.

liabilities in the same way. For this purpose, we mirror important features of the liabilities – such as maturity patterns, currency structures and inflation sensitivities – on the assets side of the balance sheet by acquiring investments with similar characteristics where possible. This reduces our vulnerability to the effect of capital market fluctuations and stabilises our equity.

Combined ratio

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

For us, the combined ratio by itself is not a sufficiently informative performance measure. It is only of limited suitability for comparing the financial performance of competitors owing to differing calculation methods and portfolio mixes. Generally, however, we aim to keep the combined ratio as low as possible by means of good underwriting and claims management.

Non-financial performance measures

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

Governing bodies of Munich Re

Board of Management

Dr. jur. Nikolaus von Bomhard
(Chairman of the Board of Management)
(Chairman of the Group Committee)
Group Development
Group Investments
Group Communications
Group Compliance
Group Audit
Health (until 30 April 2014)

Giuseppina Albo (since 1 October 2014)
Europe and Latin America
(until 31 December 2014 together with Georg Daschner)

Dr. rer. pol. Ludger Arnoldussen
Germany, Asia Pacific and Africa
Central Procurement
(since 1 January 2015)
Services

Dr. rer. pol. Thomas Blunck
Special and Financial Risks
Reinsurance Investments
Central Procurement
(until 31 December 2014)

Georg Daschner
(until 31 December 2014)
Europe and Latin America
(from 1 October 2014 together with Giuseppina Albo)

Dr. jur. Doris Höpke (since 1 May 2014)
Health

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

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

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

Dr. oec. publ. Joachim Wenning
(Labour Relations Director)
Life
Human Resources

Supervisory Board

Dr. jur. Hans-Jürgen Schinzler
(Honorary Chairman)
Former Chairman of the Supervisory Board

**Dr. Ing. E.h. Dipl. Ing.
Bernd Pischetsrieder**
(Chairman)
Member since 17 April 2002,
last re-elected 30 April 2014
Former Chairman of the Board of Management of Volkswagen AG

Marco Nörenberg
(Deputy Chairman since 30 April 2014)
Member since 22 April 2009,
last re-elected 30 April 2014
Employee of ERGO Versicherungsgruppe AG

**Prof. Dr. oec. Dr. iur.
Ann-Kristin Achleitner**
Member since 3 January 2013,
last re-elected 30 April 2014
Scientific Director of the Center for Entrepreneurial and Financial Studies (CEFS) at the Technical University of Munich

Herbert Bach
Member from 9 December 1994 until 30 April 2014
Employee of Munich Reinsurance Company

Dina Bösch
Member from 22 April 2009 until 30 April 2014
Member of the National Executive Board of ver.di (trades union)

Hans Peter Claußen
(Deputy Chairman until 30 April 2014)
Member from 22 April 2009 until 30 April 2014,
Employee of D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG (until 31 March 2014)

Annika Falkengren
Member from 20 April 2011 until 30 April 2014,
President and Chief Executive Officer of Skandinaviska Enskilda Banken AB (publ)

Frank Fassin
Member since 22 April 2009,
last re-elected 30 April 2014
Regional Section Head Financial Services, ver.di North Rhine-Westphalia

Dr. jur. Benita Ferrero-Waldner
Member since 12 February 2010,
last re-elected 30 April 2014
President of the EU-LAC Foundation

Christian Fuhrmann
Member since 22 April 2009,
last re-elected 30 April 2014
Head of Divisional Unit,
Munich Reinsurance Company

Prof. Dr. rer. nat. Ursula Gather
Member since 30 April 2014
Rector of TU Dortmund University

Prof. Dr. rer. nat. Peter Gruss
Member since 22 April 2009,
last re-elected 30 April 2014
President of the Max Planck Society for the Advancement of Science
(until 5 June 2014)
Former Scientific Member of the Max Planck Society for the Advancement of Science

Gerd Häusler
Member since 30 April 2014
Chairman of the Supervisory Board of BayernLB

Dr. iur. Anne Horstmann
Member since 30 April 2014
Employee of ERGO Versicherungsgruppe AG

Ina Hosenfelder
Member since 30 April 2014
Employee of ERGO Versicherungsgruppe AG
Deputy Chair of the Union Council of the Neue-Assekuranz-Gewerkschaft (NAG)

Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann
Member since 22 July 1999,
last re-elected 30 April 2014
President of acatech – German Academy of Science and Engineering

Peter Löscher
Member since 22 April 2009 until 30 April 2014
President of the Board of Trustees of the Siemens Foundation and former Chairman of the Board of Management of Siemens AG

Wolfgang Mayrhuber
Member since 13 December 2002,
last re-elected 30 April 2014
Chairman of the Supervisory Board of Deutsche Lufthansa AG

Beate Mensch
Member since 30 April 2014
Trades Union Secretary, ver.di, Hessen

Silvia Müller
Member from 22 April 2009 until 30 April 2014
Employee of ERGO Versicherungsgruppe AG

Reinhard Pasch
Member from 22 April 2009 until 30 April 2014
Employee of ERGO Versicherungsgruppe AG

Ulrich Plottke
Member since 30 April 2014
Employee of ERGO Versicherungsgruppe AG

Anton van Rossum
Member since 22 April 2009,
last re-elected 30 April 2014
Chairman of the Supervisory Board of Royal Vopak NV and member of the Board of Credit Suisse Group

Andrés Ruiz Feger
Member since 22 April 2009,
last re-elected 30 April 2014
Employee of Munich Re, Sucursal en España

Gabriele Sinz-Toporzysek
Member since 30 April 2014
Employee of ERGO Beratung und Vertrieb AG

Richard Sommer
Member from 22 April 2009 until 30 April 2014
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 30 April 2014
Chairman of the Supervisory Board of MTS OJSC, Russia

Angelika Wirtz
Member since 30 April 2014
Employee of Munich Reinsurance Company

Membership of the Supervisory Board Committees

Standing Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder (Chair)
Herbert Bach (until 30 April 2014)
Hans Peter Claußen (until 30 April 2014)
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann
Wolfgang Mayrhuber
Marco Nörenberg (since 30 April 2014)
Andrés Ruiz Feger (since 30 April 2014)

Personnel Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder (Chair)
Herbert Bach (until 30 April 2014)
Wolfgang Mayrhuber
Angelika Wirtz (since 30 April 2014)

Audit Committee
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann (Chair)
Christian Fuhrmann
Dr. iur. Anne Horstmann (since 30 April 2014)
Marco Nörenberg (until 30 April 2014)
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder
Anton van Rossum

Nomination Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder (Chair)
Prof. Dr. oec. Dr. iur. Ann-Kristin Achleitner (since 30 April 2014)
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann
Peter Löscher (until 30 April 2014)

Conference Committee
Dr. Ing. E.h. Dipl. Ing. Bernd Pischetsrieder (Chair)
Herbert Bach (until 30 April 2014)
Hans Peter Claußen (until 30 April 2014)
Prof. Dr. rer. nat. Dr. Ing. E.h. Henning Kagermann
Marco Nörenberg (since 30 April 2014)
Angelika Wirtz (since 30 April 2014)

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] (Chair) Munich Health Holding AG[2] (Chair)	–
Giuseppina Albo	–	IFG Companies, USA
Dr. rer. pol. Ludger Arnoldussen	–	–
Dr. rer. pol. Thomas Blunck	–	Global Aerospace Underwriting Managers Ltd. (GAUM), United Kingdom (Chair) New Reinsurance Company Ltd., Switzerland[2] (Chair)
Georg Daschner	–	–
Dr. jur. Doris Höpke	–	DKV Seguros y Reaseguros S.A., Spain[2]
Dr. rer. nat. Torsten Jeworrek	–	–
Dr. rer. pol. Peter Röder	EXTREMUS Versicherungs-AG	Munich Re America Corp., USA[2] (Chair) Munich Reinsurance America, Inc., USA[2] (Chair)
Dr. jur. Jörg Schneider	MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH[2] (Chair)	–
Dr. oec. publ. Joachim Wenning	–	–

1 Status: 31 December 2014.
2 Own group company within the meaning of Section 18 of the German Stock Corporation Act (AktG).

Supervisory Board[1]	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. Ing. E. h. Dipl. Ing. Bernd Pischetsrieder (Chairman)	Daimler AG	Tetra-Laval International S.A. Group, Switzerland
Marco Nörenberg (Deputy Chairman since 30 April 2014)	ERGO Versicherungsgruppe AG[2]	–
Prof. Dr. oec. Dr. iur. Ann-Kristin Achleitner	Linde AG METRO AG	GDF SUEZ S.A., France
Herbert Bach (until 30 April 2014)	–	–
Dina Bösch (until 30 April 2014)	–	–
Hans Peter Claußen (until 30 April 2014)	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG[2]	–
Annika Falkengren (until 30 April 2014)	Volkswagen AG	Securitas AB (publ), Sweden Swedish Bankers' Association, Sweden (Chair)
Frank Fassin	ERGO Versicherungsgruppe AG[2] Provinzial NordWest Holding AG	–
Dr. jur. Benita Ferrero-Waldner	–	–
Christian Fuhrmann	–	Munich Re Holding Company (UK) Ltd., United Kingdom[2] (until July 2014)
Prof. Dr. rer. nat. Ursula Gather (from 30 April 2014)	TEMA Technologie Marketing AG (Chair)	–
Prof. Dr. rer. nat. Peter Gruss	Siemens AG	Actelion Ltd., Switzerland
Gerd Häusler (from 30 April 2014)	BayernLB (Chair)	Kleinwort Benson Ltd., United Kingdom (Chair)
Dr. iur. Anne Horstmann (from 30 April 2014)	ERGO Versicherungsgruppe AG[2]	–
Ina Hosenfelder (from 30 April 2014)	–	–
Prof. Dr. rer. nat. Dr. Ing. E. h. Henning Kagermann	Bayerische Motoren-Werke AG Deutsche Bank AG Deutsche Post AG Franz Haniel & Cie. GmbH	Nokia Corporation, Finland (until June 2014) Wipro Ltd., India (until June 2014)
Peter Löscher (until 30 April 2014)	Deutsche Bank AG Sulzer Ltd.	TBG Ltd. (Thyssen-Bornemisza Group), Malta
Wolfgang Mayrhuber	Bayerische Motoren-Werke AG Infineon Technologies AG (Chair) Deutsche Lufthansa AG (Chair)	Heico Corporation, USA
Beate Mensch (from 30 April 2014)	Commerzbank AG	–
Silvia Müller (until 30 April 2014)	ERGO Versicherungsgruppe AG[2]	–
Reinhard Pasch (until 30 April 2014)	–	–

Supervisory Board[1]	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Ulrich Plottke (from 30 April 2014)	–	–
Anton van Rossum	–	Credit Suisse Groupe AG, Switzerland Royal Vopak NV, Netherlands (Chair) Solvay S.A., Belgium (until June 2014)
Andrés Ruiz Feger	–	–
Gabriele Sinz-Toporzysek (from 30 April 2014)	ERGO Beratung und Vertrieb AG[2]	–
Richard Sommer (from 30 April 2014)	ERGO Versicherungsgruppe AG[2]	–
Dr. phil. Ron Sommer	–	Sistema Shyam Teleservices Ltd., India Tata Consultancy Services Ltd., India
Angelika Wirtz (from 30 April 2014)	–	–

1 Status: 31 December 2014.
2 Own group company within the meaning of Section 18 of the German Stock Corporation Act.

Remuneration report

The remuneration report is structured as follows:

— Remuneration system for the Board of Management
— Total remuneration of the Board of Management
— Remuneration structure for senior executives
— Total remuneration of the Supervisory Board

Remuneration system for the Board of Management

The remuneration system for the Board of Management focuses strongly on long-term objectives, and thus creates a pronounced incentive for sustainable corporate development. It complies with the recommendations of the German Corporate Governance Code applicable since 2014, and with the provisions of the German Remuneration Regulation for Insurance Companies (VersVergV) of 6 October 2010.

The full Supervisory Board decides on the remuneration system for the Board of Management, and reviews it regularly. The Personnel Committee of the Supervisory Board, comprising the Chairman of the Supervisory Board, one shareholder representative and one employee representative, prepares the resolutions for the full Supervisory Board.

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	**30%**	Function Responsibility Length of service on Board	Fixed	Contractual stipulations	Monthly
Variable remuneration	**70%**	Corporate performance Result contribution of organisational unit(s) Personal performance			
30% annual performance (for 100% performance evaluation/ achievement of objectives)		Group objective Business-field objectives Divisional objectives Personal objectives Overall performance	**0–200%** (fully achieved = 100%)	Achievement of annual objectives	**In the second year, on condition that 50% of the net amount paid out is invested by the Board member in Munich Re shares that must be held for at least a four-year period**
70% multi-year performance (for 100% performance evaluation/ achievement of objectives)		Objectives for the business fields – Reinsurance – ERGO – Munich Health Personal objectives Overall performance	**0–200%** (fully achieved = 100%)	Achievement of three-year objectives	**In the fourth year, on condition that 25% of the net amount paid out is invested by the Board member in shares that must be held for at least a two-year period**
Pension				> Retirement > Insured event > Premature termination or non-extension of employment contract under certain circumstances	
a) Defined benefits plan (Board members appointed prior to 2009 who had reached the age of 55 in 2008)	–	Pensionable basic remuneration (= 25% of target overall direct remuneration[2]) Number of years on the Board	Fixed		–
b) Defined contribution plan (Board members appointed prior to 2009 who had not reached the age of 55 in 2008 and Board members first appointed as from 2009)	–	Target overall direct remuneration[2]	Pension contribution		–

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

Fixed components
The fixed components of remuneration comprise basic remuneration plus remuneration in kind and fringe benefits.

Basic remuneration
The basic remuneration comprises a fixed cash compensation for the calendar year, paid out as a monthly salary.

Remuneration in kind/fringe benefits

Remuneration in kind and fringe benefits include – in particular – company cars, policy benefits, security measures, health screening examinations and anniversary benefits, and are in line with what is normally offered in the market (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. The amount depends on the extent to which the annually set objectives for annual and multi-year performance are met, and how the component "Evaluation of overall performance" – which considers the overall performance of individual members of the Board and of the whole Board – is assessed.

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

Achievement and evaluation of objectives is measured at the end of the one-year and three-year periods in question, there being no adjustment of targets during these periods. The corridor for the achievement of the individual objectives and for the overall annual and multi-year performance is 0–200%. Payouts are made at the end of the 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 a fixed part of the paid-out variable remuneration in Munich Reinsurance Company shares.

Annual objectives, multi-year objectives, overall performance evaluation and investment in shares together form a well-balanced and economic (i.e. strongly risk-based) incentive system, with great importance being attached to ensuring that the targets set for the members of the Board of Management do not have undesirable effects. No guaranteed variable salary components are granted.

Variable remuneration based on annual performance

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

The variable remuneration for annual performance is determined on the basis of evaluation by the full Supervisory Board and then paid out in the year after the one-year assessment period. Of the net payout amount, 50% must be invested in Munich Reinsurance Company shares that must be held for at least a four-year period.

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

Variable remuneration based on annual performance

Category of objective	Share[1]	Assessment basis	Parameters
Collective contribution to corporate success	25%–55%		
Group objective		Derived from key performance indicators in external reporting and other important portfolio and performance data	Return on risk-adjusted capital, RORAC[2]
Business-field objectives			
– Reinsurance		Value-based economic performance indicators: – Property-casualty reinsurance – Life reinsurance	Components of economic earnings:[3] – Value added – Value added by new business – Change in the value of in-force business
– ERGO		Value-based economic performance indicator	Economic earnings[3]
Individual contribution to corporate success	25%–55%		
Divisional objectives		Value-based economic performance indicators: – Property-casualty reinsurance and Munich Health – Life reinsurance	Components of economic earnings:[3] – Value added – Value added by new business – Change in the value of in-force business
Personal objectives		Personal objectives per Board member	Special focal points such as – Pricing and cycle management – Client management – Individual leadership
Overall performance evaluation	20%	Overall performance of individual Board members and of the Board of Management as a whole	Assessment by Supervisory Board taking into account Section 87 of the Stock Corporation Act (AKtG) and the German Corporate Governance Code

1 The objectives are weighted individually according to the responsibilities of the individual Board members.
2 Further information on RORAC is provided on page 40.
3 Further information on economic earnings is provided on page 39 f.

Variable remuneration based on multi-year performance

For the multi-year performance remuneration component, three-year targets based on the financial results of the reinsurance, ERGO and Munich Health segments and on individual performance are fixed every year. The Supervisory Board also assesses the overall performance of the whole Board of Management and the individual Board members. This allows for a response to developments during the three-year appraisal period that are beyond the influence of Board members, and which can also be taken into account along with performance not included in the agreement of objectives. Full achievement of the multi-year objectives (100%) allows for payment of 70% of the overall target amount for variable remuneration.

The variable remuneration for the multi-year performance is determined on the basis of evaluation by the full Supervisory Board and then paid out in the year after the three-year assessment period. Of the net payout amount, 25% must be invested in Munich Reinsurance Company shares that must be held for at least a two-year period.

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

Variable remuneration based on multi-year performance

Category of objective	Share[1]	Assessment basis	Parameters
Collective contribution to corporate success	0%–60%		
Business-field objectives (three-year average)			
– Reinsurance		Value-based economic performance indicators: – Property-casualty reinsurance – Life reinsurance	Components of economic earnings:[2] – Value added – Value added by new business – Change in the value of in-force business
– ERGO		Value-based economic performance indicator	Economic earnings[2]
– Munich Health[3]		Value-based economic performance indicator	Component of economic earnings:[2] – Value added
Individual contribution to corporate success	20%–80%		
Personal objectives (three-year period)		Personal objectives per Board member	Special focal points such as – Strategic goals – Staff development, including diversity – Sustainable development, social tasks
Overall performance evaluation	20%	Overall performance of individual Board members and the Board of Management as a whole	Assessment by Supervisory Board taking into account Section 87 of the Stock Corporation Act (AktG) and the German Corporate Governance Code

1 The objectives are weighted individually according to the responsibilities of the individual Board members.
2 Further information on economic earnings is provided on page 39.
3 The business-field objective for Munich Health is an "individual contribution to corporate success" for the Board member responsible.

Pro-rata calculation of the variable remuneration

Members of the Board of Management who have not been members of the Board for the full year receive a pro rata temporis amount of variable remuneration. The components based on annual performance are calculated for the months of the one-year plan term in which the Board members have held their position. Only the first year of the respective three-year plan term is pertinent for the pro-rata calculation of variable remuneration for the multi-year performance, i.e. the Board members receive pro-rata variable remuneration only for those months of the first plan year in which they have held their position. Pro-rata calculation also applies for the pertinent year in case of retirement, occupational disability, or death.

Weighting of remuneration components

In the case of 100% achievement of objectives, the weightings of the individual components in terms of total remuneration were as follows: basic remuneration 30%, variable remuneration 70%, of which 30% was based on annual performance and 70% on multi-year performance.

Share-based remuneration agreements that resulted in payments during the reporting period

Long-Term Incentive Plan

Further information about the Long-Term Incentive Plan can be found in the notes to the consolidated financial statements on page 282 ff.

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

The exercising of the rights and proceeds obtained depended on the development of the share price and on fulfilment of the exercise conditions. The amount of income from the stock appreciation rights was limited. The members of the Board of Management were only able to exercise stock appreciation rights under the plans set up in 1999 and 2003–2009. There were no more exercisable stock appreciation rights in the reporting year, only payments based on the exercise of rights at the end of 2013.

Continued payment of remuneration in the case of incapacity to work

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

Other remuneration

Remuneration for other board memberships

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.

Severance cap and change of control

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

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 Munich Reinsurance Company's balance sheet. This major risk transfer was achieved by financing increases in entitlements exclusively by paying premiums into insurance policies concluded to cover these benefit obligations. This means the Company is no longer liable for the pension benefits, as these are covered by the aforementioned insurance policies. The longevity risk, the biometric risks of premature occurrence of a pensionable event (e.g. disability or death of a member of the Board during active service), and the capital market risk were thus transferred to the insurer and the individual Board members.

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

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

Board members who had already reached the age of 55 at the conversion date were not transferred to a defined contribution system and remain members of the previous system's defined benefit plan. The defined benefits are fixed on the basis of "pensionable basic remuneration", which corresponds to 25% of the target overall direct remuneration.

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

Benefits on termination of employment

Occupational pension

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

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

Benefit amount:

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

Disability pension

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

Benefit amount:
- For a period of six months, previous monthly basic remuneration (only for Board members appointed prior to 2006)
- Under the defined contribution plan for members first appointed as from 2009 or from 1 April 2012: 80% of the insured occupational pension up to the age of 59 or 61, with subsequent occupational pension
- In the case of a combination between defined benefit plans and defined contribution plans: Vested pension from the defined benefit plan up to 2008 and 80% of the insured occupational pension benefit up to age 59, with subsequent occupational pension based on the defined contribution plan.

Reduced occupational pension on early retirement

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

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

Vested benefits for occupational pension, disability pension and surviving dependants

Vested benefits are paid upon the Board member reaching the age of 60 or 62, in the case of incapacity to work, or in the event of the Board member’s death.

Vested benefits under the Employers’ Retirement Benefits Act (BetrAVG)

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

Benefit amount:
- Under the defined contribution plan for members first appointed as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum at the date the insured event occurs

— In the case of a combination between defined benefit plans and defined contribution plans: 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 (1) of the 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 (5a) of the Employers' Retirement Benefits Act). This entitlement is paid out as an annuity or a lump sum.

Improved vested benefits

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

The improved vested benefits do not apply to Board members first appointed as from 2009. For Board members with a combination between defined benefit plans and defined contribution plans, the improved vested benefits apply only to that part of their pension resulting from the vested pension under the defined benefit plan.

Benefit amount:
— For a period of six months after leaving the Board, previous monthly basic remuneration (only for Board members appointed prior to 2006)
— For the share from the defined benefit plan: Entitlement of between 30% and 60% of 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 with a combination between defined benefit plans and defined contribution plans). 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 with a combination between defined benefit plans and defined contribution plans). 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.

Adjustment of pensions and benefits for surviving dependants

In the case of Board members appointed before 2009, occupational pensions and pensions for surviving dependants are reviewed for adjustment if salaries payable under pay-scale agreements in the insurance industry have increased by more than 12% (based on the average final salary of all pay-scale categories) since the pensions were last fixed or more than three years have passed since that date. The adjustment made will at least be in line with the increase in the cost of living in the meantime according to the consumer price index for Germany. This arrangement also applies to Board members newly appointed in the period from 1 January 2009 to 31 March 2012 who received a pension commitment from the Company for the first time before 1 January 1999. For Board members appointed as from 2009 who did not receive a pension commitment from the Company before 1 January 1999, and for Board members appointed as from 1 April 2012, occupational pension and benefits for surviving dependants are adjusted by 1% annually from the date when the pension or benefit starts being drawn, in accordance with Section 16 (3) no. 1 of the German Employers' Retirement Benefits Act. Vested benefits are not adjusted.

Total remuneration of the Board of Management

The level of the target overall direct remuneration (= basic remuneration + variable remuneration on the basis of 100% achievement of objectives) for the individual members of the Board of Management is set by the full Supervisory Board, acting on recommendations from the Supervisory Board's Personnel Committee. Criteria for the appropriateness of compensation are the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole, and the financial situation, performance and future prospects of Munich Re. Other criteria are the relevant comparative benchmarks for Board remuneration and the prevailing remuneration structure at Munich Reinsurance Company. The Supervisory Board takes account of the level of Board salaries in relation to the level of salaries paid to senior managers and to general staff members over a period of time, and also determines how senior managers and general staff are to be classified for the purpose of this comparison. The consideration of what level of remuneration is appropriate also takes into account data from peer-group (DAX 30) companies. New Board members are placed at a level which allows sufficient potential for development of the remuneration in the first three years.

Board of management remuneration is disclosed under two different sets of rules: on the basis of German Accounting Standard No. 17 (DRS 17, revised 2010) and the new provisions of the German Corporate Governance Code applicable since financial year 2014. There are therefore deviations in individual remuneration components and total remuneration.

Board of management remuneration under DRS 17

Under DRS 17, remuneration for annual performance 2014 is shown as the provisions set aside for that purpose taking into account the relevant additional/reduced expenditure for the previous year, since the performance on which the remuneration is based has been completed as at the balance sheet date and the requisite Board resolution is already foreseeable. Under DRS 17, remuneration for multi-year performance 2011–2013 is recognised in the year of payment, i.e. in 2014.

Fixed and variable remuneration components

The members of Munich Reinsurance Company's Board of Management received remuneration totalling €24.1m (22.9m) for fulfilment of their duties in respect of the parent company and its subsidiaries in the financial year. Total remuneration thus shows an increase of around €1.2m compared with the previous year's figure, which was adjusted for the remuneration of a Board member who had left the Board as at 1 January 2014. The basic remuneration and remuneration in kind/fringe benefits accounted for €0.7m and the multi-year performance for €0.7m. In addition, the amount paid out for annual performance is projected to decrease by €0.2m, as the overall achievement of objectives was lower than in the previous year according to current estimates.

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

Name	Financial year	Basic remuneration	Remuneration in kind/fringe benefits	Annual performance[1]	Multi-year performance[2]	Total
		€	€	€	€	€
Nikolaus von Bomhard	**2014**	**1,230,000**	**31,669**	**895,361**	**2,569,560**	**4,726,590**
	2013	1,200,000	30,992	1,038,240	2,158,156	4,427,388
Giuseppina Albo[3]	**2014**	**121,875**	**61,323**	**92,199**	**–**	**275,397**
	2013	–	–	–	–	–
Ludger Arnoldussen	**2014**	**600,000**	**46,133**	**370,524**	**1,246,119**	**2,262,776**
	2013	570,000	46,856	505,333	1,313,935	2,436,124
Thomas Blunck	**2014**	**600,000**	**40,860**	**402,244**	**1,287,720**	**2,330,824**
	2013	570,000	37,862	413,763	1,296,981	2,318,606
Georg Daschner	**2014**	**600,000**	**34,678**	**466,179**	**1,414,140**	**2,514,997**
	2013	585,000	32,692	485,871	1,443,050	2,546,613
Doris Höpke	**2014**	**325,000**	**17,086**	**184,731**	**–**	**526,817**
	2013	–	–	–	–	–
Torsten Jeworrek	**2014**	**870,000**	**34,293**	**615,620**	**1,885,520**	**3,405,433**
	2013	855,000	34,418	690,070	1,898,750	3,478,238
Peter Röder[4]	**2014**	**600,000**	**134,808**	**471,114**	**1,246,119**	**2,452,041**
	2013	570,000	37,459	467,528	1,230,880	2,305,867
Jörg Schneider	**2014**	**870,000**	**36,180**	**659,249**	**1,838,970**	**3,404,399**
	2013	855,000	177,690	719,397	1,567,020	3,319,107
Joachim Wenning	**2014**	**600,000**	**34,585**	**418,152**	**1,152,480**	**2,205,217**
	2013	570,000	33,695	416,619	1,063,300	2,083,614
Total	**2014**	**6,416,875**	**471,615**	**4,575,373**	**12,640,628**	**24,104,491**
	2013	5,775,000	431,664	4,736,821	11,972,072	22,915,557

1 At the time of preparation of this report, no Supervisory Board resolution had yet been passed on the amounts to be paid for the 2014 annual performance. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted.
For the 2013 annual performance, a total of €224,510 more was paid out than had been reserved in the financial year 2013. The additional/reduced expenditure breaks down as follows: von Bomhard €78,960, Arnoldussen –€27,930, Blunck €15,760, Daschner €12,285, Jeworrek €14,962, Röder €27,930, Schneider €58,653, Wenning €43,890. This results in the following actual bonus payments for 2013:
von Bomhard €1,075,200, Arnoldussen €498,750, Blunck €498,750, Daschner €552,825, Jeworrek €748,125, Röder €542,640, Schneider €754,110, Wenning €450,870.
The amounts shown for the annual performance 2014 comprise the respective provision for 2014 and the relevant additional/reduced expenditure for 2013.
2 The amounts paid out in 2014 were for multi-year performance 2011–2013.
3 Remuneration in kind/fringe benefits for 2014 including travel expenses for flights home to family members owing to the maintenance of two households.
4 Remuneration in kind/fringe benefits for 2014 including anniversary payment.

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

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

Name	Set in	for	Annual performance[1, 3] €	Multi-year performance[2, 3] €	Total amounts payable €
Nikolaus von Bomhard	**2014**	**2015**	**861,000**	**2,009,000**	**2,870,000**
	2013	2014	861,000	2,009,000	2,870,000
Giuseppina Albo	**2014**	**2015**	**341,250**	**796,250**	**1,137,500**
	2014	2014	85,313	199,063	284,376
Ludger Arnoldussen	**2014**	**2015**	**420,000**	**980,000**	**1,400,000**
	2013	2014	420,000	980,000	1,400,000
Thomas Blunck	**2014**	**2015**	**420,000**	**980,000**	**1,400,000**
	2013	2014	420,000	980,000	1,400,000
Georg Daschner	**2014**	**2015**	**–**	**–**	**–**
	2013	2014	420,000	980,000	1,400,000
Doris Höpke	**2014**	**2015**	**341,250**	**796,250**	**1,137,500**
	2014	2014	227,500	530,833	758,333
Torsten Jeworrek	**2014**	**2015**	**609,000**	**1,421,000**	**2,030,000**
	2013	2014	609,000	1,421,000	2,030,000
Peter Röder	**2014**	**2015**	**420,000**	**980,000**	**1,400,000**
	2013	2014	420,000	980,000	1,400,000
Jörg Schneider	**2014**	**2015**	**609,000**	**1,421,000**	**2,030,000**
	2013	2014	609,000	1,421,000	2,030,000
Joachim Wenning	**2014**	**2015**	**420,000**	**980,000**	**1,400,000**
	2013	2014	420,000	980,000	1,400,000
Total	**2014**	**2015**	**4,441,500**	**10,363,500**	**14,805,000**
	2013	2014	4,491,813	10,480,896	14,972,709

1 At the time of preparation of this report, no Supervisory Board resolution had yet been passed on the amounts to be paid for 2014. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted in the table on page 59.
2 The remuneration set for multi-year performance for 2014 is payable in 2017, that for 2015 in 2018.
3 The information on the assessment bases and parameters on page 52 f. for the amounts set for 2014 also applies to the amounts set for 2015.

Pension entitlements

Personnel expenses of €4.9m (4.4m) were incurred in the financial year to finance the pension entitlements for active members of the Board of Management. Of these, €1.2m was apportionable to defined benefit plans and €3.7m to defined contribution plans. As a consequence of the risk transfer to an external insurer under the defined contribution system, the visible pension costs since 2009 are noticeably higher. The Company accepts this increase in order to avoid higher costs in future and to eliminate long-term pension-specific risks. The following defined benefits, present values, contribution rates and personnel expenses result for the individual members of the Board of Management:

Pension entitlements

			Defined benefit plan	
Name	Financial year	Defined benefit[1]	Present value of defined benefit as at 31 December	Personnel expenses for provisions[2]
		€/year	€	€
Nikolaus von Bomhard[3, 4]	**2014**	**407,100**	**15,617,525**	**372,943**
	2013	407,100	10,474,789	384,766
Giuseppina Albo[4, 5]	**2014**	**–**	**–**	**–**
	2013	–	–	–
Ludger Arnoldussen[4, 6]	**2014**	**157,500**	**3,265,461**	**257,315**
	2013	157,500	1,850,243	269,261
Thomas Blunck[4, 7]	**2014**	**120,000**	**2,862,476**	**113,941**
	2013	120,000	1,670,842	120,889
Georg Daschner[8]	**2014**	**250,000**	**8,259,886**	**0**
	2013	234,000	6,544,532	0
Doris Höpke[4, 5]	**2014**	**–**	**–**	**1,856**
	2013	–	–	–
Torsten Jeworrek[4, 6]	**2014**	**171,000**	**5,314,770**	**141,610**
	2013	171,000	3,324,450	149,074
Peter Röder[4, 6]	**2014**	**90,000**	**2,894,574**	**75,812**
	2013	90,000	1,832,183	78,369
Jörg Schneider[4, 6]	**2014**	**275,000**	**9,575,691**	**244,725**
	2013	275,000	6,222,950	253,987
Joachim Wenning[4, 6]	**2014**	**–**	**–**	**1,021**
	2013	–	–	20,316
Total	**2014**	**1,470,600**	**47,790,383**	**1,209,223**
	2013	1,454,600	31,919,989	1,276,662

See table on next page for footnotes.

Pension entitlements

Name	Financial year	Pension contribution rate for target total direct remuneration	Entitlement as at 31 December	Present value of entitlement as at 31 December	Personnel expenses
				Defined contribution plan	
		%	€/year	€	€
Nikolaus von Bomhard[3, 4]	**2014**	**17.00**	**159,165**	**6,828,230**	**697,000**
	2013	17.00	131,714	4,009,204	680,000
Giuseppina Albo[4, 5]	**2014**	**25.50**	**3,505**	**–**[9]	**103,594**
	2013	–	–	–	
Ludger Arnoldussen[4, 6]	**2014**	**14.75**	**69,383**	**3,060,380**	**295,000**
	2013	14.75	57,111	1,662,863	280,250
Thomas Blunck[4, 7]	**2014**	**16.25**	**81,600**	**3,609,722**	**325,000**
	2013	16.25	67,373	1,882,123	308,750
Georg Daschner[8]	**2014**	**–**	**–**	**–**	**–**
	2013	–	–	–	–
Doris Höpke[4, 5]	**2014**	**25.50**	**9,846**	**–**[9]	**276,250**
	2013	–	–	–	–
Torsten Jeworrek[4, 6]	**2014**	**19.50**	**135,157**	**5,908,988**	**565,500**
	2013	19.50	111,923	3,233,034	555,750
Peter Röder[4, 6]	**2014**	**20.25**	**89,589**	**3,948,345**	**405,000**
	2013	20.25	73,236	2,193,184	384,750
Jörg Schneider[4, 6]	**2014**	**16.50**	**112,249**	**4,846,279**	**478,500**
	2013	16.50	93,303	2,782,075	470,250
Joachim Wenning[4, 6]	**2014**	**25.50**	**95,448**	**–**[9]	**510,000**
	2013	25.50	76,807	–	484,500
Total	**2014**		**755,942**	**28,201,944**	**3,655,844**
	2013		611,467	15,762,483	3,164,250

1 In the case of Board members with a combination between defined benefit plans and defined contribution plans, the amount corresponds to the value of the annual vested pension at 31 December 2008, in the case of Mr. Daschner, it corresponds to the defined benefit at 31 December of the year under review.
2 Expenses for defined benefit plan, including provision for continued payment of salary for surviving dependants.
3 Entitled to a reduced occupational pension on early retirement, and to an occupational pension in the event of regular termination of employment.
4 Entitled to an occupational pension in the event of termination of employment owing to incapacity to work.
5 Entitled to vested benefits under the Employers' Retirement Benefits Act in the event of premature or regular termination of employment.
6 Entitled to a reduced occupational pension on early retirement in the event of premature or regular termination of employment.
7 Entitled to vested benefits under the Employers' Retirement Benefits Act in the event of premature termination of employment up to 7 March 2015, and to a reduced occupational pension on early retirement in the event of premature termination of employment as from 8 March 2015 or regular termination of employment.
8 No transfer to defined contribution system, as Board member had already reached 55 at the conversion date. Retired at 1 January 2015 and entitled to an occupational pension of €255,000 p.a.
9 Defined Contribution Plan within the meaning of IAS 19, Employee Benefits, so no present value shown.

Board of Management remuneration under the German Corporate Governance Code

As required by the provisions of the German Corporate Governance Code, the following table shows the benefits granted and remuneration paid out to individual members of the Board of Management in the reporting year.

The basic remuneration, remuneration in kind/fringe benefits and pension expenses (sum of personnel expenses for defined benefit plans and defined contribution plans) are in accordance with German Accounting Standard No. 17 (DRS 17). There are some deviations with regard to the variable remuneration for annual and multi-year performance. In addition, the German Corporate Governance Code requires the disclosure of proceeds from the exercise of stock appreciation rights under the long-term incentive plans. Under DRS 17, however, these proceeds are not disclosed.

Remuneration paid in accordance with the German Corporate Governance Code

	Nikolaus von Bomhard				Giuseppina Albo			
	Chairman of the Board of Management				Board member			
					Joined: 1.10.2014			
€	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)	2013
Basic remuneration	1,230,000	1,230,000	1,230,000	1,200,000	121,875	121,875	121,875	–
Remuneration in kind/fringe benefits	31,669	31,669	31,669	30,992	61,323	61,323	61,323	–
Total	**1,261,669**	**1,261,669**	**1,261,669**	**1,230,992**	**183,198**	**183,198**	**183,198**	–
One-year variable remuneration								
Annual performance 2013				840,000				–
Annual performance 2014	861,000	0	1,722,000		85,313	0	170,625	
Multi-year variable remuneration								–
Multi-year performance 2013–2015				1,960,000				–
Multi-year performance 2014–2016	2,009,000	0	4,018,000		199,063	0	398,125	
Total	**4,131,669**	**1,261,669**	**7,001,669**	**4,030,992**	**467,574**	**183,198**	**751,948**	–
Pension expenses	1,069,943	1,069,943	1,069,943	1,064,766	103,594	103,594	103,594	–
Total remuneration	**5,201,612**	**2,331,612**	**8,071,612**	**5,095,758**	**571,168**	**286,792**	**855,542**	–

→	Ludger Arnoldussen				Thomas Blunck			
	Board member				Board member			
€	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)	2013
Basic remuneration	600,000	600,000	600,000	570,000	600,000	600,000	600,000	570,000
Remuneration in kind/fringe benefits	46,133	46,133	46,133	46,856	40,860	40,860	40,860	37,862
Total	**646,133**	**646,133**	**646,133**	**616,856**	**640,860**	**640,860**	**640,860**	**607,862**
One-year variable remuneration								
Annual performance 2013				399,000				399,000
Annual performance 2014	420,000	0	840,000		420,000	0	840,000	
Multi-year variable remuneration								
Multi-year performance 2013–2015				931,000				931,000
Multi-year performance 2014–2016	980,000	0	1,960,000		980,000	0	1,960,000	
Total	**2,046,133**	**646,133**	**3,446,133**	**1,946,856**	**2,040,860**	**640,860**	**3,440,860**	**1,937,862**
Pension expenses	552,315	552,315	552,315	549,511	438,941	438,941	438,941	429,639
Total remuneration	**2,598,448**	**1,198,448**	**3,998,448**	**2,496,367**	**2,479,801**	**1,079,801**	**3,879,801**	**2,367,501**

→	Georg Daschner				Doris Höpke			
	Board member				Board member			
	Retired: 31.12.2014				Joined: 1.5.2014			
€	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)	2013
Basic remuneration	600,000	600,000	600,000	585,000	325,000	325,000	325,000	–
Remuneration in kind/fringe benefits	34,678	34,678	34,678	32,692	17,086	17,086	17,086	–
Total	**634,678**	**634,678**	**634,678**	**617,692**	**342,086**	**342,086**	**342,086**	–
One-year variable remuneration								
Annual performance 2013				409,500				–
Annual performance 2014	420,000	0	840,000		227,500	0	455,000	
Multi-year variable remuneration								
Multi-year performance 2013–2015				955,500				–
Multi-year performance 2014–2016	980,000	0	1,960,000		530,833	0	1,061,667	
Total	**2,034,678**	**634,678**	**3,434,678**	**1,982,692**	**1,100,419**	**342,086**	**1,858,753**	–
Pension expenses	0	0	0	0	278,106	278,106	278,106	–
Total remuneration	**2,034,678**	**634,678**	**3,434,678**	**1,982,692**	**1,378,525**	**620,192**	**2,136,859**	–

Continued on next page

€	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)	2013
	Torsten Jeworrek				Peter Röder			
	Board member				Board member			
Basic remuneration	870,000	870,000	870,000	855,000	600,000	600,000	600,000	570,000
Remuneration in kind/fringe benefits	34,293	34,293	34,293	34,418	134,808	134,808	134,808	37,459
Total	**904,293**	**904,293**	**904,293**	**889,418**	**734,808**	**734,808**	**734,808**	**607,459**
One-year variable remuneration								
Annual performance 2013				598,500				399,000
Annual performance 2014	609,000	0	1,218,000		420,000	0	840,000	
Multi-year variable remuneration								
Multi-year performance 2013–2015				1,396,500				931,000
Multi-year performance 2014–2016	1,421,000	0	2,842,000		980,000	0	1,960,000	
Total	**2,934,293**	**904,293**	**4,964,293**	**2,884,418**	**2,134,808**	**734,808**	**3,534,808**	**1,937,459**
Pension expenses	707,110	707,110	707,110	704,824	480,812	480,812	480,812	463,119
Total remuneration	**3,641,403**	**1,611,403**	**5,671,403**	**3,589,242**	**2,615,620**	**1,215,620**	**4,015,620**	**2,400,578**

€	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)	2013
	Jörg Schneider				Joachim Wenning			
	Board member				Board member			
Basic remuneration	870,000	870,000	870,000	855,000	600,000	600,000	600,000	570,000
Remuneration in kind/fringe benefits	36,180	36,180	36,180	177,690	34,585	34,585	34,585	33,695
Total	**906,180**	**906,180**	**906,180**	**1,032,690**	**634,585**	**634,585**	**634,585**	**603,695**
One-year variable remuneration								
Annual performance 2013				598,500				399,000
Annual performance 2014	609,000	0	1,218,000		420,000	0	840,000	
Multi-year variable remuneration								
Multi-year performance 2013–2015				1,396,500				931,000
Multi-year performance 2014–2016	1,421,000	0	2,842,000		980,000	0	1,960,000	
Total	**2,936,180**	**906,180**	**4,966,180**	**3,027,690**	**2,034,585**	**634,585**	**3,434,585**	**1,933,695**
Pension expenses	723,225	723,225	723,225	724,237	511,021	511,021	511,021	504,816
Total remuneration	**3,659,405**	**1,629,405**	**5,689,405**	**3,751,927**	**2,545,606**	**1,145,606**	**3,945,606**	**2,438,511**

Remuneration table – Inflow in accordance with the German Corporate Governance Code

	Nikolaus von Bomhard Chairman of the Board of Management		Giuseppina Albo Board member Joined: 1.10.2014		Ludger Arnoldussen Board member	
€	2014	2013	2014	2013	2014	2013
Basic remuneration	1,230,000	1,200,000	121,875	–	600,000	570,000
Remuneration in kind/fringe benefits	31,669	30,992	61,323	–	46,133	46,856
Total	**1,261,669**	**1,230,992**	**183,198**	**–**	**646,133**	**616,856**
One-year variable remuneration						
Annual performance 2013		1,075,200		–		498,750
Annual performance 2014[1]	816,401		92,199		398,454	
Multi-year variable remuneration						
Multi-year performance 2011–2013		2,569,560	–	–		1,246,119
Multi-year performance 2012–2014[2]	2,272,032		–	–	1,228,222	
Long-term Incentive Plan 2006[3]		679,078	–	–		61,184
Long-term Incentive Plan 2007[3]	577,433		–	–	208,088	
Long-term Incentive Plan 2008[3]		805,364	–	–		318,501
Long-term Incentive Plan 2009[3]		1,020,099	–	–		
Total	**4,927,535**	**7,380,293**	**275,397**	**–**	**2,480,897**	**2,741,410**
Pension expenses	1,069,943	1,064,766	103,594	–	552,315	549,511
Total remuneration	**5,997,478**	**8,445,059**	**378,991**	**–**	**3,033,212**	**3,290,921**

→	Thomas Blunck Board member		Georg Daschner Board member Retired: 31.12.2014		Doris Höpke Board member Joined: 1.5.2014	
€	2014	2013	2014	2013	2014	2013
Basic remuneration	600,000	570,000	600,000	585,000	325,000	–
Remuneration in kind/fringe benefits	40,860	37,862	34,678	32,692	17,086	–
Total	**640,860**	**607,862**	**634,678**	**617,692**	**342,086**	**–**
One-year variable remuneration						
Annual performance 2013		498,750		552,825		–
Annual performance 2014[1]	386,484		453,894		184,731	
Multi-year variable remuneration						
Multi-year performance 2011–2013		1,287,720		1,414,140	–	–
Multi-year performance 2012–2014[2]	1,228,222		1,260,544		–	–
Long-term Incentive Plan 2006[3]		244,715		326,286	–	–
Long-term Incentive Plan 2007[3]	242,774		312,119		–	–
Long-term Incentive Plan 2008[3]		364,008		409,516	–	–
Long-term Incentive Plan 2009[3]				698,796	–	–
Summe	**2,498,340**	**3,003,055**	**2,661,235**	**4,019,255**	**526,817**	**–**
Pension expenses	438,941	429,639	0	0	278,106	–
Total remuneration	**2,937,281**	**3,432,694**	**2,661,235**	**4,019,255**	**804,923**	**–**

See table on next page for footnotes.

€	Torsten Jeworrek Board member 2014	2013	Peter Röder Board member 2014	2013
Basic remuneration	870,000	855,000	600,000	570,000
Remuneration in kind/fringe benefits	34,293	34,418	134,808	37,459
Total	**904,293**	**889,418**	**734,808**	**607,459**
One-year variable remuneration				
Annual performance 2013		748,125		542,640
Annual performance 2014[1]	600,658		443,184	
Multi-year variable remuneration				
Multi-year performance 2011–2013		1,885,520		1,246,119
Multi-year performance 2012–2014[2]	1,842,332		1,228,222	
Long-term Incentive Plan 2006[3]		407,857		
Long-term Incentive Plan 2007[3]	381,490		52,029	
Long-term Incentive Plan 2008[3]		518,703		273,019
Long-term Incentive Plan 2009[3]		856,600	392,406	227,590
Total	**3,728,773**	**5,306,223**	**2,850,649**	**2,896,827**
Pension expenses	707,110	704,824	480,812	463,119
Total remuneration	**4,435,883**	**6,011,047**	**3,331,461**	**3,359,946**

€	Jörg Schneider Board member 2014	2013	Joachim Wenning Board member 2014	2013
Basic remuneration	870,000	855,000	600,000	570,000
Remuneration in kind/fringe benefits	36,180	177,690	34,585	33,695
Summe	**906,180**	**1,032,690**	**634,585**	**603,695**
One-year variable remuneration				
Annual performance 2013		754,110		450,870
Annual performance 2014[1]	600,596		374,262	
Multi-year variable remuneration				
Multi-year performance 2011–2013		1,838,970		1,152,480
Multi-year performance 2012–2014[2]	1,618,822		1,163,579	
Long-term Incentive Plan 2006[3]		489,429		
Long-term Incentive Plan 2007[3]	416,176			
Long-term Incentive Plan 2008[3]		568,766		
Long-term Incentive Plan 2009[3]	586,057	577,584		428,300
Total	**4,127,831**	**5,261,549**	**2,172,426**	**2,635,345**
Pension expenses	723,225	724,237	511,021	504,816
Total remuneration	**4,851,056**	**5,985,786**	**2,683,447**	**3,140,161**

1 At the time of preparation of this report, no Supervisory Board resolution had yet been passed on the amounts to be paid for the 2014 annual performance. The amount shown for the 2014 annual performance remuneration is based on estimates and the relevant provisions posted.
2 At the time of preparation of this report, no Supervisory Board resolution had yet been passed on the amounts to be paid for the 2012–2014 multi-year performance. The amount shown for the 2012–2014 multi-year performance remuneration is based on estimates and the relevant provisions posted.
3 Proceeds from the exercise of stock appreciation rights granted in 2006–2009.

Remuneration structure for senior executives

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

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

→ Information on RORAC is provided on page 40 f.

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

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

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

Total remuneration of the Supervisory Board

By resolution of the Annual General Meeting 2013, remuneration of the Supervisory Board was put on a purely fixed-remuneration basis. In addition, the remuneration for serving on Supervisory Board committees is to be adapted to reflect the amount of responsibility and actual work involved. The new rules are effective for remuneration to be paid as from the financial year 2014.

Each member of the Supervisory Board shall receive annual remuneration of €90,000. The Chairman of the Supervisory Board shall receive annual remuneration of €180,000, and the Deputy Chairman annual remuneration of €135,000.

Members of the Audit Committee each receive an additional €45,000; members of the Personnel Committee each receive an extra €27,000; and members of the Standing Committee each receive an additional €13,500. The Chairs of these committees also receive double the amounts stated for members. No additional remuneration is paid for serving on the Nomination Committee or the Conference Committee.

In addition, members of the Supervisory Board receive an attendance fee of €1,000 for each Supervisory Board meeting and each meeting of a Supervisory Board committee – with the exception of the Conference Committee.

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

Name	Financial year	Fixed remuneration[2] Annual	Fixed remuneration[2] For committee work	Result-related remuneration Annual	Result-related remuneration with long-term incentive function Annual	Total
		€	€	€	€	€
Bernd Pischetsrieder	**2014**	**186,000**	**136,000**	**–**	**–**	**322,000**
Chairman	2013	125,000	149,000	60,000	25,000	359,000
Marco Nörenberg	**2014**	**129,750**	**27,125**	**–**	**–**	**156,875**
Deputy Chairman (from 30 April 2014)	2013	50,000	41,000	24,000	10,000	125,000
Hans Peter Claußen	**2014**	**48,000**	**4,500**	**–**	**–**	**52,500**
Deputy Chairman (until 30 April 2014)	2013	75,000	25,000	36,000	15,000	151,000
Ann-Kristin Achleitner	**2014**	**96,000**	**–**	**–**	**–**	**96,000**
	2013	49,726	–	23,869	9,945	83,540
Herbert Bach	**2014**	**33,000**	**15,500**	**–**	**–**	**48,500**
(until 30 April 2014)	2013	50,000	50,000	24,000	10,000	134,000
Dina Bösch	**2014**	**33,000**	**–**	**–**	**–**	**33,000**
(until 30 April 2014)	2013	50,000	–	24,000	10,000	84,000
Annika Falkengren	**2014**	**31,000**	**–**	**–**	**–**	**31,000**
(until 30 April 2014)	2013	50,000	–	24,000	10,000	84,000
Frank Fassin	**2014**	**96,000**	**–**	**–**	**–**	**96,000**
	2013	50,000	–	24,000	10,000	84,000
Benita Ferrero-Waldner	**2014**	**95,000**	**–**	**–**	**–**	**95,000**
	2013	50,000	–	24,000	10,000	84,000
Christian Fuhrmann	**2014**	**96,000**	**51,000**	**–**	**–**	**147,000**
	2013	50,000	43,000	24,000	10,000	127,000
Ursula Gather	**2014**	**71,500**	**–**	**–**	**–**	**71,500**
(from 30 April 2014)	2013	–	–	–	–	–
Peter Gruss	**2014**	**95,000**	**–**	**–**	**–**	**95,000**
	2013	50,000	–	24,000	10,000	84,000
Gerd Häusler	**2014**	**71,500**	**–**	**–**	**–**	**71,500**
(from 30 April 2014)	2013	–	–	–	–	–
Anne Horstmann	**2014**	**71,500**	**37,750**	**–**	**–**	**109,250**
(from 30 April 2014)	2013	–	–	–	–	–
Ina Hosenfelder	**2014**	**70,500**	**–**	**–**	**–**	**70,500**
(from 30 April 2014)	2013	–	–	–	–	–
Henning Kagermann	**2014**	**96,000**	**111,500**	**–**	**–**	**207,500**
	2013	50,000	99,000	1,000[3]	0[3]	150,000[3]
Peter Löscher	**2014**	**33,000**	**2,000**	**–**	**–**	**35,000**
(until 30 April 2014)	2013	50,000	6,000	24,000	10,000	90,000
Wolfgang Mayrhuber	**2014**	**95,000**	**42,500**	**–**	**–**	**137,500**
	2013	50,000	50,000	24,000	10,000	134,000
Beate Mensch	**2014**	**70,500**	**–**	**–**	**–**	**70,500**
(from 30 April 2014)	2013	–	–	–	–	–
Silvia Müller	**2014**	**33,000**	**–**	**–**	**–**	**33,000**
(until 30 April 2014)	2013	50,000	–	24,000	10,000	84,000
Reinhard Pasch	**2014**	**33,000**	**–**	**–**	**–**	**33,000**
(until 30 April 2014)	2013	50,000	–	24,000	10,000	84,000

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

		Fixed remuneration[2]		Result-related remuneration	Result-related remuneration with long-term incentive function	
Name	Financial year	Annual	For committee work	Annual	Annual	Total
		€	€	€	€	€
Ulrich Plottke	**2014**	**71,500**	**–**	**–**	**–**	**71,500**
(from 30 April 2014)	2013	–	–	–	–	–
Anton van Rossum	**2014**	**95,000**	**51,000**	**–**	**–**	**146,000**
	2013	50,000	43,000	24,000	10,000	127,000
Andrés Ruiz Feger	**2014**	**96,000**	**10,125**	**–**	**–**	**106,125**
	2013	50,000	–	24,000	10,000	84,000
Gabriele Sinz-Toporzysek	**2014**	**71,500**	**–**	**–**	**–**	**71,500**
(from 30 April 2014)	2013	–	–	–	–	–
Richard Sommer	**2014**	**33,000**	**–**	**–**	**–**	**33,000**
(from 30 April 2014)	2013	50,000	–	24,000	10,000	84,000
Ron Sommer	**2014**	**96,000**	**–**	**–**	**–**	**96,000**
	2013	50,000	–	24,000	10,000	84,000
Angelika Wirtz	**2014**	**71,500**	**20,250**	**–**	**–**	**91,750**
(from 30 April 2014)	2013	–	–	–	–	–
Total	**2014**	**2,118,750**	**509,250**			**2,628,000**
	2013	1,099,726	506,000	504,869	209,945	2,320,540

1 Plus turnover tax (USt) in each case, in accordance with Article 15 (6) of the Articles of Association.
2 Including attendance fees in each case, as per Article 15 (4) of the Articles of Association.
3 After capping in accordance with Article 15 (5) of the Articles of Association (version 9/2013).

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

		Fixed remuneration		Result-related remuneration	
Name	Financial year	Annual[2]	For committee work[2]	Annual	Total
		€	€	€	€
Hans Peter Claußen	**2014**	**4,932**	**–**	**–**	**4,932**
	2013	24,895	–	0	24,895
Frank Fassin	**2014**	**35,000**	**–**	**–**	**35,000**
	2013	27,000	–	0	27,000
Anne Horstmann	**2014**	**35,000**	**–**	**–**	**35,000**
	2013	–	–	–	–
Silvia Müller	**2014**	**35,000**	**–**	**–**	**35,000**
	2013	27,000	–	0	27,000
Marco Nörenberg	**2014**	**35,000**	**7,500**	**–**	**42,500**
	2013	27,000	6,750	0	33,750
Richard Sommer	**2014**	**11,507**	**–**	**–**	**11,507**
	2013	27,000	–	0	27,000
Total	**2014**	**156,439**	**7,500**	**–**	**163,939**
	2013	132,895	6,750	0	139,645

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

Macroeconomic and industry environment

- Global economic growth only moderate
- Again significant fall in long-term interest rates
- Marked increase in global premium income, particularly in life business
- Prices in property-casualty reinsurance continue to fall

In 2014, as in the previous year, the global economy grew only moderately. Recovery in the eurozone was disappointing, and the Japanese economy slid back into recession. Slumps in the USA and China at the start of the year also had a dampening effect, though the world's two largest economies recovered during the year. The strong upturn in the United Kingdom continued.

Capital markets

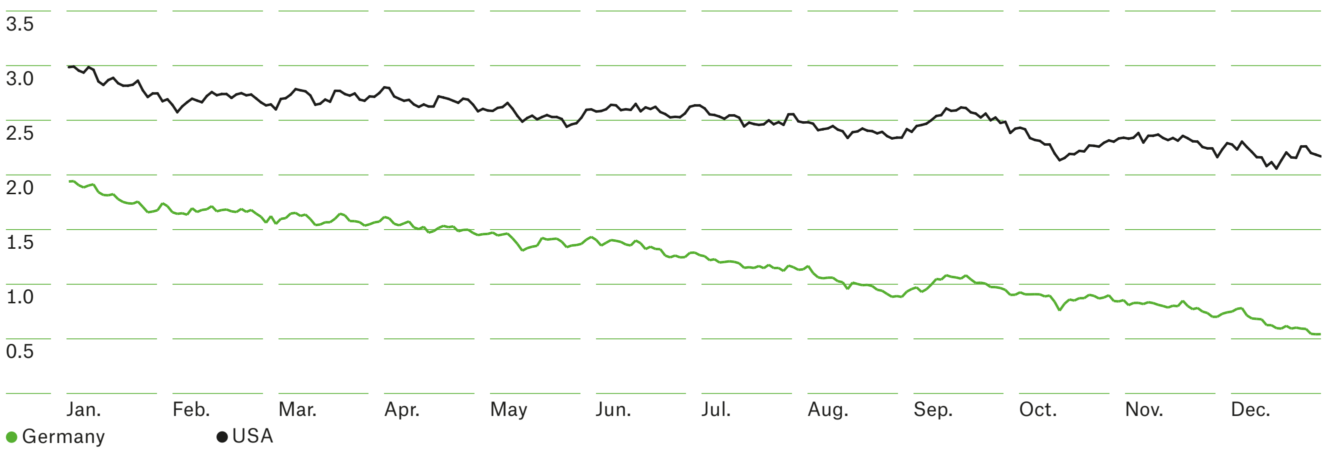
The US central bank began to gradually wind down its expansionary monetary policy. Step by step, it reduced the volume of its monthly bond purchases and ended the bond-buying programme in October. The European Central Bank (ECB) on the other hand relaxed its monetary policy. It lowered its key interest rate twice, bringing it down to 0.05%, introduced a negative interest rate for deposits at the central bank, and announced a new programme to buy private-sector bonds.

Geopolitical conflicts fuel uncertainty

Uncertainty in the global capital and foreign exchange markets increased in 2014, due mainly to geopolitical conflicts, deteriorating prospects in the eurozone and the steep fall in the oil price.

Long-term interest rates in the USA and in Germany fell significantly over the course of the year. At the year-end, yields on US and German bonds with periods to maturity of ten years were 2.2% and 0.5% respectively, compared with 3.0% and 1.9% at the end of 2013. The fall in interest rates had a positive impact on the market value of fixed-income bonds, but the deteriorating terms for new investments and reinvestments were a considerable burden for insurers. Regular interest income saw a further slight decline, because yields on new fixed-interest securities with high ratings are far lower than the average return on the securities maturing or sold. Life insurers, which have to meet interest-rate guarantees, are particularly affected.

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



We write a large portion of our business outside the eurozone. Appreciation of the euro has an adverse effect on premium income development posted in euros, while depreciation increases it. The average exchange rate of the euro to the US dollar in 2014 was unchanged from the previous year. It was higher against the Canadian dollar (7.2%) and the Japanese yen (8.3%), but lower against the British pound sterling (–5.1%). Altogether, currency translation effects have slightly distorted premium income downwards compared with the previous year.

The value shown for investments on the other hand, which is translated at period-end exchange rates, was increased substantially by currency translation effects in 2014. On 31 December 2014, the exchange rate of the US dollar to the euro of US$ 1.21 was 12.0% lower than the rate at the end of 2013 (US$ 1.37). The euro was 3.7% down against the Canadian dollar, 6.5% down against the British pound sterling, and 0.1% higher against the Japanese yen.

Insurance industry

According to provisional estimates, in primary insurance global premium income in the property-casualty and health segments grew moderately in 2014 when adjusted for inflation. Growth was muted in Europe, but solid in North America. However, worldwide premium development was buoyed by a further very dynamic increase in demand for insurance cover in many emerging markets. According to provisional estimates, global premium income in life primary insurance increased strongly in 2014 when adjusted for inflation, but there were hefty variations between individual markets. It was not only large emerging markets that managed to generate high growth rates, but some western European markets also achieved similar growth.

According to provisional estimates, the German insurance industry's premium income increased appreciably overall in 2014. While premiums in both property-casualty insurance and life insurance rose strongly as in the previous year, premium growth in health insurance was weak.

Price competition increased in the reinsurance market in 2014. There was already an abundance of capacity available in the property-casualty reinsurance renewals in January 2014. In the course of the year, most reinsurance groups saw their equity increase further as a result of the absence of major losses and the fall in interest rates. The latter tended to result in higher values for fixed-interest investments under international accounting standards. Prices also fell strongly for the renewals on 1 April and 1 July, and the trend continued for the 1 January 2015 renewals.

Business performance

— Decline of 4.3% in gross premium income
— Major-loss expenditure well below projected range
— Increased investment result
— Return on risk-adjusted capital (RORAC) of 13.2% (12.1%) after tax
— Proposed dividend increase to €7.75 (7.25) per share

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

Last year's consolidated profit exceeded the target we set ourselves. At €3.2bn, we again achieved a good result, partly thanks to tax income derived from a recalculation of taxes for prior years. In property-casualty reinsurance, our profit was really strong again at €2.5bn, with major losses remaining well below the volume to be expected. Life reinsurance contributed €0.4bn to the consolidated result, with some negative developments in the USA and Australia. The result contribution of the ERGO segments totalled €0.2bn, as it was adversely affected by goodwill impairments. At €0.1bn, Munich Health's result met our expectations.

Munich Re's business performance – Overview and key figures

Return on risk-adjusted capital (RORAC) and economic earnings

		2014	Prev. year	Change
				%
RORAC	%	13.2	12.1	
Economic earnings	€bn	3.2	4.2	–25.2

Dividend

		2014	Prev. year	Change
				%
Total dividend payout	€bn	1.3	1.3	3.5
Dividend amount	€	7.75	7.25	6.9

→ A definition of RORAC is provided on page 40

The return on risk-adjusted capital (RORAC) totalled 13.2% for the 2014 financial year, compared with 12.1% in 2013. The RORAC for 2014 was thus below our long-term target of 15%. This target, which we set for the first time in 2006 when market interest rates were significantly higher, is very difficult to reach in the current environment of very low interest rates. We exceeded our profit target of €3bn for 2014, which is equivalent to a RORAC of over 12%.

Information on economic earnings can be found on page 39 f.

Economic earnings were attributable to factors from new and in-force business deriving from the field of underwriting and to the development of the economic parameters. The latter was strongly influenced by currency gains and positive effects from equities and credit risk spreads. These contrasted with the further fall in interest rates, and generally high interest-rate volatility. In addition, tax income from previous years was compensated for by more refined modelling.

Dividend proposal: €7.75 per share

We want our shareholders to participate in our gratifying result again. We will therefore propose to shareholders at the Annual General Meeting payment of a dividend of €7.75 (7.25) per dividend-bearing share.

Key figures[1]

		2014	Prev. year	Change
				%
Gross premiums written	€bn	48.8	51.1	-4.3
Combined ratio				
Reinsurance property-casualty	%	92.7	92.1	
ERGO Property-casualty Germany	%	95.3	96.7	
ERGO International	%	97.3	98.7	
Munich Health[2]	%	98.8	98.3	
Technical result	€m	3,243	3,645	-11.0
Investment result	€m	8,002	7,245	10.4
Results from insurance-related investments	€m	414	412	0.5
Operating result	€m	4,028	4,398	-8.4
Taxes on income	€m	312	-108	–
Consolidated result	€m	3,171	3,333	-4.9
Investments	€bn	218.9	202.2	8.3
Investments (including insurance-related investments)	€bn	8.5	7.3	15.8
Net technical provisions	€bn	198.4	187.7	5.7
Equity	€bn	30.3	26.2	15.7

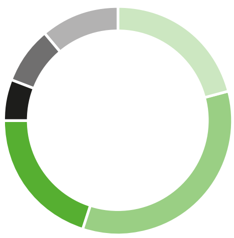
1 Previous year's figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
2 Excluding health insurance conducted like life insurance.

Gross premium income was down on the previous year. This was due to the development of exchange rates, which resulted in a 1.5% reduction in premium income, and to the reduction of large-volume reinsurance treaties.

Combined ratio 2014 at a gratifyingly low 92.7%

Expenditure for major losses, particularly from natural catastrophes, was well below the expected range. This is also reflected in the combined ratio for property-casualty reinsurance, which at 92.7% (92.1%) was better than the around 94% we had projected for 2014.

Group premium income



Reinsurance life	21%	(21%)
Reinsurance property-casualty	34%	(33%)
ERGO Life and Health Germany	20%	(20%)
ERGO Property-casualty Germany	6%	(6%)
ERGO International	8%	(7%)
Munich Health	11%	(13%)

Consolidated result

	2014	Prev. year	Change
	€m	€m	%
Reinsurance life	410	403	1.7
Reinsurance property-casualty	2,483	2,372	4.7
ERGO Life and Health Germany	269	158	70.3
ERGO Property-casualty Germany	176	156	12.8
ERGO International	–276	94	–
Munich Health	109	150	–27.3
Total	**3,171**	**3,333**	**–4.9**

Detailed information on the business performance of our segments can be found on page 75 ff.

In the financial year 2014, we posted a consolidated result of €3.2bn (3.3bn), i.e. roughly the same high level as the year before. The two reinsurance segments delivered the bulk of this figure. An adverse effect derived from the impairment losses of goodwill in the segment ERGO International.

Munich Re posted tax income of €312m (–108m) for the full year. A significant adjustment of €1,341m (946m) was made to the taxes for previous years, partly on account of court decisions at the highest level.

Asset management for clients

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) is the asset manager of Munich Re. In addition, MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH also offers its expertise to private and institutional clients. The volume of assets under management rose by €1.0bn to €13.9bn. The increase of €0.6bn to €10.8bn in portfolios for institutional investors is particularly gratifying.

Assets under management for third parties

	31.12.2014	Prev. year	Change
	€bn	€bn	%
Third-party investments	13.9	12.9	8.2
Thereof: External institutional investors	10.8	10.2	5.7
Thereof: Private-client business	3.1	2.7	17.8

Events after the balance sheet date

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management in March 2014, we repurchased a further 1.0 million Munich Re shares with a volume of €172m from the balance sheet date to 25 February 2015.

On 1 January 2015, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park companies KS SPV 23 Limited, London, England, and Countryside Renewables (Forest Heath) Limited, London, England. The solar parks have a total installed capacity of 22.7 megawatts.

On 1 March 2015, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park company Cornwall Power (Polmaugan) Limited, London, England. The solar park has a total installed capacity of 5 megawatts.

On 1 March 2015, the Austrian Financial Market Authority (FMA) initiated insolvency proceedings against Heta Asset Resolution AG, Klagenfurt (Heta) in accordance with the new EU Regulation on insolvency proceedings for banks. To be able to prepare an insolvency plan, FMA has imposed a deferral of Heta's liabilities towards its creditors until 31 May 2016. For the first quarter of 2015, we expect a write-down of our fixed-interest portfolio in the two-digit million euro range, after taking into account policyholder participation.

Reinsurance – Life

— Decline in premium income of 7.3% to €10.0bn, partly influenced by currency translation effects
— Technical result of €280m below expectations
— Unchanged investment result of €811m
— Pleasing consolidated result of €410m

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	10,040	10,829	-7.3
Share of gross premiums written in reinsurance	%	37.5	38.9	
Share of international business in gross premiums written	%	96.2	96.7	
Operating result	€m	460	542	-15.1
Consolidated result	€m	410	403	1.7

Premium

At €10,040m, gross premium volume in life reinsurance was below the previous year's level (€10,829m), owing to currency translation effects. We generated around 89% of premium in foreign currencies, of which 37 percentage points were in Canadian dollars and 21 percentage points in US dollars. If exchange rates had remained unchanged, our premium income would have fallen by only 4.1%.

Premium development was significantly influenced by large-volume treaties. These serve as a capital substitute and were written especially in recent years. Some of these treaties were terminated as planned or renewed with a lower volume.

There were again positive impulses from growing markets in Asia, and from our selective underwriting of longevity risks in the United Kingdom.

This year we saw largely stable premium income in our remaining traditional reinsurance business. The sluggish economy in many regions that are important to our business had some impact on our clients' business and curbed demand for reinsurance.

Result

The technical result totalled €280m (359m), which was below our target of around €400m. The operating result totalled €460m (542m) and the consolidated result €410m (403m). The reasons for this unsatisfactory technical result lie in Australia and the USA.

In Australia, as a result of negative impacts from disability business in 2011 and 2013, we took measures to ensure a sustained improvement in the quality of our business. For our disability business, this led to further burdens on the result of approx. €100m.

In the third quarter, we posted a one-off impact from the commutation of individual life treaties in the USA. Business written over the past decade continued to have an adverse effect on our result also in the year under review. Overall, claims experience in the USA was in line with our current expectations.

By contrast, we posted very gratifying results in Canada, Asia and the European markets, where our expectations were met overall.

At €811m, the investment result was at the same level as the previous year (€810m). The decline in regular income and the poorer result from derivatives were offset by higher gains on the disposal of equities and interest-bearing securities.

Focus of our business activities

Our business model is geared to the characteristics of the individual markets

In life reinsurance, we operate on a global basis and have local presences in most of the important markets. Our business model is geared to the characteristics of the individual markets and the particular needs of our clients. Our focus is on traditional reinsurance solutions that concentrate on the transfer of biometric risks: the mortality risk predominates worldwide, but recent years have seen a significant increase in the reinsurance of living benefits products such as disability, long-term care, and critical illness. We write living benefits business selectively in specific markets. Finally, several years ago we began to provide a limited amount of capacity for longevity risks. Until now, we have offered this only in the United Kingdom. Where required, the assumption of insurance risks is complemented by a wide range of services along our clients' entire value chain. These include software solutions for automating the risk assessment process that are available worldwide from our subsidiary Munich Re Automation Solutions Limited. We also offer tailor-made structured concepts geared to optimising liquidity or specific items on our clients' balance sheets. These concepts have met with particular success in Europe, Asia and North America.

Given the increasing volatility on the capital markets, for some years the demand for reinsurance of capital market risks embedded in life insurance products has been growing. We have therefore created the infrastructure necessary to provide our clients with comprehensive solutions for covering options and guarantees dependent on the capital markets. Our exposure related to this is transferred back to the capital markets.

In all pillars of our business activity, our clients benefit from our global expertise relating to insurance products and biometric risks, from our structuring know-how and, in particular, from our capital strength.

Our individual core markets

Based on premium volume, over half (approx. 55%) of our global life reinsurance business is written in North America, where the USA (approx. 20%) lags behind Canada (approx. 35%). Over a fifth (approx. 20%) of our premium comes from Europe, of which approx. 10% is from the United Kingdom and approx. 5% from Germany. Further shares are contributed by Asia (approx. 10%) and Australia/New Zealand (approx. 10%). We are also well positioned in Africa and Latin America, but due to the size of the markets their share of our global business is small (approx. 5%).

Our Canadian branch, Munich Re, Toronto (Life), had another successful year in 2014. Although premiums written in the life reinsurance segment decreased to €3.5bn (4.3bn), mainly due to the restructuring of a large-volume treaty, the unit was able to maintain its leading market position and posted a very good technical result.

In the USA, our subsidiary Munich American Reassurance Company posted an increase in gross premium income to €2.1bn (2.0bn), and we retained our position among the leading life reinsurance companies in this largest market worldwide. For the reasons mentioned previously, the technical result remained below expectations.

Premium income in Europe totalled €2.1bn (2.0bn), of which €1.0bn (0.9bn) was from our branch in the United Kingdom, and a further €377m (353m) from Germany. The technical result was satisfactory overall.

In Asia, our premium income remained almost unchanged at €870m (871m), with the decrease in large-volume treaties outlined above causing the underlying growth dynamics to slow. The technical result continued to develop at a pleasing level.

At our subsidiary Munich Reinsurance Company of Australasia Ltd., which writes our life reinsurance business in Australia and New Zealand, premium income increased to €727m (698m). For the aforementioned reasons, there was a significant strain on the technical result, which remained well below expectations.

On the African continent, our South African subsidiary Munich Reinsurance Company of Africa Ltd. posted an increase in premium volume to €164m (156m). As in prior years, the technical result showed pleasing development.

Reinsurance – Property-casualty

- Slight decline in premium income of 1.7% to €16.7bn influenced by currency translation effects
- Very good combined ratio of 92.7%
- Investment result up slightly to €1,785m
- Very high consolidated result of €2,483m

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	16,730	17,013	–1.7
Share of gross premiums written in reinsurance	%	62.5	61.1	
Share of international business in gross premiums written	%	95.4	95.4	
Loss ratio	%	60.2	61.7	
Thereof: Major losses	Percentage points	7.2	10.4	
Expense ratio	%	32.5	30.4	
Combined ratio	%	92.7	92.1	
Operating result	€m	2,824	2,999	–5.8
Consolidated result	€m	2,483	2,372	4.7

Premium

Gross premiums by division

Global Clients and North America	40% (38%)
Germany, Asia Pacific and Africa	21% (21%)
Europe and Latin America	21% (21%)
Special and Financial Risks	18% (20%)

In property-casualty reinsurance, we posted a slight decline in premium income of 1.7% to €16.7bn (17.0bn) in 2014. Approximately 14% of the portfolio is written in euros and 86% in foreign currency, of which 46 percentage points is in US dollars and 15 percentage points in pounds sterling. Compared with the previous year, the development of the euro against other currencies had a negative effect of €158m on our premium income. If exchange rates had remained unchanged, premium volume would have decreased by 0.8%.

The rise in premium adjusted for exchange rates is mainly attributable to the expansion of our motor business in Australia. Adverse effects came from portfolio reductions where it was no longer possible to achieve adequate prices, terms and conditions. A decline in prices in natural catastrophe business led to a deliberate reduction in property reinsurance. The capacity freed up was transferred to our stable specialty primary insurers operating in niche segments. The amount of premium income in the specialty class of agriculture is linked to development of commodity prices for agricultural products. As these prices have fallen, premium income has also declined.

The environment of the renewal rounds was highly competitive in 2014

The renewals in 2014 took place under market conditions that remained highly competitive. The demand for reinsurance has been falling in general, since the good capitalisation of primary insurers allows them to hold higher retentions. In some cases, these developments were accompanied by measures that curb demand, such as the centralisation of reinsurance buying. However, the capacity offered by reinsurers remained high, and there was intense worldwide competition between the traditional market players. This situation was exacerbated in the US market by the ongoing availability of alternative capital. Pension funds and hedge funds regard reinsurance as an attractive investment alternative for diversifying risks and meeting return requirements in the present low-interest-rate environment. These difficult overall conditions led to strong pressure on prices worldwide, and even to significant price falls in the area of non-proportional natural catastrophe covers.

In light of this, it is not surprising that prices for reinsurance cover fell in all segments in our portfolio. In line with general market developments, non-proportional natural catastrophe covers even saw significant price falls.

Result

Technical result of €2,392m

At €2,483m, the consolidated result in property-casualty reinsurance was up against the previous year (€2,372m). The operating result, which includes the investment result and technical result, fell to €2,824m (2,999m). The technical result totalled €2,392m (2,468m), again benefiting from significantly lower-than-expected major-loss expenditure. Adjusted for commissions, Munich Re's customary review of reserves resulted in a reduction in the claims provisions for prior years amounting to around €900m for the full year, which is equivalent to around 5.3 percentage points of the combined ratio. This positive development is spread across almost all segments of our portfolio. Over the year as a whole, the safety margin in the reserves remained unchanged at a high level, as Munich Re adhered to its careful approach to determining and adjusting loss reserves.

Major-loss expenditure totalling –€1,162m (–1,689m) after retrocession and before tax was lower than in the previous year and below expectations. As in the previous year, 2014 was marked by a large number of major losses, but there were no individual occurrences that have exceptional loss potential. Reserve strengthening and run-off profits for major losses from previous years almost balance each other out.

Aggregate losses from natural catastrophes came to –€538m (–764m), representing 3.3% (4.7%) of net earned premiums. The largest major loss of 2014 (–€305m) was the snowstorm in Japan at the beginning of the year. Reserves of –€59m were set aside for Hurricane Odile, which hit Mexico in late summer. There was also an impact from an earthquake on the north coast of Chile (–€51m). Heavy summer rainfall in the northeast of the USA caused sizeable losses (–€50m), as did a strong hailstorm in Brisbane, Australia (–€42m). In addition, like other market players, we had to increase our provisions for the earthquakes in New Zealand in 2010 and 2011, as the series of three quakes in rapid succession made it more difficult for our cedants to settle claims.

At –€625m, man-made major losses were below the level of the previous year (–€925m), or 3.9% (5.7%) of net earned premiums. Extensive losses resulted from an explosion at a Russian refinery (–€150m), and –€60m was reserved for damage to a power station in Germany. Moreover, aircraft crashes impacted our result, with the two largest crashes costing us –€52m. Finally, a forest fire in Sweden in the summer caused losses of –€33m.

The investment result amounted to €1,785m (1,766m). The slightly increased figure was due to significantly higher gains on the disposal of equities and interest-bearing securities, which contrasted with a diminished result from our equity, inflation, interest and commodity derivatives, and a decline in regular income.

Development of premium income and results in each division

Germany, Asia Pacific and Africa

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	3,588	3,524	1.8
Combined ratio	%	97.5	86.8	

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

The division's premium volume increased to €3,588m (3,524m) in total, which was mainly due to our portfolio in Australia. A decline in prices in natural catastrophe business led to attrition of business, but this was more than compensated for by a large tailored reinsurance treaty in motor business. We were also able to expand our business in Southeast Asia, South Korea and Africa, and the portfolio in Japan was renewed successfully, despite strong pressure on prices. By contrast, our premium volume in China and Germany was down year on year. Overall, we are consistently pursuing our strategy of seizing growth opportunities, but at the same time systematically reducing our portfolio where risk-commensurate prices, terms and conditions cannot be achieved.

Due to high levels of major losses in 2014, and the run-off of major losses from previous years, our combined ratio increased year on year to 97.5% (86.8%). This was in part compensated for by the positive run-off of provisions for basic losses.

Europe and Latin America

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	3,452	3,677	–6.1
Combined ratio	%	85.0	88.5	

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

Overall, the division's premium volume fell to €3,452m (3,677m), owing to deliberate portfolio reductions. We kept constant the capacity we provide for the coverage of natural hazards, particularly windstorm and earthquake, and successfully defended our strong market position in the Caribbean, Latin America and Europe with margins still remaining adequate.

The division's combined ratio amounted to 85.0%, improving even on the very good result of 88.5% from the previous year. We benefited from much improved major-loss experience, and the loss reserve releases for prior years were above last year's level.

Global Clients and North America

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	6,702	6,471	3.6
Combined ratio	%	89.5	94.9	

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

The division's premium volume increased to €6,702m (6,471m). We saw slight growth in liability insurance and were able to selectively write profitable business, particularly in the USA. As pressure on reinsurance prices for natural catastrophes grew, we made a deliberate decision to reduce our property reinsurance business.

The premium income of our primary insurance companies American Modern and Hartford Steam Boiler Group (HSB Group) improved to €1,109m (967m) and €752m (712m) respectively, and, in contrast to traditional reinsurance, we profit here from slightly increasing original premiums. These contribute around 40% to our premium in North America, and a further €2,239m (2,300m) was contributed by Munich Reinsurance America. The results of our subsidiaries in the USA also developed very pleasingly. In 2014, they paid dividends totalling US$ 910m to the Group parent Munich Reinsurance Company. Our strategy of combining insurance and reinsurance activities again proved successful, and we intend to continue along this path in future.

The division's combined ratio improved significantly to 89.5% (94.9%). We benefited from a very low incidence of major losses and from positive loss reserve releases for prior years.

Special and Financial Risks

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	2,988	3,341	–10.6
Combined ratio	%	103.1	96.7	

The Special and Financial Risks Division writes business in the specialty classes of agriculture (around 30%), credit and bond (around 20%), and aviation and space (around 15%). This division also comprises the unit Corporate Insurance Partner (around 20%), the Risk Trading Unit, and our Swiss subsidiary New Reinsurance Company Ltd. (New Re) (around 15%).

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

Our Risk Trading Unit places insurance risks on the capital and retrocession markets. We mainly provide the unit's services to clients, but also use them for our own purposes in order to buy retrocession cover on the basis of our defined risk strategy. We placed three transactions with investors in 2014: there were two client transactions amounting to €190m and US$ 250m, and an internal securitisation amounting to US$ 100m (Queenstreet IX).

The division's premium income declined year on year to €2,988 (3,341m). As well as reduced premium income from declining commodity prices for agricultural goods, premium development was also impacted by strict cycle management triggering falls in premium. Due to the higher major-loss expenditure in comparison with the previous year, the division's combined ratio has deteriorated to 103.1% (96.7%).

ERGO Life and Health Germany

- Decrease in overall premium income to €10.7bn, with gross premiums written down to €9.8bn
- Technical result of €144m
- Gratifying investment result of €4.5bn
- Good consolidated result of €269m

Key figures

		2014	Prev. year	Change
				%
Total premium income[1]	€m	10,730	10,981	-2.3
Gross premiums written	€m	9,812	9,987	-1.8
Share of gross premiums written by ERGO	%	58.6	59.9	
Operating result	€m	44	188	-76.6
Consolidated result	€m	269	158	70.3

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 applicable statutory accounting guidelines.

Premium

Gross premiums by business segment

In the ERGO Life and Health Germany segment, we report on German life business, German health business and German direct business.

At €10.7bn (11.0bn), overall premium income in the ERGO Life and Health Germany segment decreased by 2.3% in 2014, reflecting a decline in premium income across all three business segments. Gross premiums written also went down in the past financial year (–1.8 %). The decline in this segment was mainly attributable to lower regular premiums in life insurance and less business with the capitalisation product MaxiZins.

Result

Decreased technical result of €144m

The technical result in the ERGO Life and Health Germany segment was €144m (383m). The fall is partly due to higher benefits in life and health insurance. At €4.5bn (3.8bn), the investment result developed favourably, one of the positive contributing factors being a higher balance from write-ups and write-downs, mainly due to write-ups of interest-rate derivatives. The drop in our technical result was the main reason for the decreased operating result of €44m (188m). The consolidated result climbed by 70.3% to €269m (158m). It includes a positive result contribution that is significantly attributable to an anticipated tax refund. The main reason for this is a 2014 court decision at the highest instance that clarifies contested legal issues dating back to the time of introduction of the "half-income method". It is expected that the refund of taxes paid will be in the three-digit million euro range.

Development of premium income and results by segment

Life Germany

Key figures

	2014	Prev. year	Change
	€m	€m	%
Total premium income[1]	4,363	4,537	–3.8
Gross premiums written	3,553	3,706	–4.1
Technical result	–160	–50	–220.0
Operating result	53	–119	–

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 applicable statutory accounting guidelines.

Life Germany encompasses German life insurance with the exception of direct insurance business.

At €4.4bn (4.5bn), overall premium income in German life business was down 3.8% on the previous year. Gross premiums written were down by 4.1% to €3.6bn (3.7bn). The decrease was due especially to lower regular premium volume. By contrast, single-premium business increased by 1.4%, partly due to new business growth in company pension business. New business (regular premium) was down by 12.3% to €207m (236m). As in 2013, persistently low interest rates again created a difficult market environment in the past financial year. New business decreased slightly by 1.6% overall. In terms of annual premium equivalent (APE, i.e. regular premium income plus one-tenth of single-premium volume), which is the performance measure customary among investors, new business was down by 8.8%.

ERGO has been marketing the new generation of life insurance products in two variants since July 2013. In the financial year 2014, these products accounted for 67% of annuity policies ERGO sold in private-client business not sponsored by the state.

New business Life Germany

	2014	Prev. year	Change
	€m	€m	%
Regular premiums	207	236	–12.3
Single premiums	848	836	1.4
Total	**1,055**	**1,072**	**–1.6**
Annual premium equivalent[1]	292	320	–8.8

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

The technical result showed a reduction to –€160m (–50m) compared with the previous year. The negative development was due in particular to much higher benefits and lower premium income. The result was also reduced by the reserve set aside for possible repayment claims as a consequence of the decisions by the Court of Justice of the European Union and the German Federal Court of Justice regarding policyholders' right to withdraw from life insurance policies concluded under the policy model. In the past financial year, the investment result totalled €2.9bn (2.3bn). This improvement was largely attributable to higher net gains on derivatives, mainly due to write-ups of interest-rate derivatives. The improvement in our investment result was one of the main reasons for the increased operating result of €53m (–119m).

Health Germany

Key figures

	2014	Prev. year	Change
	€m	€m	%
Total premium income	5,250	5,288	–0.7
Gross premiums written	5,250	5,288	–0.7
Technical result	220	360	–38.9
Operating result	–88	240	–

In Health Germany, we report on domestic health insurance with the exception of direct insurance business. Our worldwide travel insurance activities are also included under this category. Approximately 92% of the premium income in Health Germany derives from health insurance, and around 8% from travel insurance.

At €5.25bn (5.29bn), premium income for the financial year 2014 was only slightly lower (–0.7%) than in the previous year. Premiums for 2014 showed 0.7% year-on-year growth in supplementary health insurance and fell by 0.8% in comprehensive health insurance. In comprehensive health business, premium growth was mainly impacted by two effects: the falling number of insureds, and low premium adjustments benefiting our customers as at 1 April 2014. New business in comprehensive health insurance declined year on year (–19.6%) as a result of a difficult market environment. We also saw a decline in new business in supplementary health insurance (–2.6%).

In travel insurance, which we account for in our Health Germany field of business and write in Germany and abroad, premium volume totalled €433m (448m) and was thus below the level of the previous year (–3.3%). German business expanded by 9.2%, whilst international business shrank by 22.9%.

The technical result totalled €220m (360m). The decline is mainly attributable to higher benefits due to the participation of our policyholders in the anticipated tax refund. At €1.4bn (1.3bn), the investment result was gratifyingly high, one positive contributing factor being an increased result from disposals. The significantly decreased operating result of –€88m (240m) was also attributable to the participation of our policyholders in the anticipated tax refund. Without the effect of the afore-mentioned tax refund, the technical result would have been significantly higher and the operating result would have been positive.

German direct business

Key figures

	2014	Prev. year	Change
	€m	€m	%
Total premium income[1]	1,117	1,156	–3.4
Gross premiums written	1,009	993	1.6
Technical result	84	73	15.1
Operating result	79	67	17.9

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 applicable statutory accounting guidelines.

German direct business encompasses direct life, health and property-casualty insurance business transacted in Germany. Life insurance accounts for approximately 50% of the business field's premium income. Approximately 36% of the premium income derives from health insurance, and around 14% from property-casualty insurance.

Overall premium income in direct insurance declined by 3.4% to €1.1bn (1.2bn). The decline in overall premium volume was solely attributable to the drop in single premiums from the MaxiZins capitalisation product. In accordance with the low capital-market interest rates, we too lowered the interest rates for our capitalisation product and thus realised €55m less premium than in 2013. Adjusted for premiums from the capitalisation product MaxiZins, however, overall premium income would have been up on the previous year by 1.6%. Some €560m (635m) of this figure was from life insurance (–11.8%), €406m (384m) from health insurance (+5.7%) and €151m (137m) from property-casualty insurance (+10.2%). Gross premiums written increased by 1.6% to €1,009m (993m).

New business direct life Germany

	2014	Prev. year	Change
	€m	€m	%
Regular premiums	29	32	–9.4
Single premiums	131	177	–26.0
Total	**160**	**209**	**–23.4**
Annual premium equivalent[1]	42	50	–16.0

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

The technical result for the financial year totalled €84m (73m). The increase is partly attributable to lower costs combined with an increase in premiums earned. At €165m (196m), the investment result was below that of the previous year, one negative contributing factor being a diminished result from disposals. The operating result climbed by 17.9% to €79m (67m).

ERGO Property-casualty Germany

- Slight decrease in premium income to €3.1bn
- Improved combined ratio of 95.3%
- Investment result of €204m down on previous year
- Consolidated result of €176m

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	3,115	3,172	-1.8
Share of gross premiums written by ERGO	%	18.6	19.0	
Loss ratio	%	63.1	64.0	
Expense ratio	%	32.2	32.7	
Combined ratio	%	95.3	96.7	
Operating result	€m	304	291	4.5
Consolidated result	€m	176	156	12.8

Premium

In the ERGO Property-casualty Germany segment, we report on property-casualty insurance business in Germany with the exception of direct insurance business. Our main classes of business include personal accident and motor insurance. Approximately 22% of the segment's premium income derives from personal accident insurance, and around 21% from motor insurance.

Premium income decreased by an overall 1.8% to €3.1bn compared with the previous year (€3.2bn). Performance in 2014 varied from one class of business to the next: commercial and industrial business saw a 2.3% fall in premium deriving chiefly from improvement measures – mainly in industrial property insurance and in marine business. Personal lines property business showed a 4.3% year-on-year reduction in premium income, above all due to measures to enhance profitability in homeowners' comprehensive insurance. By contrast, premium volume in private third-party liability insurance attained the previous year's level. In legal protection insurance and personal accident business, we saw a general decline in premium income as against the previous year. However, premium was up by 2.4% in motor insurance.

Protection against floods is gaining in importance – not only in the vicinity of rivers. Prompted by the consequences of the flooding on the Danube and Elbe in 2013, ERGO improved insurance coverage for residential buildings in Germany and permitted insurance cover to be given even for those buildings that are situated in particularly exposed areas, i.e. in zone 4 of the ZÜRS zoning system. Since September 2014, ERGO has been offering coverage against flooding and heavy rainfall in all areas.

Result

The technical result in the ERGO Property-casualty Germany segment improved to €214m (177m). The investment result dropped year on year to €204m (238m). The decline is mainly due to the decreased net gains on derivatives. Overall, the operating result thus increased to €304m (291m) and the consolidated result to €176m (156m).

Combined ratio fell to 95.3%

At 95.3%, the combined ratio in 2014 was better than in the previous year (96.7%), particularly due to the favourable claims situation. Whilst bad weather across much of western Germany at the beginning of June caused considerable damage to buildings and motor vehicles, the effects on the combined ratio were much less pronounced than were those of the previous year's events. In the previous year, we had posted natural hazard losses from the catastrophic flooding in eastern and southern Germany, and from windstorm and hail events. Paid claims and the change in claims provisions totalling –€1,942m (–2,010m), along with net operating expenses of –€994m (–1,026m), compared with net earned premiums of €3,080m (3,139m).

ERGO International

— Increase in overall premium income to €4.2bn
— Improved combined ratio of 97.3%
— Investment result of €662m up on previous year
— Consolidated result of –€276m due to impairment of goodwill of –€445m

Key figures

		2014	Prev. year	Change
				%
Total premium income[1]	€m	4,213	3,876	8.7
Gross premiums written	€m	3,809	3,508	8.6
Share of gross premiums written by ERGO	%	22.8	21.1	
Loss ratio	%	58.5	60.8	
Expense ratio	%	38.8	37.9	
Combined ratio	%	97.3	98.7	
Operating result	€m	278	210	32.4
Consolidated result	€m	–276	94	–

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 applicable statutory accounting guidelines.

Premium

In the ERGO International segment, we bundle our life and property-casualty insurance business outside Germany. Approximately 48% of the segment's premium income derives from life insurance, and around 52% from property-casualty insurance. Our biggest markets include Poland, which accounts for approximately 28% of the premium volume, Austria (approx. 18%) and Belgium (approx. 16%).

ERGO International increased its premium income by 8.7%

In 2014, premium income totalled €4.2bn (3.9bn). This represents an 8.7% increase. Adjusted to eliminate currency translation effects, premium growth would have been even higher. Expansion was particularly strong in Poland, Austria, Belgium and Russia. Our gross premiums written amounted to €3.8bn (3.5bn).

At €2.0bn (1.7bn), overall premium income from international life insurance business increased by 20.9% year on year. The marked year-on-year increase is due in particular to growth in Poland, Austria and Belgium. Gross premiums written showed a corresponding increase to €1.6bn (1.3bn). International new life insurance business grew robustly by 60.5% to €1,051m (655m). In terms of annual premium equivalent (APE, i.e. regular premium income plus one-tenth of single-premium volume), which is the performance measure more customary among investors, however, our new business volume was up 26.7%, mainly owing to the strong growth in Poland, where new business through banks developed pleasingly.

New business Life International

	2014	Prev. year	Change
	€m	€m	%
Regular premiums	194	173	12.1
Single premiums	857	482	77.8
Total	**1,051**	**655**	**60.5**
Annual premium equivalent[1]	280	221	26.7

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

We posted premium volume of €2.18bn (2.20bn) in international property-casualty business. The decline is essentially attributable to lower premium volumes generated by our companies in Poland and Italy. In Poland, we had already posted the full premium from a major contract with a three-year term in 2013. Additionally, the difficult market conditions for Polish motor insurance are apparent from the figures. To benefit from existing synergies, our two Polish property-casualty companies were merged in 2014. Despite negative currency translation effects, particularly in Turkey and Russia, we posted gratifying premium growth of 3.1% in Turkey and 27.8% in Russia. In local currency, the growth in premium income was even more pronounced. Due to the acquisition of the property-casualty insurer ERGO Insurance in Singapore we posted an increase of €15m in gross premiums written in 2014.

In 2014, we acquired 100% of the shares in property-casualty insurer SHC Insurance Pte. Ltd (SHC) in Singapore. The company, which now operates under the name ERGO Insurance Pte. Ltd. (ERGO Insurance), offers a broad range of property-casualty insurance and generated premium equivalent to €45m in 2013. The Singapore property-casualty market has grown annually by about 10% in recent years and is profitable, its combined ratio amounting to just over 90%. Growth prospects for the next few years are also positive, making this acquisition an important element of ERGO's international growth strategy. It offers a good platform for further activities in target markets in Southeast Asia.

Result

Technical result improved to €136m

The technical result in the ERGO International segment improved to €136m (123m). In the past financial year, the investment result totalled €662m (551m). This significant improvement was largely attributable to a higher balance from write-ups and write-downs, mainly due to write-ups of interest-rate derivatives. The increased investment result was one of the main reasons for the enhanced operating result of €278m (210m). The consolidated result amounted to –€276m (94m). The decrease is due to the impairment of goodwill of –€445m.

In property-casualty business, we recorded an improved combined ratio of 97.3% (98.7%). The result improvement measures we have taken in recent years are paying off. In the financial year 2014, we achieved improvements in particular in the Netherlands, the Baltic and in Greece. Paid claims and the change in claims provisions totalling –€1,152m (–1,209m), along with net operating expenses of –€763m (–754m), compared with net earned premiums of €1,968m (1,989m).

Munich Health

- Gross premiums of €5.3bn below level of last year
- Slightly higher combined ratio of 98.8% in the year under review
- Decreased investment result of €87m
- Consolidated result down to €109m

Key figures

		2014	Prev. year	Change
				%
Gross premiums written	€m	5,342	6,551	-18.5
Share of international business in gross premiums written	%	98.6	99.0	
Loss ratio[1]	%	82.0	79.8	
Expense ratio[1]	%	16.8	18.5	
Combined ratio[1]	%	98.8	98.3	
Operating result	€m	118	168	-29.8
Consolidated result	€m	109	150	-27.3

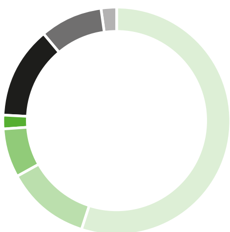
1 Excluding health insurance conducted like life insurance.

With the exception of the German health insurers belonging to ERGO, Munich Re's global healthcare insurance and reinsurance business is combined under the Munich Health brand. We offer our international clients across the world innovative insurance solutions and individual consultancy and services.

Premium

Gross premiums written were lower than in the previous year, falling by 18.5% to €5.3bn (6.6bn).

Gross premiums



Reinsurance		
North America	55%	(54%)
Europe and Latin America	12%	(9%)
Middle East/Africa	7%	(5%)
Asia-Pacific	2%	(3%)
Primary insurance		
Spain	13%	(10%)
Belgium	9%	(7%)
Other	2%	(1%)
Windsor Health Group	–	(11%)

In reinsurance, the decrease of 12.1% to €4.0bn (4.6bn) was attributable to adverse effects from the exchange rate of the Canadian dollar, and to a reduction of our share in a large-volume treaty in North America. In primary insurance, there was a decrease of 33.6% to €1.3bn (2.0bn), which was mainly due to the sale of the Windsor Health Group (WHG). By contrast, our companies in Belgium and Spain increased their premium income. If exchange rates had remained unchanged, and adjusted for the sale of WHG, Munich Health's gross premiums would have decreased by 4.6% year on year.

Result

Technical result of €77 m

At €77m (135m), the technical result was significantly below the level of the previous year, owing mainly to positive one-off effects generated by WHG in that period. This can also be seen in the fall of the operating result, which decreased to €118m (168m), and in a declining consolidated result of €109m (150m). Munich Health generated an investment result of €87m (95m). The decrease of 8.4% was attributable to lower regular income.

The Munich Health combined ratio of 98.8% (98.3%) relates only to short-term health business, not to business conducted like life insurance. Business conducted like life insurance accounted for 9.9% (7.8%) of gross premiums written in the year under review. In reinsurance, the combined ratio amounted to 99.4% (99.8%); in primary insurance, it was 95.5% (93.5%).

Investment performance[1]

— High portfolio weight of government bonds with very good credit ratings; rise in market values due to reduced interest-rate level
— Net on- and off-balance sheet unrealised gains up; at a very high level of €32.0bn
— Investment result reaches €8.0bn
— Return on investment (RoI) of 3.6%

Investment mix

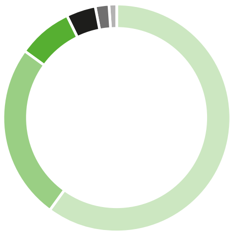
	31.12.2014	Prev. year	Change
	€m	€m	%
Land and buildings, including buildings on third-party land	3,732	3,762	–0.8
Investments in affiliated companies	274	214	28.0
Investments in associates and joint ventures	1,285	1,300	–1.2
Loans	54,550	55,245	–1.3
Other securities held to maturity	–	5	–100.0
Other securities available for sale			
Fixed-interest	129,806	113,671	14.2
Non-fixed-interest	14,037	12,231	14.8
Other securities at fair value through profit or loss			
Held for trading			
Fixed-interest	45	647	–93.0
Non-fixed-interest	45	37	21.6
Derivate	1,874	1,452	29.1
Designated as at fair value through profit or loss			
Fixed-interest	204	163	25.2
Non-fixed-interest	1	1	–
Deposits retained on assumed reinsurance	8,750	9,636	–9.2
Other investments	4,324	3,803	13.7
Total	**218,927**	**202,167**	**8.3**

2014 was marked by further declines in capital-market interest rates and risk spreads. These developments were borne up by increasing speculation on an ECB government-bond buying programme. The stock markets came under pressure at times as concerns over growth and deflation flared up, but still ended the year positively. In the period under review, the EURO STOXX 50 climbed by about 1%, the Dow Jones by 8% and the DAX 30 by around 3%. Interest rates on German government bonds in particular fell to a historic low. Yields on corporate bonds also dropped sharply owing to shrinking risk spreads.

1 Previous year's figures adjusted owing to separate disclosure of insurance-related investments.

Distribution of investments by type

Total: €219bn (202bn)



Fixed-interest securities	60%	(57%)
Loans	25%	(27%)
Other investments	8%	(9%)
Shares and equity funds	4%	(4%)
Real estate	2%	(2%)
Participating interests	1%	(1%)

We select our investments according to economic criteria and gear them to the characteristics of our technical provisions and liabilities. In addition, we use derivative financial instruments for portfolio management (especially for acquisition preparation), to hedge against fluctuations and protect against inflationary developments on the interest-rate, equity and currency markets. Volatilities on the capital markets result in changes in the values of derivatives, which under IFRS accounting we recognise in profit or loss.

The carrying amount of our investment portfolio, which continues to be dominated by fixed-interest securities, loans and short-term fixed-interest investments, was up compared with the position at the beginning of the year. At 31 December 2014, the carrying amount of our investments amounted to €218.9bn (202.2bn). Falling risk-free interest rates, credit risk spreads and the development of exchange rates led to increasing market values.

Our return on investment (RoI) rose to 3.6% (3.4%).

Off-balance-sheet unrealised gains and losses

	Fair values		Off-balance-sheet unrealised gains and losses		Carrying amounts	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Land and buildings[1]	8,647	8,353	2,491	2,172	6,156	6,181
Associates	1,796	1,721	516	430	1,280	1,291
Loans	68,950	61,316	14,400	6,071	54,550	55,245
Other securities	–	5	–	–	–	5
Total	**79,393**	**71,395**	**17,407**	**8,673**	**61,986**	**62,722**

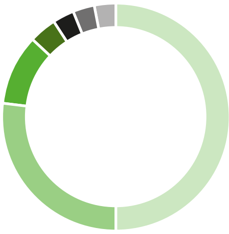
1 Including owner-occupied property.

→ An overview of the on-balance-sheet unrealised gains/losses is available in the notes to the consolidated financial statements on page 217

Our on- and off-balance-sheet unrealised gains and losses (including owner-occupied property), which could be turned into realised gains upon disposal of the relevant investments, climbed from €15.6bn to €32.0bn.

Fixed-interest portfolio by economic category[1]

Total: €207bn (184bn)



Government bonds[2]	50%	(46%)
Thereof: inflation-linked bonds	8%	(8%)
Covered bonds	27%	(29%)
Corporate bonds	10%	(10%)
Cash positions/other	4%	(5%)
Structured products (credit structures)	3%	(4%)
Bank bonds	3%	(3%)
Policy and mortgage loans	3%	(3%)

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

In the period under review, we reduced our portfolio of covered bonds and structured credit products, and invested more in government bonds.

Half of our fixed-interest portfolio is invested in government bonds. In the current financial year, we have mainly made new investments in US, Spanish, Italian and Australian government bonds. The purchase of government bonds from emerging markets is also part of our balanced investment strategy. Reductions focused on our holdings of bonds from German issuers. The vast majority of our government bonds continue to come from countries with a high credit rating. As part of our risk management, we gear our risk capital requirements and limits to the ratings of the relevant issuers, but we do not treat any credit exposure as risk-free. Approximately 45% of our government bond portfolio is made up of German and US bonds, with Italian, Spanish, Portuguese and Irish issuers accounting for 9%. We do not hold any government bonds from Greece, Cyprus or Argentina.

Covered bonds make up 27% of our fixed-interest securities. Despite a decline owing chiefly to scheduled redemptions, the emphasis remained on German pfandbriefs, with around 35%.

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

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

€bn	31.12.2014	Prev. year	Change
Government bonds			
Germany	30.6	27.9	2.7
USA	16.1	11.8	4.3
Supranational institutions[4]	7.6	6.1	1.5
Canada	5.7	5.0	0.7
UK	4.9	3.8	1.1
Italy	4.5	3.1	1.4
Austria	3.5	3.3	0.2
France	3.3	3.1	0.2
Spain	3.3	1.6	1.7
Australia	3.1	2.0	1.1
Belgium	3.0	2.5	0.5
Netherlands	2.1	2.0	0.1
Finland	1.9	1.8	0.1
Ireland	1.7	1.5	0.2
Poland	1.6	1.5	0.1
Covered bonds			
Germany	19.2	19.0	0.2
France	10.3	9.5	0.8
UK	4.7	4.8	–0.1
Netherlands	3.8	3.5	0.3
Spain	3.4	3.0	0.4
Sweden	3.2	3.1	0.1
Norway	3.1	2.9	0.2
Ireland	1.7	1.7	–
Denmark	1.5	1.4	0.1
Corporate bonds			
USA	8.1	7.8	0.3
Netherlands	1.9	2.0	–0.1
UK	1.9	1.7	0.2
France	1.7	1.6	0.1

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

Our portfolio of government bonds, covered bonds and corporate bonds has a good rating structure: As at 31 December 2014, approximately 84% were rated AAA to A.

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

€bn	AAA	AA	A	BBB	Lower	No rating	Total
Germany	23.0	18.2	1.5	0.5	0.1	0.1	43.4
USA	15.8	0.9	3.1	3.5	1.0	–	24.3
France	5.7	6.4	0.5	0.9	0.2	–	13.7
UK	4.1	5.0	0.6	1.2	0.1	–	11.0
Supranational institutions	4.5	2.9	–	–	–	–	7.4
Netherlands	4.8	0.6	0.6	0.8	0.3	–	7.1
Canada	2.0	3.1	1.5	0.2	0.1	–	6.9
Spain	–	–	2.0	4.1	0.8	–	6.9
Italy	–	–	0.7	4.9	0.2	–	5.8
Austria	2.5	1.3	0.1	0.1	0.4	–	4.4
Australia	3.2	0.9	0.1	–	–	–	4.2
Ireland	–	–	3.3	0.1	0.1	–	3.5
Sweden	2.6	0.1	0.1	0.1	–	–	2.9
Norway	2.8	0.1	–	–	–	–	2.9
Belgium	–	2.4	0.4	–	–	–	2.8
Finland	1.5	0.8	–	–	–	–	2.3
Poland	–	–	1.6	–	–	–	1.6
Denmark	1.4	–	–	0.1	–	–	1.5
Other	1.0	2.5	3.3	5.8	1.0	–	13.6
Total	**74.9**	**45.2**	**19.4**	**22.3**	**4.3**	**0.1**	**166.2**

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

The rating categories are based on those of the leading international rating agencies.

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

€bn	Carrying amounts
Up to one year	11.2
Over one year and up to two years	11.4
Over two years and up to three years	12.8
Over three years and up to four years	10.3
Over four years and up to five years	12.9
Over five years and up to ten years	47.8
Over ten years	59.8
Total	**166.2**

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

Our investment in bank bonds is limited and at the reporting date amounted to 3% of our portfolio of fixed-interest securities. Financial instruments from states in southern Europe and Ireland make up 6% of the portfolio. Most of our bank bonds (81%) are senior bonds, i.e. bonds that are not subordinated or subject to loss participation. Subordinated bonds and loss-bearing bonds made up 19% of our bank bond holdings.

Fixed-interest securities: Bank bonds[1]

%	31.12.2014	Prev. year
Senior bonds	81	84
Loss-bearing bonds	5	5
Subordinated bonds	14	11

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

Our portfolio of structured credit products at market value sank to €6.0bn (7.1bn). This asset class involves securitised receivables (asset-backed securities or mortgage-backed securities), e.g. securitisations of real estate finance, consumer credit or student loans. Around 56% of our portfolio of asset- and mortgage-backed securities have a rating of AAA.

Due to the very low levels of interest rates, in reinsurance we brought the duration of our fixed-interest investments down closer to the lower duration of our technical liabilities, thereby decreasing our interest position on the assets side. At the end of the year, the interest-rate sensitivity of fixed-interest investments in reinsurance was slightly above the duration of the technical liabilities.

In primary insurance, the durations of fixed-interest investments have diverged from those of the technical liabilities. In an environment of falling interest rates, the duration of technical liabilities increased more strongly than for fixed-interest investments.

As a result of the reduced interest position in reinsurance, the compensatory effect between the reinsurance and primary-insurance interest positions at Group level decreased. Together with the changed duration position in primary insurance, at Group level this leads to a year-on-year increased exposure to falling interest rates.

Equity ratio increases slightly to 5.2%

The carrying amount of our equity portfolio (before taking derivatives into account, and including investments in affiliated companies, associates and joint ventures at market value) rose in the course of the year. Our equity-backing ratio amounted to 5.2% (4.8%). The derivatives used to hedge our equity portfolio were increased. Including hedges, our equity-backing ratio was 4.3% (4.6%). Besides this, we are protecting ourselves against accelerated inflation in an environment of continuing low interest rates. For this, we hold inflation-linked bonds with a market value of €8.5bn (6.8bn) and inflation-linked swaps with an exposure of €5.9bn (4.4bn). We are suffering losses of market value here due to particularly low inflation rates. Real assets like shares, property, commodities, and investments in infrastructure, renewable energies and new technologies also serve as protection against inflation. Additionally, our investments in real assets have a positive diversification effect on the overall portfolio.

Investment result[1]

	2014	Return[2]	Prev. year	Return[2]
	€m	%	€m	%
Regular income	7,203	3.2	7,421	3.5
Write-ups/write-downs of non-derivative investments	–234	–0.1	–436	–0.2
Gains/losses on the disposal of non-derivative investments	2,629	1.2	1,759	0.8
Net gains on derivatives	–1,068	–0.5	–985	–0.5
Other income/expenses	–528	–0.2	–514	–0.2
Total	**8,002**	**3.6**	**7,245**	**3.4**

1 Details of the result by type of investment are shown on page 259 f. in the notes to the consolidated financial statements.
2 Return in % p.a. on the average market value of the investment portfolio at the quarterly reporting dates.

In the 2014 financial year, regular income fell slightly against the previous year, despite the increased value of the investment portfolio. Our reinvestment return was 2.1% (2.4%). Higher dividend earnings only partially offset the lower interest payments from fixed-interest securities. Due to the decline in interest rates in the past financial year, yields on new investments remain far lower than the average return on our existing portfolio of fixed-interest investments.

In the past financial year, we posted net write-downs of –€234m (–436m) on non-derivative investments, particularly on our share portfolio. The main reason for the lower write-downs is the write-downs we made on our portfolio of physical gold in the previous year.

In the 2014 financial year, through active asset management we posted net gains of €2,629m (1,759m) on the disposal of non-derivative investments. These derive primarily from our portfolio of fixed-interest securities – most notably on government bonds – and equities. The year-on-year improvement in our result from disposals was due chiefly to higher gains realised on fixed-interest securities and equities.

In the past financial year, we posted a negative balance totalling –€1,068m (–985m) from write-ups and write-downs of derivatives and losses on the disposal of derivatives. The adverse effects resulted mainly from equity, inflation and commodities derivatives. Losses on inflation and commodities derivatives were up on the previous year. The gains on interest-rate derivatives (particularly from ERGO’s interest-rate hedging programme) had a positive effect on the result.

Financial position

- Increase in equity, especially due to rise in reserve for currency translation adjustments and improved net unrealised gains and losses on investments
- Further reduction in debt leverage
- Group capital around 3.1 times the legal solvency requirement

Financial strength

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

Financial strength ratings for Munich Re

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

Analysis of our capital structure

Our primary insurance and reinsurance operations have a significant influence on our balance sheet: as we have consistently geared our Group toward value creation in its core business, investments on the assets side of the balance sheet serve to cover technical provisions (75% of the balance sheet total). Equity (11% of the balance sheet total) and bonds classified as strategic debt (2% of the balance sheet total) are the most important sources of funds.

Group equity

Development of Group equity

	31.12.2014	Prev. year	Change
	€m	€m	%
Issued capital and capital reserve	7,417	7,426	–0.1
Retained earnings	13,005	12,841	1.3
Other reserves	6,458	2,374	172.0
Consolidated result attributable to equity holders of Munich Reinsurance Company	3,153	3,304	–4.6
Non-controlling interests	271	243	11.5
Total	**30,304**	**26,188**	**15.7**

The increase in equity was attributable not only to the consolidated result but also to a rise the reserve for currency translation adjustments and to higher net unrealised gains, which derived mainly from our fixed-interest securities available for sale. Above all, the equity was reduced by the dividend payment and share buy-back programme.

Strategic debt

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

Debt leverage

		31.12.2014	Prev. year	Change
		€m	€m	%
Strategic debt		4,757	4,734	0.5
Group equity		30,304	26,188	15.7
Total		**35,061**	**30,922**	**13.4**
Debt leverage	%	13.6	15.3	

The composition of our subordinated liabilities can be found in the notes to the consolidated financial statements on page 236 f.

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 €743m and the debt leverage amounts to only 2.4%.

Technical provisions

Reinsurance business accounts for approximately 32% of technical provisions, around 67% comes from primary insurance and about 1% is from Munich Health. In contrast to liabilities under loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will arise. This is especially true of reinsurance. Whereas in property insurance a major portion of the provisions is generally paid out within two to three years, in life or liability insurance substantial amounts may still be due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and the British pound sterling.

Restraints on disposal

Information on contingent liabilities is provided on page 287 f. in the notes to the consolidated financial statements

Since we are an international (re)insurance group, some of our financial resources are subject to restraints on disposal. Supervisory authorities in some countries, for example, require foreign reinsurers to establish premium and reserve deposits to the benefit of primary insurers, or set up trustee accounts or guarantees with certain financial institutions. At the reporting date, this involved investments with a volume of €8.4bn (8.4bn). In addition, there were contingent liabilities.

Asset-liability management

More details on ALM as a tool of corporate management are available on page 41 f.

The structure of our technical provisions and other liabilities is the basis for Munich Re's investment strategy, the main focus of which is asset-liability management (ALM). With ALM, we aim to ensure that macroeconomic factors influence the value of our investments and that of our technical provisions and liabilities in the same way. This stabilises our position against capital market fluctuations. For this purpose, we mirror important features of the liabilities, such as maturity patterns, currency structures and inflation sensitivities, on the assets side of the balance sheet by acquiring investments with similar characteristics where possible.

In this approach, any deviations from the structure of our liabilities are made consciously, taking due account of our risk tolerance and the achievable risk spreads. These have the purpose of generating income in excess of the expected return on funds required to meet the liabilities. Therefore, we measure investment risks incurred not only in absolute terms, but also in relation to changes of values in our liabilities. In terms of currency positioning, exchange-rate fluctuations thus affect assets and liabilities in equal measure as a result of this approach. Currency translation losses on assets are largely offset economically by currency translation gains on underwriting liabilities, although owing to accounting regulations that are imperfect from an economic perspective, this relationship is not always adequately reflected in the financial statements. To a limited extent, we also align our investment portfolio in such a way that it increases in value in line with rising inflation rates. To achieve this, we invest in inflation-sensitive asset classes such as inflation-linked bonds and inflation-linked swaps, as well as in real assets.

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

Capital management

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

The adjustments are described on page 133 f.

We derive our economic equity from IFRS equity by means of various adjustments. We return surplus capital to equity holders mainly through attractive dividends, within the scope permitted by the revenue reserves of the Group parent, Munich Reinsurance Company, as determined under German commercial law, and provided this does not impair our strategic flexibility or overall capital strength. Furthermore, in addition to dividend payments, we still generally consider share buy-backs an important instrument of active capital management. In March 2014, we announced another buy-back programme for up to €1bn by the 2015 Annual General Meeting. By 25 February 2015, we had repurchased shares with a value of €866m. Including dividend payouts and the share buy-backs from 2006 to 2014, we have been able to return over €17.4bn to our shareholders since 2006.

In the financial year 2014, Munich Reinsurance Company generated net retained profits of €1,340m according to German GAAP accounting. Including these net retained profits, the Company's revenue reserves amounted to €3,179m (3,812m) as at the balance sheet date. The shareholders' equity of Munich Reinsurance Company as determined under German GAAP accounting is protected effectively against the risk of loss arising from a random accumulation of losses by a claims equalisation provision totalling €9.1bn. Given this robust capitalisation according to all calculation methods, we intend – subject to the approval of the Annual General Meeting – to pay our shareholders a dividend that is €0.50 higher than in the previous year at €7.75 per share, or a total of €1.3bn, from Munich Reinsurance Company's net retained profits for the financial year 2014.

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

Composition of the subscribed capital

As at 31 December 2014, Munich Reinsurance Company's share capital of €587,725,396.48 was divided into 172,942,618 registered, no-par-value, fully paid shares. The rights and obligations deriving from these shares follow from the applicable statutory requirements and the Company's Articles of Association. With respect to the Company, the only parties deemed shareholders pursuant to Section 67 of the Stock Corporation Act are those entered as such in the Company's register of shareholders.

Restrictions on voting rights or the transfer of shares

The listed registered shares are subject to transfer restrictions. The issuing of restrictedly transferable registered shares by Munich Reinsurance Company dates back to the Company's foundation in 1880. Restricted transferability means that these shares may be transferred to another holder only with the Company's consent, which, according to Article 3 (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. Contractual agreements are in place with the members of the Board of Management providing for two- or four-year minimum holding periods for the shares of the Company they have to purchase as part of share-based remuneration programmes.

→ Information relating to the remuneration report can be found on page 49 ff.

Each share carries one vote at the Annual General Meeting and determines the shareholders' participation in the Company's profit. This excludes own shares held by the Company, from which it enjoys no rights. In the cases specified in Section 136 of the Stock Corporation Act, voting rights from the shares concerned are excluded by law. If shareholders are entered under their own name for shares which belong to a third party and exceed at this time the upper limit of 2% of the share capital as stated in the Articles of Association, pursuant to Article 3 (5) of the Articles of Association, the shares entered shall not carry any voting rights.

Shareholdings exceeding 10% of the voting rights

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

Shareholdings exceeding 10% of the voting rights

%	Direct holding	Indirect holding
Warren E. Buffett, USA	0,053	10,191
Berkshire Hathaway Inc., Omaha, USA		10,191
OBH LLC, Omaha, USA		10,191
National Indemnity Company, Omaha, USA	10,191	

Warren E. Buffett and the aforementioned companies in his group informed us in a letter dated 15 October 2010 that the objective of the investment is to generate trading profits and not to implement strategic objectives. In a statement from February 2015, Berkshire Hathaway Inc. reported that its participation in Munich Reinsurance Company as at 31 December 2014 was around 20 million shares, equivalent to an 11.6 % share of the voting rights. We have not been notified, nor have we otherwise learned, of any further changes.

Shares with special control rights

There are no shares with special control rights.

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

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

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

The legal parameters for the appointment and dismissal of members of the Board of Management are specified in the Company's co-determination agreement, Articles 13 and 16 of the Articles of Association, Sections 84 and 85 of the German Stock Corporation Act (AktG), and Section 121a (1) and (7a) of the German Insurance Supervision Act (VAG). Munich Re's co-determination agreement and Articles of Association follow the legal tenets of the German Co-Determination Act (MitbestG). Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. The Board of Management currently comprises nine members. The Supervisory Board appoints the members of the Board of Management pursuant to Section 84 of the Stock Corporation Act and may dismiss them at any time for good cause. On initial appointment, members of the Board of Management are usually given contracts for a term of between three to five years, and extensions of up to five years are possible. For the appointment or dismissal of members of the Board of Management, Article 13 (3) of the Articles of Association stipulates a two-thirds majority of the votes cast on the Supervisory Board. If the requisite majority is not obtained in the initial resolution, the appointment or dismissal of the Board of Management requires a simple majority of the votes cast. The second resolution is only possible following a suitable period of reflection and after the issue has been dealt with in the competent committee, but is thereafter also possible by written consent in lieu of a meeting. In exceptional cases, members of the Board of Management may also be appointed by a court of law, pursuant to Section 85 of the Stock Corporation Act.

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

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

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

→ The complete text of the authorisations mentioned is provided in the agenda of the Annual General Meetings mentioned on our website at www.munichre.com/hv/archive. Munich Reinsurance Company's Articles of Association are also available on the internet at www.munichre.com/articles-of-association

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

— On 30 April 2014, the Annual General Meeting authorised the Company, pursuant to Section 71 (1) no. 8 of the Stock Corporation Act, to buy back shares until 29 April 2019 up to a total amount of 10% of the share capital. The shares acquired, plus other own shares in the possession of the Company or attributable to the Company in accordance with Section 71a ff. of the Stock Corporation Act, may at no time amount to more than 10% of the share capital. In accordance with the provisions of the authorisation, the shares may be acquired in various ways. The Company may buy back shares amounting to a maximum of 5% of the share capital using derivatives. The Board of Management is authorised to use shares thus acquired for all legally permissible purposes, in particular those specified in the authorisation, whilst excluding subscription rights. Among other things, the Board of Management is empowered under Section 71 (1) no. 8 of the Stock Corporation Act to retire the shares without requiring further approval from the Annual General Meeting. By resolution of 20 March 2014, the Board of Management decided to utilise this authorisation to acquire own shares. Around 4.4 million shares had been acquired by 31 December 2014 at a purchase price of €694m.

— 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 (3) of the Articles of Association (Contingent Capital 2010).

— Under Article 4 (1) of the Articles of Association, the Board of Management is authorised, with the consent of the Supervisory Board, to increase the Company's share capital at any time up to 24 April 2018 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase 2013). In accordance with the above-mentioned provisions of the Articles of Association, it may exclude subscription rights.

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

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

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

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

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

Group solvency

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

Furthermore, Munich Reinsurance Company as the parent has introduced suitable control methods and – when reporting to the German Federal Financial Supervisory Authority (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 around 3.1 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 around 3.1 times higher than the legal requirement.

Adjusted solvency

		31.12.2014	Prev. year	Change
				%
Eligible capital of the Group	€bn	30.6	26.2	+17.1
Adjusted solvency ratio	%	307.9	262.4	

The adjusted solvency ratio increased from 262.4% in the previous year to 307.9% in 2014. The increase was due mainly to the higher IFRS equity.

Analysis of the consolidated cash flow statement

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

Consolidated cash flow statement

	2014	Prev. year	Change
	€m	€m	%
Cash flows from operating activities	7,527	2,187	244.2
Cash flows from investing activities	–4,939	292	–
Cash flows from financing activities	–2,694	–2,558	–5.3
Cash flows for the financial year	**–106**	**–79**	**–34.2**

In the consolidated cash flow statement, the consolidated profit of €3,171m is used as the starting point for determining the cash inflows from operating activities. The consolidated result is adjusted by €5,193m to take account of the higher technical provisions. The net gains on the disposal of investments – which in adjusting the consolidated profit have to be deducted from the cash flows – are essentially attributable to the disposal of securities available for sale and to derivatives.

Outflows from investing activities were determined by payments for purchasing investments. They exceeded the inflows from the sale and/or maturity of investments by €4,431m.

In the financial year 2014, Munich Re acquired 100% of the voting shares in SHC Insurance Pte. Ltd. (SHC), Singapore for approx. €69m. In the cash flow statement, we have reduced the sales price by the cash held by the company acquired.

The cash outflows for financing activities stem mainly from the dividend payment in 2014 and the share buy-back programme.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – rose by €92m (including currency effects) to €2,912m. There were items pledged as security and other restrictions on title amounting to €15m (26m).

Stakeholders

- Client orientation offers both traditional and innovative solutions
- Constant, open communication with all stakeholders
- Targeted development of our staff in light of changing markets and conditions
- Expansion of Group-wide environmental management

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

Clients and client relationships

Munich Re has different client bases in reinsurance and primary insurance.

In reinsurance, we do business with over 4,000 corporate clients from more than 160 countries. ERGO serves over 35 million (mainly private) clients in over 30 countries, with the focus on Europe and Asia. The Munich Health business segment has over six million clients in primary insurance and around 400 in reinsurance. In Germany, our asset manager MEAG offers its competence not only to well over 100,000 private investors, but also to over 50 institutional investors outside the Group, e.g. insurers, utilities, pension funds, church organisations, foundations, local authorities and industrial enterprises.

We want to have the best possible understanding of our clients and their risks, and to develop and offer them customised insurance solutions. Therefore, we need to be close to our clients to understand their needs and to give them comprehensive advice. All three business fields focus particularly on close consultation and successful cooperation with our clients and sales partners with the objective of offering them optimum solutions. We want to be a competent, reliable and transparent partner, whom they can trust.

Reinsurance

We offer our clients the full range of underwriting products

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

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

Client managers are responsible for determining clients' needs as precisely as possible and offering tailor-made solutions and support. To this end, we bring all our knowledge and innovative strength to bear and do not shy away from taking unusual approaches – true to our claim NOT IF, BUT HOW. We regularly assume a pioneering role in new coverage concepts, such as preparing European cedants for the introduction of Solvency II. We reach new client groups through our operating field Risk Solutions, where we provide customised solutions for corporate clients and industrial firms. Predominantly in North America, but also in the Asia-Pacific region, we generate business via managing general agencies (MGAs). Beyond this, our target groups include public-private partnerships and insurance pools. With branches and subsidiaries around the world, we ensure that our clients can always find us where they need us.

Changed parameters generate demand for new insurance solutions
Economic growth and changes in the areas of technology, climate, society and politics mean that entirely new areas of risk are arising worldwide, and these can be covered with the help of innovative insurance solutions. We develop complex customised solutions together with our clients, and extend the frontiers of insurability with innovative products, such as coverage for cyber risks, business interruption, and reputational risk.

ERGO

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

You will find the ERGO customer report for 2014 at www.ergo.com/en/Unternehmen/Overview/Understand

ERGO's brand proposition "To insure is to understand" expresses the primary insurance group's aim of focusing systematically on customers' actual requirements, with an approach that sets it apart from the competition. We report annually on the implementation of the brand proposition in the ERGO customer report, which was published for the third time in May 2014.

In keeping with this motto, ERGO is developing new solutions to respond to new trends and client expectations. In particular, ERGO is expanding its services in a targeted manner to meet the needs of the growing number of internet-savvy consumers, using its many years of experience in direct sales. Since 2014, it has also been possible, in addition to private liability insurance, to select personal accident insurance from a modular structure and to make the application online. Further products are to follow. Since September 2014, ERGO Direct clients have been able to take out term life insurance by completing health questionnaires with an electronic signature.

In light of increasing severe weather events, in 2014 ERGO responded to the demand for flood insurance in risk areas with a new homeowners' comprehensive insurance product line. It offers flood protection insurance in all areas of Germany, so that even homeowners in areas with extreme exposure to flooding are able to take out insurance.

ERGO relies on feedback from consumers in order to constantly optimise its products. Listening to their opinions is an integral part of the process of developing new products. The ERGO Customer Advisory Board and ERGO's Customer Workshop on the internet are also a way of maintaining ongoing dialogue with its customers. In April 2014, responsibility for the most important client processes was pooled in the new customer and sales division.

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

Munich Health

Munich Health offers its expertise to a broad spectrum of clients

Munich Re's global healthcare insurance and reinsurance expertise is combined under the Munich Health brand, enabling a very broad spectrum of clients to be served. Munich Health devises integrated solutions tailored precisely to clients' needs in order to tap the strongly growing business potential in each market. Increasing digitalisation of our interaction with clients provides us with further tools for offering even more customised solutions in the future. In primary insurance, we offer individual policies (for private individuals) and group policies (e.g. for companies, employees or public servants). In some cases, brokers provide assistance with selling products and client care. For providers that do not operate their own health business, such as banks, Munich Health develops health insurance products and handles their administration. Munich Health's comprehensive core expertise in the health sector flows into the development of global offerings to meet current client requirements and address new trends. These include services for the management of severe medical conditions, and support in the standardisation and automation of processes.

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

Our clients can also outsource all elements of their business operations to Munich Health – from claims handling to management of medical networks (hospitals, medical centres, etc.). Our MedNet service units act as specialist Third Party Administrators (TPAs), particularly in the Middle East and southern Europe.

Asset management

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

→ Information on our asset-liability management is available on page 41 f.

MEAG's investment experts adopt a stringent, risk-based approach with the aim of generating excess return – for the same risk – compared with the requirements of their clients within the Group and externally. Munich Re's insurance units derive their asset management targets from their payment obligations in their core business (asset-liability management) and also specify their risk and return preferences.

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

Staff

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

One cornerstone of this strategy is uniform succession planning across the entire top management level of the Group. There is systematic development towards defined target positions based on coordination across business-field boundaries. The resulting transparency also improves the use of internal potential.

Rotation and exchange programme promotes practical experience and knowledge transfer

Rotation of managers and staff members within the Group supports the pooling of expertise and the transfer of knowledge. Depending on business requirements, these changes take place on the basis of flexible models – as exchanges, for extended periods and also on a project basis. We continued and expanded the initiative launched in reinsurance in the previous year to promote job changes to other areas and business fields and to other countries as part of the staff development process. This is intended to enhance both professional expertise and intercultural competences.

Munich Re's position as a knowledge leader is promoted by the systematic development of outstanding specialists in business-relevant knowledge areas. One key element of this is a wide range of up-to-date seminars and workshops. Internal training events provided by our in-house experts are an invaluable resource, especially with respect to fast-developing current topics such as the implementation of Solvency II. Whether by means of online training, internal conferences or traditional seminars, the communication of current developments ensures that our knowledge base is kept up-to-date and comprehensive.

The extensive development of the management culture and competences is the focus of the two-year initiative "ERGO – Focus on Leadership" launched in the autumn of 2013. All of ERGO's approximately 2,300 managers in Germany are currently completing this "manager triathlon" – a mandatory, multi-stage development programme. In parallel, staff are giving systematic feedback on their managers in the form of upward appraisals. The initiative is an excellent example of our willingness to invest in the development of our staff.

A long-term and important issue for both staff and the Group is the maintenance of health. In all areas of the Group, staff benefits include measures to promote good health. Reinsurance staff in Munich are able to anonymously seek advice for professional and private crisis situations from external specialists. This Employee Assistance Programme goes beyond established internal corporate health-support initiatives. ERGO has also had a positive response to its group coaching and stress prevention training.

The challenges of today's working world are characterised by rapidly-changing trends, internationalisation, dynamic team structures, increased mobility and rapid changes in the market. Staff also want to enjoy more individuality and a better work-life balance at the various stages of their lives. In order to meet these demands, Munich Re has developed a series of new models aimed at organising more flexible working hours and locations for its staff in Munich. At the same time, the IT infrastructure and working environment is being adapted to reflect these requirements when offices are renovated or under construction. An important aim is optimising client service in conjunction with flexible recognition of staff needs. ERGO also has a number of supporting measures in place, including childcare and time out for providing care to relatives, that promote the work-life balance.

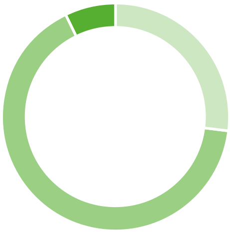
The percentage of women in management is increasing continuously

Internationality is one of the three main pillars of diversity management. In this connection, the number of international assignments, job rotations and international project teams was further increased in 2014. The Group now employs staff from more than 55 countries, and the number of employees outside Germany has once again increased in this reporting year. Another directly measurable success of diversity management is the continually increasing number of women in management positions in the Group over the past four years. This is also illustrated by the fact that in 2014, more than 40% of all new managers in our German reinsurance business were women.

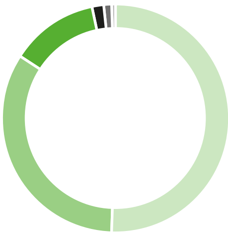
The number of staff in the Group decreased by 3.1% (1,349) in comparison with the previous year. The main reason for this was the socially acceptable implementation of ERGO's "Future of Sales" quality and efficiency initiative launched in Germany in 2012.

Staff

Total: 43,316 (44,665)



Staff by field of business		
Reinsurance	27.1%	(26.0%)
ERGO	65.9%	(67.4%)
Munich Health	7.0%	(6.6%)



Staff by region		
Germany	50.6%	(51.8%)
Rest of Europe	33.7%	(33.4%)
North America	12.4%	(11.9%)
Asia and Australasia	1.8%	(1.5%)
Africa, Middle East	1.2%	(1.1%)
Latin America	0.3%	(0.3%)

Age structure of staff

Average: 42.7 (42.5) years

Over 61	3.4%
56–60	7.5%
51–55	13.1%
46–50	16.9%
41–45	16.2%
36–40	14.3%
31–35	13.8%
26–30	11.0%
21–25	3.6%
Up to 20	0.2%

Length of service of staff

Average: 12.4 (12.1) years

Over 41	0.4%
36–40	1.6%
31–35	3.1%
26–30	5.0%
21–25	11.0%
16–20	9.9%
11–15	18.3%
6–10	18.8%
1–5	24.5%
Below 1	7.4%

Percentage of women

2014	53.9%
2013	54.1%

Percentage of women in management positions

2014	31.1%
2013	30.2%

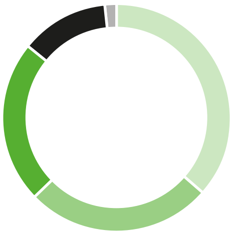
Shareholders

At the end of the year, our register of shareholders listed around 180,000 shareholders (previous year: 155,000). The vast majority of shares were held by institutional investors such as banks, insurers or investment companies; around 14.3% (12.0%) were in the hands of private investors. At around 67%, the percentage of foreign investors was at around the same level as in the previous year. Our shareholders include sustainability-minded investors, with whom we have an active dialogue.

Additional information on the stake in Munich Reinsurance Company held by Warren E. Buffett and the companies in his group is available on page 104

Our largest shareholder at the end of the year was still Warren E. Buffett, who holds a stake of around 11.6% in Munich Reinsurance Company via several companies in his group (Berkshire Hathaway Inc., OBH Inc., and National Indemnity Co.). Asset manager BlackRock is our second-largest shareholder with around 5.5%.

Regional distribution[1]



North America	33.8%
Germany	33.0%
Rest of Europe	21.4%
UK	10.3%
Other countries	1.5%

1 Percentage of share capital. Status: 31 December 2014.

Source: Munich Re share register

We strive for open communication with all capital market participants

Our corporate strategy geared to a sustained increase in value is accompanied by ongoing and open communication with all capital market participants. The main task of Investor and Rating Agency Relations at Munich Re is to cultivate contact with existing shareholders and attract new ones. At the same time, we ensure that due account is taken of our investors' opinions and preferences in internal decision-making processes. We chiefly use roadshows and investor conferences to initiate and intensify dialogue with institutional investors, our main focus being on financial centres in Europe and the USA. We regularly supplement our investor relations activities with special events, such as the analysts' meeting we organised in London on the topic of Solvency II. We also offer regular forums for focused exchanges between investors who systematically gear their investment strategy to sustainability criteria.

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 2014, 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 also sent to interested private investors on request. Many of these events are transmitted live via webstreaming. Enquiries reaching us via our shareholder hotline or by e-mail are answered promptly by our team for private investors. Additionally, the service pages of our shareholder portal on the internet provide our registered share-holders with a wide range of information and communication options.

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

Around 4,500 shareholders and shareholder representatives participated in the 127th Annual General Meeting on 30 April 2014. Some 44.3% of the voting share capital was represented in the votes. All the motions were adopted with a clear majority in each case. With online participation in the Annual General Meeting and (electronic) postal voting, Munich Reinsurance Company again offered its shareholders all the facilities for casting their votes on agenda items.

→
We report on corporate responsibility in core business on page 17 in the strategy section, on page 136 in the risk report, and on page 141 ff. in the opportunities report

Environment and society

In addition to strategic integration of sustainability aspects, the topics environment and social commitment constitute major elements of our corporate responsibility strategy.

Environment

We regulate the protection of natural resources in our companies with Group-wide environmental guidelines; these are the cornerstones of our environmental management. We have set clear Group-wide targets that must be met at both Group level and in the local business units.

In order to reduce the CO_2 emissions which arise from our business operations, Munich Re decided in 2011 to combine all its efforts in a unified approach to achieve carbon neutrality throughout the Group by 2015. In addition, we set ourselves the Group-wide target of lowering CO_2 emissions across the Group by 10% in the period from 2009 to 2015. This reduction target is being implemented in our decentralised units, and was all but achieved as at 31 December 2014. Our environmental managers and the Board members in charge of the respective divisions are responsible for ensuring that we meet our environmental targets by defining corresponding goals and objectives. If these targets are met, it also impacts on remuneration of the respective staff members and Board remuneration. We are currently revising our environmental and climate protection strategy, and will define targets for the period 2016–2020.

→
Further information on our environmental management can be found online at www.munichre.com/environment

Environmental guidelines

Another focus is protecting natural resources. We have drawn up Group-wide environmental guidelines in order to minimise our environmental impact.

Improving environmental performance
We monitor and develop our environmental measures with the aim of continually imroving environmental protection and our environmental performance in business operations.

Avoiding and reducing emissions
We avoid and reduce emissions wherever possible (from business travel, energy, water, paper and waste), establishing the highest technical standards wherever economically reasonable. We consider environmental principles while choosing materials, suppliers and service providers.

Raising staff awareness
We increase environmental awareness and the sense of responsibility of all staff members and motivate them to actively protect the environment.

Communication to stakeholders
We communicate openly and inform our stakeholders about our environmental activities and environmental performance on a regular basis. We raise awareness and share information on environmental issues where appropriate. Thus we promote a general culture of environmental protection.

Above all, the foundations of our efficient environmental management are clearly defined processes and responsibilities, and the organisation, data quality and degree of coverage of environmental data in the Group, in order to allow for comparability and evaluation of the changes. By the end of 2014, more than 75% of Munich Re (Group) employees were included in the Group-wide capture of environmental data. The vast majority of our staff work at locations that are already carbon-neutral. Seventeen of our locations have already been certified to international standard ISO 14001 and it has been demonstrated that we meet environmental management standards.

Society

Examples of our non-profit projects and information about progress can be found in our corporate responsibility portal www.munichre.com/cr-en

Our charitable commitments allow us to make a contribution to society, and these are governed by the clearly defined sponsorship guidelines set out in our corporate citizenship concept. In addition to basic assistance for social and cultural projects at corporate locations, we focus on topics that are related to our business activities. Above all, these are projects to prevent natural catastrophes, protect natural resources, and promote research and science. With this end in view, Munich Re enters into partnerships with charitable and non-profit organisations at national and international level, with the aim of establishing long-term sustainable partnerships geared to adding something of value to society. Our three corporate foundations – the Munich Re Foundation, the Dr. Hans-Jürgen Schinzler Foundation, and the ERGO Foundation "Youth & Future" – support both long-term projects and missions which show a measurable effect in meeting societal challenges and which are regularly evaluated with regard to their effectiveness. Examples of our non-profit projects and information about progress can be found in our corporate responsibility portal.

Successful projects undertaken during the past financial year include the following:

A multi-year cooperation with the Geo Hazards International (GHI) organisation to prevent losses in the north-east Indian town of Aizawl, which is strongly prone to earthquakes and landslides. The loss susceptibility of buildings and infrastructure was checked. The results enabled us to derive some specific preventive measures that were passed on to the population and political decision-makers and are now being implemented in a sustainable way.

A partnership between our companies Munich Reinsurance America and American Modern and the Institute for Business and Home Safety (IBHS). Independent experts and scientists use natural disaster and hazard scenarios to verify the safety and building standards of private and commercial buildings The results of this research are then used as recommendations for the US building commissions and regulations. This allows for damage to be prevented and minimises risks. Higher resiliency standards mean better life and asset protection for property owners.

Our involvement in a public-private partnership (PPP) created by Water Benefit Partners (WBP) and the Swiss Agency for Development and Cooperation (SDC). The participants here are committed to developing an innovative financing and certification mechanism for sustainable water projects in regions with an acute water shortage. The Water Benefit Standard (WBS) developed in the meantime quantifies and certifies the results of water projects, mainly the volume of water savings, resulting from the use of innovative technology. The savings thus achieved enable other water projects to be set up, create jobs in the medium to long term, and are therefore intended to raise income levels of the local population in the project regions.

Projects related to the issue of disaster prevention and resiliency building: the Munich Re Foundation sponsors the RISK Award in cooperation with the Global Risk Forum in Davos (GRF) and the Secretariat of the International Strategy for Risk Reduction of the United Nations (UNISDR). The award is worth €100,000, and the winners can use the money to finance an innovative disaster management project. In 2014, the award went to an interdisciplinary integration project in South America. The Chilean NGO Inclusiva developed a comprehensive concept to ensure barrier-free access across the city of Penaflor for people with physical disabilities during emergency and catastrophe situations. The results are to be published in a manual and distributed across Latin America so that other towns and local authorities can benefit from the findings.

Risk report

- Risk situation manageable and under control.
- Capital position still comfortable
- Integrated, Group-wide system for managing operational risks

Risk governance and risk management system

Risk management organisation, roles and responsibilities

Organisational structure
As required for Solvency II, Munich Re has set up an efficient risk management function (RMF) at Group level in addition to the key functions of Compliance, actuarial and Group Audit. It is part of the Integrated Risk Management Division (IRM) and reports to the Chief Risk Officer (Group CRO). In addition to the Group functions, there are risk management units in the fields of business, each headed up by its own CRO. 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 and the RMF's organisation and processes. This provides the basis for active management of the risks we incur.

Risk governance
Our risk governance maintains and fosters an effective risk and control culture, which encompasses all significant risk categories. It is supported by various committees at Group and field-of-business level.

Group level
Ensuring that risk management and risk governance systems are in place and continuously enhanced at Group level is one of the most important tasks of the Group Committee of the Board of Management.

The Group Committee meets as the Group Risk Committee, on which it is joined by representatives from the fields of business with responsibility for risk management and the Group CRO. The Group Risk Committee is responsible for ensuring that risk management and risk governance systems are in place and continuously enhanced both at Group level and in the fields of business.

The Group Investment Committee is responsible for important issues affecting the investments made by the Group and the fields of business, including the assumption and management of specific investment risks. The Committee is made up of members of the Group Committee, representatives from the fields of business and MEAG with responsibility for investments, and the Group CRO.

The Group Compliance Committee deals with compliance risks and reputation issues and risks that have arisen in the business units. This ensures that we address those risks in a uniform way throughout the Group.

Field-of-business level

We have created further committees in our fields of business with risk governance responsibilities. The Group CRO is also a member of those committees, notably the Global Underwriting and Risk Committee, which is responsible for setting up appropriate risk management processes in the reinsurance field of business and ensuring that they are followed, the Munich Health Risk Committee and the ERGO Risk Committee. Munich Re's CRO is also a member of these committees.

Determining the risk strategy

Our business strategy essentially comprises the assumption of risks. The risk strategy, which is derived from the business strategy, defines when, where, how and to what extent we are prepared to incur risks. The further development of the 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.

Risk strategy

Objectives

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

We determine our risk strategy by defining risk appetites for a series of risk criteria. These criteria are based on the capital and liquidity available and on our earnings target within specified volatility limits, and provide a frame of reference for the Group's operating divisions:

— Whole portfolio criteria relating to the entire portfolio of risks are designed to protect our capital and limit the likelihood of an economic loss for the year. Of particular importance is the economic solvency ratio, which shows the extent to which available financial resources cover economic risk capital.

— Supplementary criteria are used to limit the amount of losses incurred for individual risk types and resultant accumulations, such as natural hazards, terrorism and pandemics, and also to limit market, credit and liquidity risks that could endanger Munich Re's ongoing viability.

— Other criteria support our objective of preserving Munich Re's reputation and protecting its future business potential. These criteria encompass limits for individual risks that, though they would not threaten Munich Re's existence, could cause lasting damage to the confidence in the Group 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 proved its worth during both the financial crisis and the sovereign debt crisis. Our business model of combining primary insurance and reinsurance ensures that – even in particularly difficult markets – we are in a position to be a strong partner for our clients and a stable investment for our shareholders. With our broadly diversified portfolio of investments, we are well equipped for all market scenarios – even extreme ones – that could realistically arise.

Implementation of strategy and the risk management cycle

The risk appetite defined by the Board of Management is reflected in our business planning and integrated into the management of our operations. If capacity shortages or conflicts with our system of limits and rules arise, defined escalation and decision-making processes must be followed. These have been designed to ensure that the interests of the business are reconciled with risk management considerations. If necessary, risks are ceded or hedged by means of reinsurance, derivatives or other forms of risk relief.

Our implementation of risk management at operational level embraces the identification, measurement, analysis and assessment of risks, which provide a basis for risk reporting, limits and monitoring. Risk identification is performed by means of appropriate processes and indicators, which are complemented by expert opinions and assessments by selected, highly experienced managers. Our ad-hoc reporting process provides for staff to report risks to the central risk management function (IRM) at any time.

We are constantly refining our risk measurement tools, which are tailored to each field of business. Our internal model 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, for example, Group, field-of-business or legal entity level, or by risk type. We also regularly perform benchmarkings of our risk-model results and participate in industry surveys to constantly challenge and refine our risk measurement tools.

Risk analysis and assessment are carried out at the highest level in IRM in the form of a consolidated Group view. They are based on the analyses prepared by the fields of business. Besides this, IRM is responsible for checking and validating the analyses of upstream units, working closely with numerous areas and specialists to this end. This provides us with a quantitative and qualitative assessment that considers possible interactions between risks.

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

→ We explain the results produced by our internal risk model on page 126 ff.

We compare our internal risk model with the Solvency II standard formula and take part in stress tests (e.g. the European Insurance Stress Test).

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

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

The risk management system is audited by Group Audit, which carries out audits of various functions in accordance with its audit plan.

Control and monitoring systems

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

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

For each field of business, the ICS delivers a risk map at process level, thereby systematically linking every step in a process to the significant risks and the controls relating to them. By making our risk situation transparent in this way, we can focus on and react to weaknesses. This enables us to identify operational risks at an early stage, locate control shortcomings immediately and take effective remedial action.

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

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

The Audit Committee of the Supervisory Board regularly calls for reports on the effectiveness of the ICS and changes to the risk and control landscape from the previous year. These describe the controls applied and state whether all controls considered necessary have been correctly performed. The reports of our external auditors and Group Audit support this.

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

Appropriate internal controls for accounting risks

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

An important feature of the accounting process is timely compliance with new legal requirements in our preparation of financial statements and our reporting. By means of an accounting manual and regular circulation of information on changes required, Munich Re ensures that uniform rules are applied throughout the Group for the treatment, valuation and disclosure of all items in the balance sheet, income statement and other components of the financial statements Any amendments are subject to a prescribed procedure as regards timing, responsibilities and circulation of information.

The accounting process is to a large degree dependent on IT systems, which are subject to ongoing controls aimed at protecting against unauthorised access and guaranteeing the effectiveness and stability of the information and communication processes. A central IT solution drawing on general ledgers largely standardised throughout the Group is used to produce the consolidated financial statements. It is based on harmonised basic data, uniform processes and posting rules, and a standard interface for delivery of data to the Group or subgroup. Authorisation procedures regulate access to accounting systems. Group Audit regularly audits data management in the accounting systems to ensure that it is being performed in a proper and orderly manner.

Risk reporting

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

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

Significant risks

Our general definition of risk is possible future developments or events that could result in a negative deviation from the Group's prognoses or targets. According to our classification, significant risks are risks that could have a long-term adverse effect on Munich Re's assets, financial situation or profitability. We have applied this definition consistently to each business unit and legal entity, taking account of its individual risk-bearing capacity. There are significant risks in the following risk categories:

→ Further information on property-casualty insurance can be found in the notes to the consolidated financial statements on page 274 ff.

Underwriting risk: Property-casualty

The property-casualty risk category encompasses the underwriting risks in the property, motor, third-party liability, personal accident, marine, aviation and space, and credit classes of insurance, together with special classes also allocated to property-casualty. Underwriting risk is defined as the risk of insured losses being higher than our expectations. The premium and reserve risks are significant components of the underwriting risk. The premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions established to cover losses that have already been incurred being insufficient.

Premium risk

Line management have primary responsibility for controlling the premium risk, taking account of both the specific exposures in their business and the knowledge and experience of their staff.

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

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

Reserve risk

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

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

→ Further information on risks in life and health insurance can be found in the notes to the consolidated financial statements on page 268 ff.

Underwriting risk: Life and health

The underwriting risk 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 risks and the customer behaviour risks, for example lapses and lump-sum options. We differentiate between risks that have a short-term or long-term effect on our portfolio.

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

Changes in customer biometrics or lapse behaviour are risks that have a long-term effect on the value of a portfolio, making it necessary to adjust the actuarial assumptions. In health insurance, morbidity risks and risks linked to changes in the cost of treatment are understandably important, whereas mortality, longevity and disability risks are the most significant in life insurance. Limits are laid down for the short-term pandemic scenarios and the longer-term longevity scenarios in conformity with the risk strategy.

The information provided on underwriting guidelines and limits for property-casualty insurance also applies to life and health reinsurance. Regular reviews of the actuarial assumptions by actuaries and amendment of rating rules where necessary generally ensure that risks are effectively controlled. If there is a lasting change in the actuarial assumptions applied in health primary insurance, it is generally possible to adjust the premiums for long-term contracts.

Market risk

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

→ Information on derivative financial instruments can be found on page 218 ff.

→ Sensitivity analyses of the market-price risks associated with financial instruments can be found on page 280 f.

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

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

Credit risk

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

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

We use a cross-balance-sheet counterparty limit system valid throughout the Group to monitor and control our Group-wide credit risks. The limits for each counterparty (a group of companies or country) are based on its financial situation as determined by the results of our fundamental analyses, ratings and market data, and the risk appetite defined by the Board of Management. The utilisation of limits is calculated on the basis of credit-equivalent exposure (CEE). There are also volume limits for securities lending and repurchase transactions. Investments in asset-backed securities (ABSs) are also controlled through volume limits separate from the counterparty limit system. Group-wide rules for collateral management, for example for OTC derivatives and catastrophe bonds issued, enable the associated credit risk to be reduced. Exposure to issuers of interest-bearing securities and CDSs in the financial sector is additionally limited by a financial sector limit at Group level.

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

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

In the area of retrocession and external reinsurance related to primary insurance activities in reinsurance and at ERGO and Munich Health, we manage the default risk through the Retro Security Committee. The experts on the committee review the quality of our main retrocessionaires and reinsurance counterparties independently and on the basis of various criteria (e.g. minimum ratings, market data and capital requirements) and allocate appropriate limits for the counterparties based on underwriting guidelines laid down by the risk management function.

Operational risk

→
Information on our ICS can be found on page 120 f.

We define operational risk as the risk of losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations, and disagreements with business partners.

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

Liquidity risk

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

The management of liquidity risk includes taking account of

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

Our objective in managing liquidity risk is to ensure that we are in a position to meet our payment obligations at all times. We also optimise the availability of liquidity in the Group by means of internal funding. Through stringent requirements regarding the availability of liquidity, which also comply with supervisory rules, we ensure that every unit is able to meet its payment obligations.

Strategic risk

We define 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 fields of business in which it operates creates strategic risks, which we manage by discussing significant strategic issues and decisions in our Strategy Committee and regularly monitoring the implementation of the decisions taken. The Strategy Committee comprises the members of the Group Committee, the Chief Executive Officers (CEOs) of the fields of business and the Head of Group Development. IRM is additionally involved in the operational business planning and in the processes for mergers and acquisitions.

Reputational risk

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

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

Actual reputation issues arising out of specific incidents are evaluated in the fields of business either by their own Reputational Risk Committee (RRC) or through a comparable procedure in which the opinions of experts are obtained. A legal entity's Compliance Officer can always be consulted on any matter relating to the assessment of reputational risks.

There is also a Group Compliance Committee, which deals with compliance and reputational issues and risks at Group level, with a view to standardising the way they are handled throughout the Group. The Committee considers mainly reputational risks that have actually arisen in the business units. We have also set up the Group Corporate Responsibility Committee, which concerns itself with identifying and undertaking a general analysis of sensitive issues and defining our position on them. The assessments it makes are used as a basis for strategic decisions taken by units in the Group.

Economic risk capital

Overview of the risk situation

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

Internal risk model

We manage our business on the basis of a consolidated Group view, using an internal risk model to determine the capital needed to ensure that the Group is able to meet its commitments even after extreme loss events.

Our risk model indicates the profit and loss distribution of the available financial resources over a one-year time horizon. It is based on specially modelled distributions for the risk categories property-casualty, life and health, market, credit and operational risks.

Every risk category in reinsurance and at ERGO is shown. In the Munich Health field of business, the life and health risk categories and operational risks are shown, but not market and credit risk, which we cover through our internal risk control in reinsurance.

Key figure – economic risk capital

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

We use primarily historical data for the calibration of our internal risk model, complemented in some areas by expert estimates. Our historical data cover a long period to take account of our one-year time horizon and to provide a stable and appropriate estimate of our risk parameters. We also show the diversification effects we achieve through our broad spread across the different risk categories (underwriting, market, credit and operational risks) and our combination of primary insurance and reinsurance business. At the same time, we recognise through tail dependencies that the various risks are not independent of each other. This gives rise to a smaller diversification effect than if independence is assumed.

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

Economic risk capital (ERC)

	Reinsurance		ERGO		Munich Health	
	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
	€bn	€bn	€bn	€bn	€bn	€bn
Property-casualty	9.8	8.9	0.6	0.6	–	–
Life and health	6.2	4.4	4.8	2.1	0.5	0.5
Market	7.5	6.6	6.7	7.1	–	–
Credit	4.8	4.3	2.0	2.1	–	–
Operational risk	1.3	1.1	0.6	0.5	0.1	0.1
Subtotal	**29.6**	**25.3**	**14.7**	**12.4**	**0.6**	**0.6**
Diversification effect	-10.1	-8.5	-4.0	-2.8	–	-0.1
Total	**19.5**	**16.8**	**10.7**	**9.6**	**0.6**	**0.5**

→

	Segment diversification		Group		Change	
	31.12.2014	Prev. year	31.12.2014	Prev. year		
	€bn	€bn	€bn	€bn	€bn	%
Property-casualty	-0.4	-0.5	10.0	9.0	1.0	11.1
Life and health	-2.5	-1.2	9.0	5.8	3.2	55.2
Market	-1.7	-2.1	12.5	11.6	0.9	7.8
Credit	-0.1	-0.1	6.7	6.3	0.4	6.3
Operational risk	-0.3	-0.3	1.7	1.4	0.3	21.4
Subtotal	**-5.0**	**-4.2**	**39.9**	**34.1**	**5.8**	**17.0**
Diversification effect	–	–	-13.0	-10.4	-2.6	25.0
Total	**-3.9**	**-3.2**	**26.9**	**23.7**	**3.2**	**13.5**

The table shows Munich Re's economic risk capital and risk categories as at 31 December 2014. The economic risk capital was €3.2bn up on the previous year. The following factors contributed to the increase:

— The main reason for the rise of €1.0bn in the economic risk capital for the property-casualty category was currency translation effects, which affected both the basic loss risk and the large and accumulation loss risk. The depreciation of the euro against most of the main currencies resulted in an increase in the risk capital expressed in euros.
— The rise of €3.2bn in the economic risk capital for the life and health category was due primarily to currency effects as for the property-casualty category and to lower interest rates worldwide. The latter notably caused a significant rise in the economic risk capital for German life primary insurance, mainly due to the higher value of options and guarantees.
— The economic risk capital for market risks rose by €0.9bn. In the reinsurance field of business, the increase resulted from the globally lower interest rates and the depreciation of the euro. The risk capital decreased in the ERGO field of business, where the lower interest rates led to improved diversification between life and health insurance business.

- The economic risk capital for credit risks increased by €0.4bn, due mainly to the lower interest rates in the eurozone and the resultant rise in market values and durations. In the reinsurance field of business, the rise was more pronounced due to the depreciation of the euro against the main currencies, but reduced in the ERGO field of business by the more refined depiction of the risk-mitigating effect of profit sharing.
- The rise of €0.3bn in the economic risk capital for operational risks resulted from the dependencies between the scenarios underlying the modelling being taken into account for the first time.
- The diversification effect between the risk categories property-casualty, life and health, market, credit and operational risk increased by €2.6bn and stood at 32.6%. The main reasons for this were both the increase of €5.8bn to €39.9bn in the sum of the economic risk capital requirements for the individual risk categories, which led to a rise in the absolute amount of the diversification, and an improvement in the relative diversification effect between the risk categories as a result of their becoming closer in size.

Property-casualty
Losses with a potential cost exceeding €10m within a field of business are classified as large losses. Accumulation losses are losses affecting more than one risk (or more than one line of business). We classify all other losses as basic losses. For basic losses, we calculate the risk of subsequent reserving being required for existing risks within a year (reserve risk) and the risk of under-rating (premium risk). To achieve this, we use explicit analytical methods (in our reinsurance field of business) and simulation-based approaches (in our ERGO field of business) that are based on standard reserving procedures, but take into account the one-year time horizon The calibration for these methodologies is based on our own historical loss and run-off data. Appropriate homogeneous segments of our property-casualty portfolio are used for the calculation of the reserve and premium risks. To aggregate the risk to whole-portfolio level, we apply correlations that take account of our own historical loss experience.

We manage our risk exposure actively. This includes restricting our exposure, for example by setting limits and budgets for natural catastrophe risks, with our experts developing scenarios for possible natural events taking into account 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. Apart from natural hazard scenarios, this includes man-made losses, and the limits and budgets for accumulation losses. Our internal risk model treats the accumulation-risk scenarios as independent events.

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

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

Economic risk capital (ERC) – Property-casualty

	Reinsurance		ERGO		Segment diversification	
	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
	€bn	€bn	€bn	€bn	€bn	€bn
Basic losses	5.4	4.9	0.5	0.5	-0.3	-0.3
Large and accumulation losses	8.9	8.0	0.3	0.3	-0.2	-0.1
Subtotal	**14.3**	**12.9**	**0.8**	**0.8**	**-0.5**	**-0.4**
Diversification effect	-4.5	-4.0	-0.2	-0.2	–	–
Total	**9.8**	**8.9**	**0.6**	**0.6**	**-0.4**	**-0.5**

→	Group			
	31.12.2014	Prev. year		Change
	€bn	€bn	€bn	%
Basic losses	5.6	5.1	0.5	9.8
Large and accumulation losses	9.0	8.2	0.8	9.8
Subtotal	**14.6**	**13.3**	**1.3**	**9.8**
Diversification effect	-4.6	-4.3	-0.3	7.0
Total	**10.0**	**9.0**	**1.0**	**11.1**

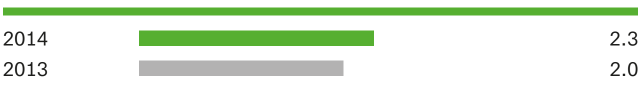
Compared to the previous year, the economic risk capital requirement for basic losses increased as a result of the depreciation of the euro against most of the main currencies and the lower interest rates.

The economic risk capital for large and accumulation losses was also higher. This was due mainly to the appreciation of the US dollar against the euro, which led to an increase in the risk in euro terms for some major natural hazard scenarios. In addition, external reinsurance cover was reduced slightly. As in 2013, the largest natural catastrophe exposure for Munich Re is the €3.4bn currently retained for the "Atlantic Hurricane" scenario (value at risk for a 200-year return period). The second-largest scenario is "Storm Europe" with a retention of €2.3bn, followed by the "Los Angeles earthquake" scenario with a retention of €1.9bn.

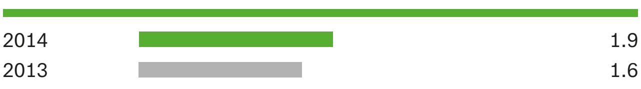
The diagrams show our estimated exposure to the peak scenarios for a return period of 200 years.

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

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



Earthquake Los Angeles
Aggregate VaR (return period: 200 years)
€bn (before tax), retained



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

Life and health

In life and health business, the risk modelling takes account of both short- and long-term developments in 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 adverse 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.

Life primary insurance products in particular, and a large part of our health primary insurance business, are long-term in nature, and the results they produce are spread over the entire duration of the policies. The adverse development of risk drivers with a long-term impact, such as changes in the forecast mortality and disablement trends, can cause the value of the insured portfolio to fall (trend risks). The risk modelling attributes probabilities to each modified assumption and produces a complete profit and loss distribution. We use primarily historical data extracted from the underlying portfolios to calibrate these probabilities and additionally apply general mortality rates for the population to model the mortality risk.

To enable us to define appropriate parameters for the modelling of the range of areas in which we operate, portfolios with a homogeneous risk structure are grouped together. We then aggregate the individual profit and loss distributions taking account of the dependency structure to obtain an overall distribution, ensuring in particular that we do not underestimate the effect of large losses that would affect various parts of the portfolio simultaneously, as would be the case for a pandemic, for example.

Market risks

Market risks are established using a scenario-based simulation calculation. The calibration of the scenarios, which depict the possible future values and dependencies of the financial instruments concerned, is based on historical weekly capital-market data (going back to 1999).

Economic risk capital (ERC) – Market

	Reinsurance		ERGO		Segment diversification	
	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
	€bn	€bn	€bn	€bn	€bn	€bn
Equity risk	4.6	5.0	1.3	1.5	-0.1	–
General interest-rate risk	3.3	2.7	4.5	4.9	-2.5	-2.5
Specific interest-rate risk	3.0	1.7	3.3	3.5	-1.1	-0.6
Property risk	1.4	1.4	0.9	1.1	-0.1	-0.1
Currency risk	2.3	1.4	0.3	0.2	–	-0.1
Subtotal	**14.6**	**12.2**	**10.3**	**11.2**	**-3.8**	**-3.3**
Diversification effect	-7.1	-5.6	-3.6	-4.1	–	–
Total	**7.5**	**6.6**	**6.7**	**7.1**	**-1.7**	**-2.1**

→

	Group			Change
	31.12.2014	Prev. year		Change
	€bn	€bn	€bn	%
Equity risk	5.8	6.5	-0.7	-10.8
General interest-rate risk	5.3	5.1	0.2	3.9
Specific interest-rate risk	5.2	4.6	0.6	13.0
Property risk	2.2	2.4	-0.2	-8.3
Currency risk	2.6	1.5	1.1	73.3
Subtotal	**21.1**	**20.1**	**1.0**	**5.0**
Diversification effect	-8.6	-8.5	-0.1	1.2
Total	**12.5**	**11.6**	**0.9**	**7.8**

Equity risk

The market value of our investments in equities, including participating interests, was €12.4bn (10.1bn) as at 31 December 2014. As at that date, on a market-value basis the ratio of equities to total investments was 5.2% (4.8%) before taking derivatives into account and 4.3% (4.6%) after derivatives. The main reason for the risk capital required for equities being lower than for the previous year was the increased use of equity options for hedging purposes.

Interest-rate risks

As a result of the significantly lower interest rates, the market values of Munich Re's interest-bearing securities and its sensitivity to movements in interest rates were higher than for the previous year.

In the reinsurance field of business, the market value of interest-sensitive investments as at 31 December 2014 was €72.3bn (64.0bn). Measured in terms of modified duration, the interest-rate sensitivity of those investments was 5.6 (4.4), while that of the liabilities was 4.6 (3.1). The change in the freely available financial resources in the event of a decrease in interest rates of one basis point would have been approximately €0.4m (4.1m),

In the ERGO field of business, the market value of interest-sensitive investments as at 31 December 2014 was €135.2bn (120.4bn). The modified duration was 8.3 (7.4) for interest-sensitive investments and 9.2 (8.1) for liabilities. Overall, we continue to have an exposure to falls in interest rates as a result of the long-term options and guarantees given in the life insurance business written. A decrease in interest rates of one basis point would have reduced the freely available financial resources by approximately €16.8m (10.3m).

The reason for the increase in the general interest-rate risk in the reinsurance field of business was the higher sensitivity to changes in the yield curve caused by the lower interest rates and the depreciation in the euro. In the ERGO field of business, the increase in risk resulting from lower interest rates was more than offset by the improved diversification between life and health insurance business, so that the general interest-rate risk decreased.

The reasons for the rise in the specific interest-rate risk in the Group were, in addition to the fall in interest rates, the increase in spread exposure and the more refined spread modelling.

Currency risk

Our underwriting liabilities are essentially covered in the currencies in which they are denominated. The currency risk was higher than in the previous year, partially as a result of the appreciation of the US dollar against the euro.

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 credit risk arising out of investments (including deposits retained on assumed reinsurance and CDSs) and the reinsurers' shares in technical provisions is calculated by individual debtor. We use historical capital-market data to determine the associated migration and default probabilities. Correlation effects between debtors are derived from the sectors and countries in which they operate, and sector and country correlations are based on the interdependencies between the relevant stock indices. We use our own historical company loss experience to calibrate the credit risk arising out of receivables. For life and health primary insurance business, we also take account of the share of the mitigating effect on the credit risk resulting from policyholders' participation in profits.

→ Information on the ratings of the securities can be found in the notes to the consolidated financial statements on page 216 ff.

The market value of our investments in fixed-interest securities and loans as at 31 December 2014 was €199.7bn (176.6bn), representing 84.7% (83.9%) of the total market value of Munich Re's investments. These securities thus made up the bulk of our portfolio.

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

Our reserves ceded to reinsurers were assignable to the following rating categories as at 31 December 2014:

Ceded share of technical provisions according to rating

%	31.12.2014	Prev. year
AAA	4.6	4.8
AA	50.0	50.3
A	40.8	36.9
BBB and lower	0.9	4.7
No rating available	3.7	3.3

The shifts are mainly due to changes in the ratings of a small number of reinsurers.

Operational risks

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

Available financial resources

We compare the available financial resources with the economic risk capital requirement. The available financial resources are based on economic valuations. Investments are essentially valued using market prices where available or justifiable parameters. The valuation of underwriting liabilities is based on a yield curve used to determine and discount future cash flows. 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 the IFRS equity with various appropriate economic adjustments.

The unrealised gains and losses not accounted for in the financial statements include economic adjustments to items in property-casualty and Munich Health that have not been measured at market value. They relate primarily to land and buildings, and to loans. We perform various valuation adjustments for property-casualty and life and health, using pure swap curves, which incorporate neither the permitted nor the required credit-risk, volatility and matching adjustments, to discount and project cash flows. Neither is the extrapolation of the yield curve to the long-term target interest rate (the ultimate forward rate – UFR) taken into account. Overall, we assume that the adjustments to the curve currently used required for Solvency II will result in a rise in the available financial resources.

In property-casualty and Munich Health, we use actuarial methods to project future claims payments, discounting estimated cash flows and adding a risk margin derived in accordance with strict economic principles.

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

In the case of our life and health business for which we show a Market Consistent Embedded Value (MCEV), we regard the embedded value as capital available to cushion risks, and hence adjust the portion not already included in IFRS equity. The MCEV also includes a risk margin determined in accordance with economic principles. To determine it, we calculate a risk-capital figure based on our internal economic risk capital model for non-hedgeable risks.

Capitalised goodwill and other intangible assets on the other hand are included in the Group's IFRS equity, but we deduct them when calculating economic equity, as they might not retain their value in crisis situations. We treat deferred tax assets recognised for loss carry-forwards under IFRS in the same way if they are not covered by an excess of deferred tax liabilities over deferred tax assets at the company concerned or in the US tax group.

Available financial resources

€bn	31.12.2014	Prev. year	Change
IFRS equity	30.3	26.2	4.1
Off-balance-sheet unrealised gains and losses	1.5	1.3	0.2
Value adjustments for property-casualty and life and health[1]	4.8	9.1	–4.3
Goodwill and other intangible assets	–3.6	–4.0	0.4
Tax effects and other	–0.1	–0.2	0.1
Economic equity	**32.9**	**32.4**	**0.5**
Hybrid capital	5.9	5.8	0.1
Available financial resources[2]	**38.8**	**38.2**	**0.6**

1 The value adjustments are mainly due to a decline in MCEV amounts in life and health insurance owing to lower interest rates.
2 The capital measures included in the available financial resources amount to €2.6bn (these mainly concern the dividend payment and share buy-backs).

Hybrid capital comprises subordinated liabilities and the funds financing new business of German life primary insurance companies. Attributable neither to shareholders nor to policyholders, they are available for the preliminary financing of new business by business in force.

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

Economic solvency ratio components

		31.12.2014	Prev. year	Change
(A) Economic equity	€bn	32.9	32.4	0.5
(B) Available financial resources	€bn	38.8	38.2	0.6
(C) Available financial resources after announced dividend and share buy-back	€bn	37.2	36.2	1.0
(D) Economic risk capital (ERC)	€bn	26.9	23.7	3.2
(B) minus (D): Economic capital buffer	€bn	11.9	14.5	–2.6
(C) divided by (D): Economic solvency ratio	%	138	153	

We report on our regulatory solvency requirement on page 106 f.

The economic solvency ratio of 138% (153%) was down by 15 percentage points on the previous year, but continues to emphasise Munich Re's financial 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 comply with the Solvency II standard, the economic solvency ratio would be 242% (267%).

A definition of RORAC is provided on page 40

The "additional available economic equity" is also relevant for the calculation of RORAC: it is the difference between the economic equity and the economic risk capital, and amounted to €6.0bn (8.7bn) as at 31 December 2014.

Selected risk complexes

Overarching accumulation risks

Global and regional economic and financial crises
Munich Re has substantial investments in the eurozone. We attach importance to maintaining a correspondingly broad diversification of investments to cover our technical provisions and liabilities in euros. We use government bonds to match our underwriting liabilities in terms of currency and duration, especially for life and health primary insurance. Growth in the eurozone stabilised in 2014, but economic uncertainty increased, further stoked for the future by the ECB's expansionary monetary policy. The spreads on government bonds of peripheral eurozone countries as compared to German Bunds have decreased further, though not in the case of Greek government bonds where there are still considerable political risks that could affect the eurozone.

The fundamental state of public finances remains critical in many countries. It is particularly difficult for national governments to reconcile the need for further budget consolidation with weak growth and high unemployment.

The low-interest-rate environment continues to present life insurance companies in the eurozone in particular with major challenges. The fluctuations in the capital markets gave rise to considerable volatility in our investments and liabilities at the valuation dates. We counter these risks with various risk management measures.

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

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

In addition to the eurozone sovereign debt crisis, international crises such as that in Ukraine continue to create uncertainty, and any consequences will primarily affect our investments. To ensure that we initiate appropriate action to counter such risks as effectively as possible, the macroeconomic evaluations, the capital-market assessments, risk management and the investment process are closely coordinated.

Pandemic

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

Climate change

Climate change represents one of the greatest long-term risks of change for the insurance industry. In our Corporate Climate Centre, we analyse and assess this risk and are developing and coordinating a holistic strategic approach. The findings are made available to all business areas, and to Corporate Underwriting and Integrated Risk Management.

We rapidly put new findings in climate research into practice

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

New and complex risks

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

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

One example of an emerging risk is cyber risk. The growing use of information technology in society and the economy is having serious repercussions. The rapid progress is changing our working life and social behaviour, and creating new conditions for industry, trade, transport, energy and raw materials. Healthcare systems, international economic and political relations and military systems are likewise changing constantly as a result of the rapid advances in IT. In our management of emerging risks, we monitor these developments very closely, at the same time both devising appropriate risk management methodologies and creating new business opportunities.

Risks arising out of environmental, social and governance issues are also systematically captured

We also systematically capture risks potentially arising out of environmental, social-responsibility and governance (ESG) issues. The Group Corporate Responsibility Committee identifies and prioritises especially sensitive issues, and commissions an analysis involving all relevant experts in the Group.

Our Group-wide network of coordinators ensures that there is an exchange of expertise and experiences in all parts of the Group – an exchange that also extends beyond the individual companies to others in the insurance industry via the Principles for Sustainable Insurance Initiative and the CRO Forum's Working Group on Sustainability.

As a consequence of increasing global dependencies and the rapid spread of technological innovations, events that test the limits of traditional scenario-based risk management are occurring frequently. Both the occurrence of an event and its potential consquences are increasingly difficult to foresee – past examples of this are the earthquake in Japan and the floods in Thailand in 2011. Not only did both natural catastrophes have a devastating impact on the population, infrastructure and economy in the affected regions, but they also hit worldwide supply chains, with 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 we have developed our Complex Accumulation Risk Explorer software (CARE). Using this method, risks and their interaction can be made more transparent and at least partially quantified. With CARE, we can improve the identification and structuring of complex accumulation risks for our own risk management and provide support for our clients, which also enables us to meet the rising demand for reinsurance of these types of risk.

Legal, supervisory, balance sheet and tax risks

Legal risks

Legal disputes

In December 2009, Munich Re's Spain and Portugal branch lodged an appeal against the Spanish antitrust authority (Comisión Nacional de la Competencia – CNC) in respect of an administrative order imposing a fine of €15.9m for alleged collusion restricting competition. The appeal was upheld. The CNC then appealed against the court's judgment within the prescribed period. We now expect to see a decision in May 2015.

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 resulting litigation, a number of investigation committees are looking into these issues. Similar questionable practices have come to light in silicosis litigation. These developments indicate that malicious liability claims are being contested in US legal circles with increasing resolve. However, it is too early to say whether and to what extent this will have favourable implications for future losses 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. Although the total number of asbestos claims is declining, the number of severe cases of mesothelioma and other types of cancer has remained relatively constant in recent years.

Former minority shareholders of ERGO Versicherungsgruppe AG are seeking to gain increased squeeze-out cash compensation by way of shareholder compensation complaint proceedings. The material risk is limited by the number of shares eligible for compensation (approx. 237,000) and the upper end of the scale within which the corporate value of ERGO Versicherungsgruppe AG as at the date of valuation can be set.

The legal actions contesting and seeking annulment of resolutions adopted at the 2012 and 2013 Annual General Meetings of Munich Reinsurance Company ended in our favour following dismissal of the complaints and rejection of the plaintiffs' appeals during the year under review.

A number of cases are pending before courts against various companies in the Ideenkapital Group, which developed closed-end funds that it marketed in particular to private investors via banks. Its portfolio includes media, property, life insurance and shipping funds. The claimants are fund investors, who for the most part are filing claims in respect of defects in prospectuses and products. The possibility of other claims being filed and the resultant reputational risks cannot be excluded.

Risk of legal changes

On 19 December 2013, the Court of Justice of the European Union (CJEU) had ruled that the limitation period for the "policy model" for life insurance within the meaning of Section 5a (2) sentence 4 of the German Insurance Contract Act (VVG) (old version) contravened European law. On 7 May 2014, the German Federal Court of Justice confirmed the judgment, according to which customers may still have a right to withdraw from an insurance contract more than a year after it has been concluded if they have not received proper instruction on that right. The same applies if they have not received the insurance terms and conditions or pertinent consumer information. Affected are life insurance policies using the “policy model” issued between 1995 and 2007. By judgment dated 17 December 2014, the Federal Court of Justice extended its ruling to cover contracts based on the “proposal model”, so that customers now have a right of withdrawal more than one month after payment of the first premium if they have not received proper instruction on that right. Affected are life insurance policies based on the proposal model or the invitation model issued from 29 July 1994 to 31 December 2007. The Federal Court of Justice has not reached a definitive decision on the legal consequences of the judgments dated 7 May 2014 and 17 December 2014. We await further rulings. The judgments cannot be applied to classes of business other than life insurance.

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

Supervisory risks

In the European Union, supervision for primary insurers and reinsurers is set to undergo profound changes with the Solvency II regulations. In particular, capital requirements will increase.

After many years of negotiation, the institutions involved in the EU legislation process (Council of the European Union, European Parliament, and European Commission) have agreed on standards which are scheduled to come into effect as at 1 January 2016 and will already impact supervisory practice before that date. The delegated acts were finalised in January 2015. The technical implementation standards are currently undergoing a public consultation phase and will be completed successively in the course of 2015. The European Insurance and Occupational Pensions Authority (EIOPA) has introduced a preparatory phase for 2014 and 2015, and published Preparatory Guidelines that include a stipulation for national supervisory authorities to bring forward the reporting requirements on selected areas. The German Federal Financial Supervisory Authority (BaFin) has substantiated the EIOPA Guidelines with further publications of its own. Implementing these will cause more extensive reporting requirements. With interest rates remaining low, the new capital requirements under Solvency II especially set a particular challenge for life insurance companies, and also for the Group. Low interest rates will mean much higher capital requirements at the level of insurance companies, whilst equity pertinent for regulatory solvency purposes will be reduced significantly. This may mean that in 2015 we will already have to provide support through intra-Group transactions or apply for statutory transitional relief for some individual units.

In the American Modern Insurance Group (American Modern), it was discovered that agents appointed by American Modern for its Financial Institutions Division had been quoting and charging some policyholders rates that were in some cases lower than, but in other cases higher than, the rates approved by the regulators. American Modern self-reported the rate deviations to the responsible regulators, and is currently in the process of completing a corrective action plan in consultation with the regulators.

→ Information on the treatment of goodwill can be found in the notes to the consolidated financial statements on page 182, and the results of the impairment tests on page 202 ff.

Balance sheet risks

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

Tax risks

As a reaction to the financial markets and sovereign debt crisis, a trend towards increased corporate tax burdens is apparent across Europe. In Germany, discussion has focused on the introduction of a financial transactions tax and the restriction of tax privileges for investment funds. After the already implemented abolition of tax exemption for free-float dividends, it is not unlikely that in future there will be taxation of gains on disposals of free-float shareholdings. Which of these ideas will actually become reality is not yet clear. Additional annual tax burdens in the lower three-digit million euro range as a result of the plans under discussion cannot be ruled out.

Regulatory developments

In February 2015, the German Bundestag passed a new Insurance Supervision Act (VAG) to translate the requirements of the Solvency II directive into national law. In addition to the Solvency II requirements, the new Act will retain many of the old rules, including in particular requirements added by the Life Insurance Reform Act in 2014 aimed at safeguarding the performance of life insurances in Germany and providing consumers with even better protection. Of particular note at European level in 2014 was the adoption of the revised financial markets directive (MiFID2) and the regulation on key information documents for investment products (PRIPs Regulation). Consultations on the European Commission's proposals on a new version of the Insurance Mediation Directive (IMD2) continue. Controversy remains, especially on the issues of transparency of remuneration and prohibitions on commission. The Scandinavian countries, the Netherlands and the United Kingdom are all seeking to establish the predominance of their own national regulatory environment across the EU. However, the German government favours minimum harmonisation that leaves room for national distribution structures.

Work is still in progress at a global level on additional supervisory requirements for systemically important financial institutions (SIFIs). Systemic importance is determined not by the fundamental significance of a sector for the economy, but by the impact the insolvency of a company could have on global financial markets and the real economy. The insurance industry believes that the core business of primary insurers and reinsurers does not give rise to systemic risk. In fact, during the financial crisis insurers contributed towards increased stability. Nonetheless, the Financial Stability Board (FSB) has published a list of nine globally operating primary insurance companies that it classifies as systemically important – the "G-SIIs" (global systemically important insurers). A review of the potential systemic importance of reinsurers has been repeatedly postponed by the FSB and is now expected to be undertaken in 2015. It is possible that the global debate will be followed by a national one. In addition, certain legal consequences could have an indirect effect on companies that are not classified as systemically important. It is, for example, to be assumed that certain aspects of a recovery and resolution plan will ultimately be prescribed for all larger insurance companies. Supervisory experts and many supervisory authorities already regard such plans as constituting an integral part of good risk management today.

In addition to the SIFI issue, the FSB and the IAIS (International Association of Insurance Supervisors) are working on a "Common Framework" (ComFrame), which is expected to become the international standard for the supervision of large insurance groups operating internationally from 2019. One of the objectives of ComFrame will be to enable the diverse activities of such groups to be captured better through efficient cooperation and coordination between regulators, leading to harmonisation of the supervisory processes worldwide. An important component of ComFrame will be a new global capital requirement – the Global Insurance Capital Standard (ICS). There are already initial thoughts on the requirement, and high-level principles have been proposed.

Summary

In accordance with the prescribed processes, our Board committees explicitly defined the risk appetite for significant risk categories in the year under review, and quantified it with key figures. We determined and documented the risk appetite across the Group hierarchy and communicated it throughout the Group. During the whole of 2014, risk exposures were regularly quantified and compared with the risk appetite. We consequently assess Munich Re's risk situation as manageable and under control.

Opportunities report

— Technical progress, demographic trends and regulatory changes offer avenues for profitable growth
— Development of emerging countries provides options for expanding and further diversifying the portfolio
— Opportunities also derive from innovative product and service solutions for our clients in key future areas such as renewable energies and weather risks

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

Munich Re's business model combines primary insurance and reinsurance under one roof. We are convinced of the future viability of traditional reinsurance. With the primary insurance activities we operate out of the reinsurance field of business and with our business fields ERGO and Munich Health, we have tapped further profitable growth opportunities. We assume risks from many different areas of private and economic life, and provide financial protection and risk management. However, surprising and unforeseen developments can never be ruled out entirely. To protect ourselves against resultant risks, we have established a sophisticated risk management system, which is described in detail in our risk report. Overall, we are well prepared to seize arising opportunities for the benefit of our Group.

Expanded business avenues will open up for Munich Re if key macroeconomic parameters develop better than expected. Stronger economic growth in the USA or Germany and a more rapid economic recovery in the eurozone or in major emerging markets would have a positive impact on the demand for insurance cover, and trigger higher premiums in most classes of insurance. Besides this, such a development could lead to a normalisation of the bond markets and thus to a gradual increase in yields, including those on US and German government bonds. This would have a negative impact in the short term on our investment result, but it would bring higher returns in the long run, thus benefiting our long-term insurance business.

Munich Re has undertaken to integrate environmental, social and governance aspects even more strongly into its core business

By signing the Principles for Sustainable Insurance (PSI), Munich Re has undertaken to integrate environmental, social and governance aspects (ESG aspects) even more strongly into its core business. The consideration of these aspects and hence a broadened view of potential risks is becoming increasingly important for our clients. Owing to Munich Re's competence in this field, we have the capacity to offer our clients even better assistance – for instance, through innovative coverage concepts and risk management services. As a precondition for entering into business relations with Munich Re, some clients now expect us to prove that we have strategic alignment concepts that are responsible and future-oriented. A number of international cooperation agreements were concluded only because we had these established structures in place.

Other trends and upheavals with an impact on our clients' demand for insurance and on supply include technological progress, in particular the key future issue of digitalisation, demographic shifts, and changes in the legal and regulatory environment. Given our good capitalisation and high degree of expertise, Munich Re can exploit this demand in all of its business fields. This will also benefit our clients, who will profit from a rapid adjustment of our product solutions to the circumstances of newly emerging or changing markets and regulations.

Reinsurance

The business field of reinsurance offers many development opportunities, despite a still highly competitive environment. Given the ever more stringent regulatory requirements, many insurers face the significant challenge of sustainably managing their capital relief and optimisation programmes and diversifying as best they can. Thanks to our strong capital base and expertise, we are positioned to be a long-term strategic partner for our clients, with a wide range of products and services from overarching consultancy to tailor-made reinsurance and capital market solutions.

Demand for insurance is rising as values grow in regions exposed to natural hazards

There are long-term opportunities for expansion in reinsurance's core business. The demand for insurance is rising, since values and insurance density are increasing steeply as a result of growing industrialisation, in particular in many regions exposed to natural hazards. We are excellently positioned with our competence in the analysis of major loss events and possible product solutions on this basis.

Successful new developments, especially for covering economic risks, are another option for generating additional profitable business. We are constantly working together with our clients on pushing back the limits of insurability. The expansion of digital networking and the rapid rate at which hardware and software are evolving is opening up significant business avenues, for instance in the area of non-damage business interruption insurance or cyber risk coverage. Our experts have been working for many years on cyber risks and enhanced cover options. Munich Re now offers a broad spectrum of reinsurance solutions in this field and is also able to cover accumulation perils such as virus-related losses.

Another example of innovations introduced by Munich Re is a cover concept for reputation risks and the new launch-plus-life cover for the entire useful life of satellites.

A major impact on our business also derives from severe natural catastrophes. We expect climate change to lead to an increase in weather-related natural catastrophes in the long term, with the impact from weather extremes such as floods or seasonal water shortages varying from one region to another. We adapt our risk management and risk models to the latest findings.

The positive economic dynamics in many emerging countries also provide opportunities for profitably expanding and further diversifying our business portfolio. In growth markets such as Latin America and Asia in particular, we operate as one of the leading reinsurers and also increasingly participate in primary insurance activities.

Niche and specialty insurers that are part of the "Risk Solutions" unit, e.g. Hartford Steam Boiler, Corporate Insurance Partners and American Modern, are expected to generate promising synergies in product development as well as significant, sustained growth thanks to their international innovation networks and high levels of expertise. In addition, this segment offers Munich Re valuable diversification effects, as its cycle is insulated from that of the reinsurance market and its exposure to natural hazards is minor.

We provide active and forward-looking support through public-private partnerships in the area of sustainable disaster management. We can increase risk awareness and develop risk transfer solutions that are politically and economically sustainable, and we can guarantee these solutions are implemented thanks to our strong capital base. In this way, we can support a paradigm change from ex-post disaster financing to ex-ante risk financing, thus helping countries to better handle the costs of natural catastrophes in future.

Additional opportunities exist in attractive niche markets. Crop failure insurance, for example, is seeing strong growth based on public-private partnerships (SystemAgro), since the provision of food to a growing world population and the consequences of climate change are increasing farmers' need to protect themselves against financial risks. A market leader in this area, Munich Re has built up competence and established sustainable insurance concepts together with supervisory authorities and primary insurers.

In the present economic environment, life insurance presents challenges and opportunities, with rising demand for old-age provision due to greater life expectancy on the one hand, and volatile capital markets with low interest rates on the other. As a reinsurer, we are a competent partner for life primary insurance companies thanks to our tailored offering of asset protection solutions. We also see growth potential in the coverage of longevity risk, although we are adopting a very prudent and selective approach here, given the difficulties involved in robust trend estimates.

ERGO

In primary insurance, ERGO is consistently pursuing the strategy it adopted with its brand proposition "To insure is to understand". Its strong focus on customer requirements is a key differentiating factor in the market. This is a competitive advantage that is opening up additional growth opportunities for us. A technically supported customer advice and care process that is geared to the individual requirements of customers and interested parties safeguards the quality of sales. ERGO utilises the potential of its staff and sales partners, and promotes this in a targeted and consistent manner with forward-looking staff development. The competence and commitment of ERGO's staff and sales partners secure its success, which also benefits customers. ERGO's aim is to expand its high quality and performance levels, and this will enable ERGO to exploit competitive opportunities.

Customers are increasingly purchasing insurance cover via traditional and online channels in parallel, and so ERGO is offering its products through a variety of channels commensurate with requirements. In 2013, ERGO further enhanced its direct sales organisation. In the same year, the first health and property insurance products became available for purchase online. Its online product range was systematically extended with additional products, including motor insurance and personal accident policies. ERGO is largely building on the competence of ERGO Direkt and taking advantage of intra-group knowledge-sharing. We are taking account of increasing demand for digital products in our research and development activities. Hence, ERGO is investing heavily in the development of e-services, and it has already implemented various measures aimed at providing customers with tailored access to the various distribution channels. To promote and develop digital innovations, ERGO is also exploring avenues outside the organisation, e.g. with digital research laboratories in Berlin. ERGO's activities are also finding recognition outside the industry. In 2014, ERGO received the

“Digitaler Leuchtturm” (digital lighthouse) prize, which is awarded by the German daily Süddeutsche Zeitung and its cooperation partner Google for outstanding digital customer service. ERGO intends to continue pursuing its path of increasing digitalisation.

Demographic change is increasing the strain on state pension schemes, which is leading to a rise in customer demand for private provision. The growing need for private provision offers opportunities ERGO intends to seize. For years there has been an increasing trend towards pension insurance, and this trend is likely to continue. At the same time, people have a strong need for secure and reliable old-age provision. In the current capital market environment, the return opportunities available in traditional life insurance are limited. ERGO is thus focusing on pension products with guarantee components that offer customers enhanced return opportunities. In 2013, ERGO introduced a new product line: its innovative annuity insurance covers – ERGO Annuity Guarantee and ERGO Annuity Opportunity – offer private clients two variants of the product. As well as guarantees, the new product line also provides return opportunities and high flexibility, and was expanded in 2014. Since the beginning of 2015, a special company pension product has been added to ERGO’s range.

As of 2014, ERGO is now also active in Singapore

Growth opportunities will also derive from the not-yet-saturated markets of eastern Europe, and from China, India and Southeast Asia. With its internationalisation strategy primarily focused on these high-growth markets, ERGO reached further significant milestones in 2014. ERGO’s entry into the Singapore market has enabled it to further expand its presence in Southeast Asia. Singapore is also designed to serve as a platform for ERGO’s expansion into further property-casualty markets in Southeast Asia.

Munich Health

The global health market is one of the fastest-growing sectors of the economy. The main reasons for this include worldwide population growth and increasing life expectancy, combined with the rising prosperity of broad sectors of the population and an enhanced medical infrastructure, particularly in developing and emerging countries. These developments are being accelerated by advances in medicine and the increasing significance of prevention and disease management programmes to support health preservation.

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

In industrialised countries, the pressure to reform historically evolved health and social security systems is rising. Consequently, there are opportunities for us in personal lines business in these highly developed markets. For the analysis of health risks, for example, we provide our reinsurance clients with modern programmes and tools for standardised medical risk assessment. To enhance the efficiency of internal processes, Munich Health offers new automation options and test algorithms, e.g. in the transmission of claims and their processing. Technical development in the area of digitalisation enables us to offer end customers more closely tailored products. Our aim is to strengthen customer ties even further and make our spectrum of services more comprehensive by offering digital solutions. These enable new and increased activities, especially in the field of prevention, including the use of wearables in diabetes prevention and management. Wearables are body-worn devices equipped with sensors for recording vital data and communicating it via an app to patients’ smart phones. Doctors can thus monitor their patients remotely, thus creating the basis for improved healthcare.

The developing and emerging countries are facing the challenge of swiftly establishing healthcare systems that provide large sections of the population with access to adequate, affordable healthcare. Private-sector insurance products, which may be closely intermeshed with state schemes, can play a valuable part in this situation. We have come up with successful ideas for expanding internationally, and these are continually being improved further and are transferable to new markets. For instance, a market-specific model has been developed for the Middle East. Its successful implementation in the United Arab Emirates enabled us to expand Munich Health's presence to Saudi Arabia and Qatar after a short period of time.

As in industrialised countries, digitalisation is also playing a major role in developing and emerging countries. Mobile solutions for smartphones are helping to offset weaknesses in healthcare infrastructure. They can be used, for instance, for ensuring that patients are quickly referred to the right physician in a network of doctors. The opportunities that digitalisation and advanced data management provide play a major part in the service concepts we develop and the way we expand our business. Our aim is to continue to take advantage of the new digital opportunities for the sustainable insurability of health risks and to expand the disease management and prevention programmes already in use by our health primary insurers to improve healthcare in the interests of our clients and comply with legal data protection requirements.

Stonger focus on prevention key to sustainable insurability of health risks

Investments

The prolonged low-interest-rate phase presents our asset management with the challenge of generating returns with manageable risks. Our asset manager MEAG is always on the look-out for additional returns, but MEAG only takes advantage of higher-interest bond opportunities if the risks can be kept within reasonable bounds. To this end, MEAG has been continually expanding its competence in the assessment of credit risks. We take a very selective approach to investing in infrastructure credits and ensure that they are high quality. Given a tightening of regulations in this field, banks are currently reducing their investments. With our risk competence as an insurer, we can benefit from the freed-up capacities. In addition, there are improved return opportunities available in asset classes such as renewable energies, infrastructure, agricultural land and forestry.

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

Prospects

- Consolidated result of €3.2bn beats target for 2014
- Dividend proposal for 2014: €7.75 per share
- Expected return on investment of at least 3% for 2015
- Consolidated result of €2.5–3bn envisaged for 2015

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

→ Information on the special features of IFRS accounting can be found on page 102

It is not only the obvious fluctuations in the incidence of major losses that make an accurate forecast of IFRS results impossible. The pronounced volatility of the capital markets and exchange rates as well as the special features of IFRS accounting also make this difficult. Thus, there may be significant fluctuations in the investment result, currency result and consolidated result, despite the fact that our assets are geared to the characteristics of our liabilities. In particular, based on our position at the beginning of the year, a moderately rising interest-rate level will initially tend to lead to slightly lower results – and falling interest rates to higher results – than those forecast in this outlook. Changes in the market value and net gains or losses on the disposal of derivatives used by us as hedging instruments and for fine-tuning investments can also substantially impact the result. Changes in exchange rates influence our premium income and results in different directions, depending on which foreign currencies are affected. There may be significant swings if exchange-rate fluctuations are strong, although economically speaking – relative to the volume of our business and our investments – we hold few open currency items on our books.

Comparison of the prospects for 2014 with the result achieved

Munich Re (Group)

Comparison of prospects for Munich Re (Group) for 2014 with results achieved

		Target 2014	Result 2014
Gross premiums written	€bn	Around 50	48.8
Consolidated result	€bn	3	3.2
Technical result	€bn	3.7	3.2
Return on investment[1]	%	Around 3.3	3.6
Return on risk-adjusted capital (RORAC)	%	15	13.2

1 Excluding insurance-related investments.

At €48.8bn, gross premiums were below our target, due to currency effects and the reduction in large-volume reinsurance treaties.

With a consolidated result of €3.2bn, we beat our target of €3bn, in part because major-loss expenditure in property-casualty reinsurance was lower than expected. We were also able to release claims reserves for prior accident years and posted tax income, mainly as a consequence of the release of tax provisions for tax audits and an advantageous decision in a long-standing legal issue. By contrast, we had to write-off goodwill in the segment ERGO International.

At €3.2bn, our technical result was below our target of €3.7bn. Above all, this was due to the participation of our policyholders in an anticipated tax refund in the ERGO Life and Health Germany segment, and to deterioration in the life reinsurance market.

Our long-term objective of a 15% return on our risk-adjusted capital (RORAC) after tax across the cycle of the insurance and interest-rate markets is difficult to achieve in the current environment of very low interest rates on low-risk investments. We are very satisfied with the RORAC of 13.2% for 2014, as well as with the return of 11.3% on total IFRS capital (return on equity, ROE).

Economic earnings amounted to €3.2bn, and so we slightly surpassed our target in line with the expected IFRS result of €3bn.

Reinsurance

The reinsurance business field posted gross premiums of €26.8bn, a figure that was below the target of around €28bn. Gross premiums in life reinsurance totalled €10bn, thus coming in below expectations of around €10.5bn. At €16.7bn, property-casualty reinsurance also did not reach the original forecast of around €17.5bn. In each case, the main reason why we missed our targets was negative currency effects. In life reinsurance, there was also a reduction in large-volume reinsurance treaties.

The technical result in life reinsurance totalled €280m, which meant that we fell short of our 2014 target of over €400m, mainly due to reserve strengthening in Australia and the USA.

The combined ratio of 92.7% in property-casualty reinsurance was better than the figure of around 94% envisaged. Above all, this was due to major-loss expenditure that was below our expectations and to the release of loss reserves.

The consolidated result of €2.9bn for 2014 was significantly above the target corridor of €2.3–2.5bn.

ERGO

Munich Re changed its segment reporting in the fourth quarter of 2014, and now shows the business transacted by ERGO in the three segments Life and Health Germany, Property-casualty Germany, and ERGO International. Therefore, with respect to primary insurance business it is not possible to compare the figures for the changed segments as shown in this annual report with the outlook for 2014 we reported in our 2013 Annual Report. For this reason, we have taken the forecast results from the 2013 Annual Report and amended them to reflect the new segmentation when we compare the forecast for 2014 with the results achieved for the three new ERGO segments.

Total premium income in the ERGO field of business was €18.1bn, thus reaching the 2014 target of slightly more than €18bn; at €16.7bn, gross premiums written were also consistent with the forecast of "a good €16.5bn". In ERGO Life and Health Germany, total premium income was €10.7bn, whereas our outlook had been around €10.9bn. Gross premiums written totalled €9.8bn and were in line with expectations. In ERGO International, gross premiums written totalled €3.8bn; at the beginning of the year, our assumption had been around €3.6bn. At 97.3%, the combined ratio in this segment was somewhat better than the expected figure of around 98%. In ERGO Property-casualty Germany, gross premiums written totalled €3.1bn, although our target for 2014 had been €3.3bn. At 95.3%, the combined ratio in this segment was higher than the anticipated figure of around 92%.

At the beginning of the year, we had aimed for a result of €400–500m for the ERGO field of business, and €350–450m for the ERGO Group. Our result for the ERGO Group was much better than expected at €620m. In the ERGO field of business, the result of €169m did not meet our target due to the write-off of goodwill in the segment ERGO International.

Munich Health

At €5.3bn, gross premiums were below the forecast level of just over €5.5bn. The combined ratio – 99.8% – bettered our target of around 99%, and Munich Health's consolidated result was €109m, meaning that we met our original target of "around €100m".

Outlook for 2015

Outlook for Munich Re (Group)

		2015
Gross premiums written	€bn	47–49
Consolidated result	€bn	2.5–3
Combined ratio property-casualty reinsurance	%	98
Combined ratio ERGO Property-casualty Germany	%	93
Combined ratio ERGO International	%	97
Return on investment[1]	%	At least 3

1 Excluding insurance-related investments.

Reinsurance

Reinsurance remains an attractive business field, with a wide variety of long-term earnings opportunities for us. Although insurance density in the western industrialised countries and individual Asian nations that have been well advanced for decades is already high, even these markets often have an additional need for insurance cover. This is because weather-related natural hazards exposure is showing an increasing trend as the climate changes and the concentration of values in exposed regions becomes greater. And even previously, a large share of the losses from major natural catastrophes have also not been insured. In regions with very rapid economic development, the demand for insurance remains high for protecting the large centres of high-quality industrial manufacturing and the rising prosperity of the population. Moreover, generally only a small portion of the risks from potential liability claims by third parties are insured, particularly for those advanced and complex technologies that are important for the overall benefit of society. As a result, the strongly increasing capacity supply in the primary insurance and reinsurance sectors at present is matched by a demand potential in many classes of business that is not yet exhausted.

Munich Re offers its cedants specialist consulting services and extensive solutions, also for issues in connection with accounting, risk modelling and asset-liability management. Reinsurance provides primary insurers with efficient and flexible protection against major claims and accumulation losses, and strengthens their capital base. In addition to this, we devise innovative coverage concepts that go beyond the scope of traditional reinsurance and, to an increasing extent, also beyond the conventional boundaries of insurability. Thus, for example, we cover performance guarantees for solar modules, offer coverage for internet risks, and for the effects of weather fluctuations on the financial position of companies. This allows us to already take advantage of new profit potential, and balance out some of the reductions in traditional business. In connection with alternative risk transfer, we exploit the advantages of the dynamic market environment and securitise insurance risks on the capital markets both for our clients and for us. We also partner our clients in the often challenging task of adjusting to changes in regulatory requirements, which are currently being revised in many countries.

Gross premiums in reinsurance as a whole should be around €26–27bn overall in 2015, i.e. roughly the same as last year, although currency translation effects could potentially have a considerable impact on this estimate. For 2015, we expect the consolidated result in reinsurance to be at least €2bn, up to €0.9bn below the excellent result for 2014. This anticipated lower result will be due to the absence of one-off tax effects, the reduction in prices in property-casualty reinsurance, and pressure on our investment income in a continuing low-interest-rate environment.

We see further good development opportunities in life reinsurance. Stimuli will derive in particular from the dynamic expansion of the Asian life insurance markets and from the ongoing privatisation trends in provision for old age, long-term care and disability. We structure our products so that they are tailored to our clients' needs while conforming to our risk strategy.

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

For 2015, we project that gross premiums written in life reinsurance will be in the region of around €9–10bn. We are adhering to our objective of achieving a technical result of around €400m. This is ambitious because we expect the results from parts of our US portfolio written over the past decade to be subdued in the coming years as well.

In property-casualty reinsurance, which is traditionally heavily exposed to pricing cycles and random fluctuations in major losses, Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions. We are currently experiencing unrelenting competition. On the one hand, given their good capitalisation, primary insurers are ceding fewer risks to reinsurance. On the other hand, reinsurers are able to provide ample capacity, since their capital base has also steadily improved thanks to the good results posted over the last few years. There is thus currently appreciable surplus capacity on the supply side. Last but not least, insurance-linked securities and other forms of reinsurance-like transactions are also increasingly being favoured by institutional investors such as pension funds in their search for a reasonable return. This capital is mainly being channelled into non-proportional catastrophe business, such as covers for hurricane losses in the USA, so reinsurers that have previously focused on this area of business are seeking to diversify into other areas. The prices, terms and conditions for reinsurance cover have therefore come under increasing pressure across the board. This has also impacted Munich Re's portfolio, as the price erosion in the most recent treaty renewals has shown.

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

For 2015, we anticipate that gross premiums written in property-casualty reinsurance will total around €17bn, i.e. a somewhat higher figure than last year. We expect the combined ratio to be around 98% of net earned premium. The increase of more than 5 percentage points on the ratio achieved in 2014 is mainly due to the fact that in 2014 there were randomly fewer major losses than expected. In 2015, we anticipate major losses in the order of €2bn, which corresponds to 12% of net earned premium.

As in the previous year, the renewal negotiations at 1 January 2015 were marked by an oversupply of reinsurance capacity and good capitalisation of most market players. In January, treaties with a volume of €9.4bn – more than half of our treaty business in property-casualty reinsurance – were up for renewal. As a consequence of our profit-oriented underwriting policy, the termination of large-volume transactions, and increasing retentions by our clients, the premium volume generated by renewed business decreased in the year under review by around €900m, or 9.5%, to approximately €8.5bn.

On balance, we had to accept a slight reduction of 1.3% in the price level for the portfolio as a whole. Price reductions were seen mainly in natural catastrophe business, with North America showing somewhat greater declines than Europe and Asia, and in marine business. Price levels in casualty business and in credit and bond reinsurance were only marginally down overall, whilst they remained stable in aviation business, despite the aircraft crashes in the previous year. The fact that the price erosion for Munich Re was relatively low compared with the rest of the market underscores the importance of our consistently profit-oriented underwriting policy, and recognises the importance that individual clients are attaching to stable reinsurance relationships. Munich Re's comprehensive service and financial strength are valued more highly than an ever lower price.

The renewals at 1 April 2015 (mainly Japan) and 1 July 2015 (parts of the portfolio in the USA, Australia and Latin America) will involve a premium volume of almost €3bn of reinsurance treaty business. Munich Re is proceeding on the assumption that the market environment will not change significantly in these renewal rounds in 2015, unless extraordinary loss events occur or there are any major changes in the market.

ERGO

Munich Re's consolidated financial statements show the business transacted by ERGO in the three segments Life and Health Germany, Property-casualty Germany, and ERGO International.

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

Total premium income in 2015 in the ERGO field of business should be in the range of €17.5–18bn, with gross premiums written of €16–16.5bn, somewhat below the level of the previous year. We project a consolidated result for 2015 of around €500m for the ERGO field of business, which is much better than the low 2014 result, which was mainly caused by the write-off of goodwill in the segment ERGO International.

In ERGO Life and Health Germany, our total premium income is expected to be around €10.5bn, with gross premiums written ranging between €9bn and €9.5bn.

Given the persistently very low interest rates and a climate that is thus not conducive to private provision for old age, the environment remains challenging in the Life Germany segment. Premium development will be substantially influenced by volatile, heavily interest-rate-dependent single-premium business. We see good opportunities with our new product generation, which we extended in 2015 to include a company pension product. Nevertheless, we expect an overall fall in premium income in ERGO's German life business in the financial year 2015.

We expect gross premiums written to roughly maintain their current level in Health Germany. In private health insurance, the premium adjustment we make in the financial year 2015 will be slightly higher than in the previous year. The falling number of insureds is leading to a decline in premium volume in comprehensive health cover. In supplementary health business, by contrast, we see good growth opportunities overall, particularly in supplementary long-term care insurance and company health insurance. In travel insurance, we are adhering to our risk- and profit-oriented underwriting policy. We therefore expect a slight downward trend in premium, also due to the continuing difficult economic and political conditions in important travel destinations.

In 2015, gross premiums written for direct business in Germany should remain largely stable compared with 2014. Falls in life primary insurance will probably be compensated for in the ongoing year by renewed growth in health insurance.

Gross premiums written in the segment Property-casualty Germany should be somewhat over €3bn. We continue to attach great importance to risk-commensurate prices, and we are consistently implementing measures to improve the earnings situation. The combined ratio in property-casualty business in Germany should therefore improve by a good 2 percentage points, and reach a very good level of around 93%, provided major losses remain within normal bounds.

We want to achieve gross premiums written in the range of €3.5–4bn for the ERGO International segment in 2015, and generate overall premium volume of well over €4bn, with uncertainty concerning the demand for single-premium business in life insurance. We should see growth in property-casualty business provided there are no economic setbacks or exchange rate losses. There will also be a contribution from our business in Singapore, which we acquired in the second half of 2014 but which was first included in our figures in the third quarter of 2014. The combined ratio should be around 97%.

Munich Health

Owing to medical advances, generally higher life expectancies and the increasing prosperity of broad sectors of the population, the international healthcare market offers diverse growth opportunities for Munich Health. We intend to utilise these opportunities even better in future, following some individual adjustments to our strategic orientation. In reinsurance, we see avenues for growth from our clients' increasing numbers of insureds and a strong demand for customised solutions. We expect to see a slight increase in profitability in light of changes to our reinsurance portfolio. We expect stable growth of our primary insurance business.

Gross premiums written should be a good €5bn in 2015, somewhat below the level of 2014, and the combined ratio is likely to be around 99%. Overall, we anticipate that we will achieve a profit in the range of €50–100m in 2015. The decrease is due to a reduction in investment income and to the absence of one-off tax effects.

Investments[1]

The global economy is marked by a high level of geopolitical risks and subdued growth expectations in many economies, with the corresponding low inflation rates. In addition, the ample supply of liquidity made available by central banks is resulting in very low interest rates. We will continue to hedge the associated uncertainties and resultant volatilities in the capital markets by means of a widely diversified investment portfolio. The ongoing low-interest-rate environment will continue to have an impact on the whole insurance industry and other major investors.

Thanks to our strongly diversified investments, we are well prepared for a great variety of capital market scenarios, each of which involves potential losses in individual asset classes. Given the regional diversification of our portfolio, however, we are proceeding on the assumption that these losses will be absorbed by increases in value in other asset classes. This balanced investment strategy has proved its worth in recent years. For 2015, we are planning to further reduce our portfolio of government bonds in individual industrialised countries, and to moderately build up investments in corporate and emerging-market bonds.

The duration of the investment portfolio is a key lever of our asset-liability management. We gear the duration of our investments closely to the duration of our liabilities. As a result, both sides of the economic risk-based balance sheet – important for managing our business – respond similarly to changes in interest rates, whilst there may be significant fluctuations in the consolidated balance sheet under IFRS. The duration in the business field reinsurance increased in the financial year 2014, but decreased relative to the liabilities. In life primary insurance, we aim to prolong the average investment period somewhat in 2015. Besides the duration, we also take the individual currencies and inflation sensitivity of our liabilities into account in the development of our investment strategy. For 2015, we plan to keep our portfolio of inflation-linked bonds constant. Over the course of the year, we will make the fine-tuning of our investments dependent on our current market assessments, whilst rigorously adhering to our fundamental strategy of gearing assets to the structure of our liabilities.

In 2014, our investments and investment commitments in infrastructure (including renewable energies and new technologies) were kept largely constant in comparison with the previous year. We are planning to further expand this investment in 2015, provided that the parameters are reliable and we can generate an appropriate return. We continue to rely heavily on a regional, and technology- and infrastructure-specific diversification of these investments, thus spreading the risk of the portfolio, and focusing in particular on bonds and loans for infrastructure projects in 2015. We plan to slightly expand our real estate portfolio over the next few years, subject to market developments.

1 The statements concern the investment portfolio excluding insurance-related investments.

For 2015, we expect interest-rate levels to remain very low overall, and hence generate lower regular income from reinvestment of fixed-interest securities and loans. We also intend to only moderately increase our moderate equity-backing ratio of 5.2%, so that write-down risks are low. Regular income from our investments should total around 3%, or 0.2 percentage points lower than last year. Taking into consideration the result from the disposal of investments, write-ups and write-downs, and other income and expenses, we expect the investment result to be lower than last year, but still reaching at least €7bn, equivalent to an annual investment return of at least 3%.

Munich Re (Group)

We expect that the Group's gross premiums written for 2015 will be in the range of €47–49bn; the median value is around €0.8bn lower than the previous year.

We are adhering to our long-term objective of a 15% return on our risk-adjusted capital (RORAC) after tax across the cycle of the insurance and interest-rate markets. In the long term, we want our income to grow using innovative business. However, in the current environment of very low interest rates on low-risk investments, this target will be difficult to achieve.

→ Information on economic earnings can be found on page 39 f.

As regards the economic value added in terms of economic earnings, we anticipate a pleasing albeit lower figure than in 2014, in line with the IFRS results anticipated for the Group and the fields of business. This forecast is based on the assumption of unchanged capital markets and modelling parameters, and a normal major-loss incidence. On the basis of current interest-rate developments, we anticipate poorer result contributions in life primary insurance than those of the other segments.

Provided that major-loss experience is in line with expectations, our assumption for 2015 is that Munich Re will post a technical result that is lower than last year at almost €3bn.

The consolidated profit is likely to fall short of the particularly good result in 2014, mainly due to falling prices in reinsurance, a decreased investment result, and the absence of one-off tax effects. Nevertheless, we still hope to achieve a consolidated result for 2015 of €2.5–3bn, and the effective tax rate should be much higher than in 2014, but below the generally expected rate of 20–25% for our Group. This profit guidance is subject to claims experience with regard to major losses being within normal bounds and to our income statement not being impacted by severe currency or capital market movements, significant changes in fiscal parameters, or other special factors.

In the period from the middle of May 2014 to the end of February 2015, we bought back shares with a value of around €866m; another €134m are to be repurchased before the Annual General Meeting in April 2015. We are using this measure to return unneeded capital to shareholders. Despite the buy-back, our good capital position will allow us to continue paying attractive dividends and selectively utilising opportunities for profitable growth. Since November 2006, Munich Re has carried out share buy-backs with a total volume of €7.9bn. Subject to approval by the Annual General Meeting, the dividend will rise by 50 cents to €7.75 per share.

Consolidated financial statements and notes

4

Consolidated balance sheet as at 31 December 2014[1]

Assets » Consolidated balance sheet – Assets (XLS, 56 KB)

	Notes			31.12.2014	Prev. year		Change
		€m	€m	€m	€m	€m	%
A. Intangible assets							
I. Goodwill	(1)		3,063		3,292	-229	-7.0
II. Other intangible assets	(2)		1,220		1,380	-160	-11.6
				4,283	**4,672**	**-389**	**-8.3**
B. Investments							
I. Land and buildings, including buildings on third-party land	(3)		3,732		3,762	-30	-0.8
II. Investments in affiliated companies, associates and joint ventures	(5)		1,559		1,514	45	3.0
Thereof: Associates and joint ventures accounted for using the equity method			1,280		1,291	-11	-0.9
Thereof: Held for sale			27		–	27	–
III. Loans	(6)		54,550		55,245	-695	-1.3
IV. Other securities							
1. Held to maturity	(7)	–			5	-5	-100.0
2. Available for sale	(8)	143,843			125,902	17,941	14.2
Thereof: Held for sale		79			–	79	–
3. At fair value through profit or loss	(9)	2,169			2,300	-131	-5.7
			146,012		128,207	17,805	13.9
V. Deposits retained on assumed reinsurance	(10)		8,750		9,636	-886	-9.2
VI. Other investments	(11)		4,324		3,803	521	13.7
				218,927	**202,167**	**16,760**	**8.3**
C. Insurance-related investments[2]	**(9)**			**8,461**	**7,307**	**1,154**	**15.8**
D. Ceded share of technical provisions	**(12)**			**5,328**	**5,305**	**23**	**0.4**
E. Receivables							
I. Current tax receivables			981		602	379	63.0
II. Other receivables	(13)		11,469		11,375	94	0.8
				12,450	**11,977**	**473**	**3.9**
F. Cash at banks, cheques and cash in hand				**2,912**	**2,820**	**92**	**3.3**
G. Deferred acquisition costs	**(14)**						
Gross			9,555		9,603	-48	-0.5
Ceded share			-79		-61	-18	-29.5
Net				9,476	9,542	-66	-0.7
H. Deferred tax assets	**(15)**			**7,601**	**6,995**	**606**	**8.7**
I. Other assets	**(16)**			**3,541**	**3,527**	**14**	**0.4**
Total assets				**272,979**	**254,312**	**18,667**	**7.3**

1 Previous year's figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
2 This item includes investments for unit-linked life insurance contracts and other insurance-related investments, see "Changes in accounting policies and other adjustments".

Equity and liabilities » Consolidated balance sheet – Equity and liabilities (XLS, 48 KB)

	Notes	31.12.2014		Prev. year		Change
		€m	€m	€m	€m	%
A. Equity	**(18)**					
I. Issued capital and capital reserve		7,417		7,426	-9	-0.1
II. Retained earnings		13,005		12,841	164	1.3
III. Other reserves		6,458		2,374	4,084	172.0
IV. Consolidated result attributable to Munich Reinsurance Company equity holders		3,153		3,304	-151	-4.6
V. Non-controlling interests		271		243	28	11.5
			30,304	**26,188**	**4,116**	**15.7**
B. Subordinated liabilities	**(20)**		**4,413**	**4,424**	**-11**	**-0.2**
C. Gross technical provisions						
I. Unearned premiums	(21)	8,373		7,994	379	4.7
II. Provision for future policy benefits	(22)	112,648		111,427	1,221	1.1
Thereof: Held for sale		48		–	48	–
III. Provision for outstanding claims	(23)	56,342		53,061	3,281	6.2
IV. Other technical provisions	(24)	18,492		13,519	4,973	36.8
			195,855	**186,001**	**9,854**	**5.3**
D. Gross technical provisions for unit-linked life insurance	**(25)**		**7,837**	**7,043**	**794**	**11.3**
E. Other accrued liabilities	**(26)**		**4,473**	**3,742**	**731**	**19.5**
F. Liabilities						
I. Bonds and notes issued	(27)	282		248	34	13.7
II. Deposits retained on ceded business	(28)	2,673		2,762	-89	-3.2
III. Current tax liabilities		2,729		2,795	-66	-2.4
IV. Other liabilities	(29)	14,637		12,921	1,716	13.3
			20,321	**18,726**	**1,595**	**8.5**
G. Deferred tax liabilities	**(15)**		**9,776**	**8,188**	**1,588**	**19.4**
Total equity and liabilities			**272,979**	**254,312**	**18,667**	**7.3**

Consolidated income statement for the financial year 2014[1]

Items » Consolidated income statement (XLS, 52 KB)

	Notes			2014	Prev. year		Change
		€m	€m	€m	€m	€m	%
Gross premiums written		**48,848**			**51,060**	**-2,212**	**-4.3**
1. Earned premiums	**(30)**						
Gross		48,987			50,840	-1,853	-3.6
Ceded		-1,603			-1,668	65	3.9
Net			47,384		49,172	-1,788	-3.6
2. Income from technical interest	**(31)**		**7,503**		**6,764**	**739**	**10.9**
3. Expenses for claims and benefits	**(32)**						
Gross		-40,415			-40,709	294	0.7
Ceded share		722			782	-60	-7.7
Net			-39,693		-39,927	234	0.6
4. Operating expenses	**(33)**						
Gross		-12,264			-12,690	426	3.4
Ceded share		313			326	-13	-4.0
Net			-11,951		-12,364	413	3.3
5. Technical result (1–4)				**3,243**	**3,645**	**-402**	**-11.0**
6. Investment result	**(34)**		**8,002**		**7,245**	**757**	**10.4**
Thereof: Income from associates and joint ventures accounted for using the equity method			77		7	70	1,000.0
7. Insurance-related investment result	**(35)**		**414**		**412**	**2**	**0.5**
8. Other operating income	**(36)**		**747**		**782**	**-35**	**-4.5**
9. Other operating expenses	**(36)**		**-875**		**-922**	**47**	**5.1**
10. Deduction of income from technical interest			**-7,503**		**-6,764**	**-739**	**-10.9**
11. Non-technical result (6–10)				**785**	**753**	**32**	**4.2**
12. Operating result				**4,028**	**4,398**	**-370**	**-8.4**
13. Other non-operating result	**(37)**			**-496**	**-671**	**175**	**26.1**
14. Impairment losses of goodwill	**(37)**			**-445**	**-29**	**-416**	**<-1,000.0**
15. Net finance costs	**(37)**			**-228**	**-257**	**29**	**11.3**
16. Taxes on income	**(38)**			**312**	**-108**	**420**	**–**
17. Consolidated result				**3,171**	**3,333**	**-162**	**-4.9**
Thereof: Attributable to Munich Reinsurance Company equity holders				3,153	3,304	-151	-4.6
Attributable to non-controlling interests	(18)			18	29	-11	-37.9
	Notes			€	€	€	%
Earnings per share	**(55)**			**18.31**	**18.45**	**-0.14**	**-0.8**

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

Statement of recognised income and expense for the financial year 2014

» Statement of recognised income and expense (XLS, 37 KB)

€m	2014	Prev. year
Consolidated result	**3,171**	**3,333**
Currency translation		
Gains (losses) recognised in equity	1,428	-709
Recognised in the consolidated income statement	–	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	3,889	-1,572
Recognised in the consolidated income statement	-1,228	-1,040
Change resulting from valuation at equity		
Gains (losses) recognised in equity	9	35
Recognised in the consolidated income statement	–	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	1	-1
Recognised in the consolidated income statement	–	–
Other changes	23	2
I. Items where income and expenses recognised directly in equity are reallocated to the consolidated income statement	4,122	-3,285
Remeasurements of defined benefit plans	-521	184
Other changes	–	–
II. Items where income and expenses recognised directly in equity are not reallocated to the consolidated income statement	-521	184
Income and expense recognised directly in equity (I + II)	**3,601**	**-3,101**
Total recognised income and expense	**6,772**	**232**
Thereof:		
Attributable to Munich Reinsurance Company equity holders	6,732	224
Attributable to non-controlling interests	40	8

Group statement of changes in equity for the financial year 2014

» Group statement of changes in equity (XLS, 67 KB)

€m	Issued capital	Capital reserve
31.12.2012 as originally recognised	**585**	**6,836**
Change from retrospective adjustment	**–**	**–**
Status at 31.12.2012	**585**	**6,836**
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Remeasurements of defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Purchase/sale of own shares	–4	9
Retirement of own shares	–	–
31.12.2013 as originally recognised	**581**	**6,845**
Change from retrospective adjustment	**–**	**–**
Status at 31.12.2013	**581**	**6,845**
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Remeasurements of defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Purchase/sale of own shares	–30	–
Retirement of own shares	21	–
Status at 31.12.2014	**572**	**6,845**

Equity attributable to Munich Reinsurance Company equity holders						Non-controlling interests	Total equity
Retained earnings		Other reserves			Consolidated result		
Retained earnings before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges			
11,015	**-77**	**5,946**	**-292**	**-4**	**3,188**	**242**	**27,439**
-37	**–**	**–**	**–**	**–**	**3**	**–**	**-34**
10,978	**-77**	**5,946**	**-292**	**-4**	**3,191**	**242**	**27,405**
1,936	–	–	–	–	-1,936	–	–
–	–	–	–	–	3,304	29	3,333
196	–	-2,578	-705	7	–	-21	-3,101
–	–	–	-705	–	–	-4	-709
–	–	-2,599	–	–	–	-13	-2,612
6	–	21	–	8	–	–	35
–	–	–	–	-1	–	–	-1
188	–	–	–	–	–	-4	184
2	–	–	–	–	–	–	2
196	–	-2,578	-705	7	3,304	8	232
2	–	–	–	–	–	-4	-2
–	–	–	–	–	–	–	–
–	–	–	–	–	-1,255	-3	-1,258
24	-218	–	–	–	–	–	-189
–	–	–	–	–	–	–	–
13,170	**-295**	**3,368**	**-1,002**	**3**	**3,313**	**243**	**26,226**
-34	**–**	**–**	**5**	**–**	**-9**	**–**	**-38**
13,136	**-295**	**3,368**	**-997**	**3**	**3,304**	**243**	**26,188**
2,050	–	–	–	–	-2,050	–	–
–	–	–	–	–	3,153	18	3,171
-505	–	2,658	1,431	-5	–	22	3,601
–	–	–	1,431	–	–	-3	1,428
–	–	2,645	–	–	–	16	2,661
2	–	13	–	-6	–	–	9
–	–	–	–	1	–	–	1
-523	–	–	–	–	–	2	-521
16	–	–	–	–	–	7	23
-505	–	2,658	1,431	-5	3,153	40	6,772
1	–	–	–	–	–	-3	-2
1	–	–	–	–	–	-6	-5
–	–	–	–	–	-1,254	-3	-1,257
–	-1,383	–	–	–	–	–	-1,413
-1,000	1,000	–	–	–	–	–	21
13,683	**-678**	**6,026**	**434**	**-2**	**3,153**	**271**	**30,304**

Consolidated cash flow statement for the financial year 2014

» Consolidated cash flow statement (XLS, 46 KB)

€m	2014	Prev. year
Consolidated result	**3,171**	**3,333**
Net change in technical provisions	5,193	4,049
Change in deferred acquisition costs	60	–360
Change in deposits retained and accounts receivable and payable	1,262	–847
Change in other receivables and liabilities	456	–1,898
Gains and losses on the disposal of investments	–1,808	–1,058
Change in securities at fair value through profit or loss	–1,129	–839
Change in other balance sheet items	–88	–178
Other income/expenses without impact on cash flow	410	–15
I. Cash flows from operating activities	7,527	2,187
Change from losing control of consolidated subsidiaries	–	–34
Change from obtaining control of consolidated subsidiaries	–113	–74
Change from the acquisition, sale and maturities of other investments	–4,431	752
Change from the acquisition and sale of investments for unit-linked life insurance contracts	–411	–343
Other	16	–9
II. Cash flows from investing activities	–4,939	292
Inflows from increases in capital and from non-controlling interests	–	107
Outflows to ownership interests and non-controlling interests	–1,392	–296
Dividend payments	–1,257	–1,258
Change from other financing activities	–45	–1,111
III. Cash flows from financing activities	–2,694	–2,558
Cash flows for the financial year (I + II + III)	**–106**	**–79**
Effect of exchange-rate changes on cash	198	39
Cash at the beginning of the financial year	2,820	2,860
Cash at the end of the financial year	2,912	2,820
Additional information		
Income tax paid (net) – included in the cash inflows from operating activities	45	–1,223
Dividends received	511	519
Interest received	6,256	6,496
Interest paid	–479	–552

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 (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 concerning the application of international accounting standards. We have complied with the international accounting standards adopted in accordance with Articles 2, 3 and 6 of the aforementioned Regulation and with the rules designated in Section 315a (1) of the German Commercial Code.

In accordance with the rules of IFRS 4, Insurance Contracts, underwriting items are recognised and measured on the basis of US GAAP (United States Generally Accepted Accounting Principles) at first-time adoption of IFRS 4 on 1 January 2005.

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

In November 2014, the Board of Management and Supervisory Board of Munich Reinsurance Company published an updated Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) and made this declaration permanently available to shareholders on the internet.

Recognition and measurement

Use of judgements and estimates in recognition and measurement

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

Particularly in insurance and reinsurance, the use of estimates for measuring technical provisions is of substantial significance, given that measurement is invariably based on models and the development of future cash flows from insurance contracts cannot be conclusively predicted. But judgements and estimates play a significant role in the case of other items as well.

Our internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take account of new knowledge.

Discretionary judgements and estimates are of significance for the following items in particular and are described in more detail in the respective explanatory notes:

- Consolidated group
- Goodwill and other intangible assets
- Fair values and impairments of financial instruments
- Deferred acquisition costs
- Technical provisions
- Pension provisions
- Deferred tax
- Contingent liabilities

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as "held for sale" are recognised at the lower of carrying amount or fair value less sales cost and shown separately in the consolidated balance sheet.

Presentation currency and use of plus and minus signs

Our presentation currency is the euro (€). Amounts are rounded to million euros, with figures in brackets referring to the previous year. Expenses, outflows and losses are shown using the minus sign; income and inflows are shown without a plus or minus sign.

Figures for previous years

Changes in accordance with the rules of IAS 8 necessitated the retrospective adjustment of the figures from the consolidated balance sheet for the financial years 2012 and 2013, and of the consolidated income statement and relevant items of the notes to the consolidated financial statements for the year 2013 (see section "Changes in accounting policies and other adjustments"). The other previous-year figures have been calculated on the same basis as the figures for the financial year 2014.

Changes in accounting policies and other adjustments

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

In the financial year 2014, the following new or amended IFRSs had to be applied for the first time:

IFRS 10 (05/2011), Consolidated Financial Statements, supersedes the provisions of IAS 27 and SIC 12 and creates a uniform definition for control, irrespective of whether this control is based on company law or on contractual or economic circumstances. There are no longer any independent provisions for structured entities (special purpose entities). A situation of control exists when an investor has the ability to direct an investee's relevant activities and is exposed to the returns from those activities.

Furthermore, IFRS 10 addresses issues that have not been dealt with until now, including the rule that a situation of control exists even if an investor holds less than a majority of the voting rights but regularly has a de facto majority of voting rights at the annual general meetings. The changes do not have any major effects on Munich Re's group of consolidated companies. Only one associate is now to be recognised as a fully consolidated company. We have therefore applied the amendments prospectively, as a retrospective application for prior periods did not appear appropriate, also from a cost-benefit point of view. The conversion from the equity method to full consolidation led to a minor result effect of less than €2m and increased the balance sheet total by around €10m in the first quarter.

IFRS 11 (05/2011), Joint Arrangements, defines joint operations and joint ventures and specifies how they are to be recognised in the balance sheet. The changes compared with IAS 31, Interest in Joint Ventures, mainly concern the elimination of the option of proportionate consolidation for joint ventures, the amended definition of joint control, and the extended scope of application of joint operations. These may now include arrangements structured through a separate vehicle. The elimination of the option of proportionate consolidation has no impact on Munich Re, as we do not avail ourselves of this option and already apply the equity method. The two other amendments do not have any major effects on Munich Re.

IFRS 12 (05/2011), Disclosure of Interests in Other Entities, combines the disclosures regarding facts and circumstances governed by IFRS 10, 11 and IAS 28. The objective of the standard is to provide information on the type and risk of interests in other entities and their implication for the consolidated financial statements. As a consequence, the information provided needs to be more comprehensive than before. In particular, IFRS 12 requires disclosures relating to unconsolidated structured entities, subsidiaries with significant non-controlling interests, discretionary judgments and assumptions in evaluating the nature of interests in other entities, as well as more detailed information on joint arrangements and associates. Munich Re is mainly affected by the extended disclosure requirements relating to unconsolidated structured entities and interests in joint arrangements and associates. Munich Re provides aggregated financial information regarding its interests in associates and joint ventures, and for unconsolidated structured entities it provides comprehensive information on the nature, purpose, scope, activities and carrying amount of the interests held by Munich Re in the unconsolidated structured entities. Munich Re also discloses the maximum exposure to loss from its interests in unconsolidated structured entities.

IAS 27 (rev. 05/2011), Separate Financial Statements, now deals only with balance sheet recognition of investments in subsidiaries, joint ventures and associates in separate single-entity financial statements in accordance with IFRS, including the relevant disclosures in the notes. The definition of control and balance sheet recognition of subsidiaries in consolidated financial statements is now regulated by IFRS 10. The standard is not applicable to Munich Re.

IAS 28 (rev. 05/2011), Investments in Associates and Joint Ventures, specifically includes amendments following from the publication of IFRS 11 and IFRS 12. Among other things, the standard integrates the balance sheet recognition of joint ventures and circumstances previously governed by SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Furthermore, investments in associates or joint ventures held by open-ended investment funds or for unit-linked insurance, for example, are no longer excluded from the scope of application of the standard. Instead, there is now an option to measure these at fair value with impact on profit or loss. The amendments do not have any material effects for Munich Re.

In June 2012, the IASB adopted **IFRS Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities – Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (06/2012),** which clarifies that the requirement to provide adjusted comparative information on first-time application is limited to the preceding comparative period only. Insofar as first-time application results in a change in the need to consolidate an entity only for the comparative period, no adjusted comparative information for prior periods is necessary. In addition, the requirement to provide information for prior periods was removed for unconsolidated structured entities.

IFRS Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (10/2012) introduces a definition of the term "investment entities" and specifies that in future such entities are to be generally excepted from the requirement to consolidate their subsidiaries. Instead, they are required to measure them at fair value through profit or loss. The exception from the consolidation requirement does not apply to parents of investment entities that are not themselves investment entities. There are also additional disclosure requirements for investment entities. The amendments are of no relevance for Munich Re.

The amendments to **IAS 32 (rev. 12/2011), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities,** clarify some issues in relation to the requirements for offsetting financial assets and financial liabilities. The changes currently have no practical significance for Munich Re.

IAS 36 (rev. 05/2013), Recoverable Amount Disclosures for Non-Financial Assets, affects corrections and extensions of required disclosures if the recoverable amount of impaired assets is based on fair value less costs of disposal. We already applied the amendments in advance in the financial year 2013.

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

In 2014, Munich Re further optimised its internal management reporting, resulting in **changes in its segment reporting**. The corresponding items in the segment reporting and the notes to the consolidated financial statements have been adjusted for the previous year.

Previously, the monitoring and management of the ERGO Insurance Group had been based on three segments geared to the different main products, i.e. life, German health (including global travel insurance) and property-casualty.

Internal management reporting was adapted with effect from the fourth quarter 2014 to include geographical market features that better reflect the increasing importance of international business. International business was allocated to the ERGO International segment. With effect from the fourth quarter of 2014, the monitoring and management of German life and health primary insurance business, which still includes global travel primary insurance, was integrated into the segment ERGO Life and Health Germany. Since the premiums written by ERGO Direkt mainly derive from German life and health primary insurance business, ERGO Direkt is also reported under German life and health primary insurance business. ERGO's German property-casualty primary insurance business (with the exception of direct property-casualty insurance business) is now reported under the segment ERGO Property-casualty Germany.

As part of the change in segmentation of the ERGO Insurance Group, other improvements have also been made to management reporting. The asset management segment was divided among the segments that write insurance business, to better reflect the close interlinking between asset management and insurance, since the assets managed mainly comprise Group assets.

Analogous to our internal management, since the fourth quarter of 2014 the result from unit-linked life insurance and our other insurance-related investments has been disclosed separately from the result of other investments in the new line item "Insurance-related investment result" in our segment income statement. Assets have been disclosed analogously. The modified management reporting takes account of the fact that the result from unit-linked life insurance is not allocable to shareholders. Besides, separate disclosure of other insurance-related investments underscores their increased importance.

For reasons of consistency and comparability, we have adjusted the structure of our consolidated income statement in accordance with our segment income statement. Differences merely exist in the degree of detail of the items, which is more limited in segment reporting in line with the performance measures defined. In addition, the segment income statement now shows only the net figures for technical and non-technical results, without any subdivision of the amounts indicated as "thereof" items. The segment-specific disclosures required under IFRS 8 can be found in the corresponding sections of the notes to the consolidated income statement. For the sake of clarity, the investment result is also shown net in the consolidated income statement. In addition, the structure of the consolidated balance sheet has been adjusted, with insurance-related investments and other investments disclosed separately. The adjustments increase the usefulness of the information for the purposes of making decisions to the users of the financial statements.

The following modifications were also applied retrospectively and the previous year's figures were adjusted:

a) Since the first quarter of 2014, we have adjusted the disclosure of "other provisions" and "miscellaneous liabilities" in order to improve the information content. Liabilities hitherto allocated to "other provisions", but more certain than provisions in terms of the timing and amount of their payment, are shown under "miscellaneous liabilities" with immediate effect. "Outstanding invoices", "bonuses", "holiday and overtime pay" and "miscellaneous" are affected.

b) In previous years, the amount of claims paid for a reinsurance portfolio was set too low as part of the fast-close process. The amounts for claims paid and accounts payable were corrected retrospectively in the third quarter.

c) In future the insurance-related investment result will be disclosed as a new line item in the operating result. The portfolio is separated in the balance sheet in the same way (see above).

The changes a) and c) have been made in accordance with IAS 8.14 and IAS 8.22. The consolidated balance sheet for the financial years 2012 and 2013 is affected by the adjustments as follows:

Consolidated balance sheet

€m	31.12.2012 as originally recognised	a)	Changes due to adjustments in 2012 b)	c)	31.12.2012
Assets					
B. IV. Other securities					
3. At fair value through profit or loss	3,015	–	–	-532	2,483
C. Insurance-related investments	5,958	–	–	532	6,490
E. II. Other receivables	11,475	–	19	–	11,494
H. Deferred tax assets	6,219	–	6	–	6,225
Equity and liabilities					
A. II. Retained earnings	10,938	–	-37	–	10,901
A. IV. Consolidated result attributable to Munich Reinsurance Company equity holders	3,188	–	3	–	3,191
E. Other accrued liabilities	4,318	-397	–	–	3,921
F. IV. Other liabilities	13,240	397	59	–	13,696

Consolidated balance sheet

€m	31.12.2013 as originally recognised	a)	Changes due to adjustments in 2013 b)	c)	31.12.2013
Assets					
B. IV. Other securities					
3. At fair value through profit or loss	2,887	–	–	-587	2,300
B. VI. Other investments	3,824	–	–	-21	3,803
C. Insurance-related investments	6,699	–	–	608	7,307
E. II. Other receivables	11,357	–	18	–	11,375
H. Deferred tax assets	6,989	–	6	–	6,995
Equity and liabilities					
A. II. Retained earnings	12,875	–	-34	–	12,841
A. III. Other reserves	2,369	–	5	–	2,374
A. IV. Consolidated result attributable to Munich Reinsurance Company equity holders	3,313	–	-9	–	3,304
E. Other accrued liabilities	4,169	-427	–	–	3,742
F. IV. Other liabilities	12,432	427	62	–	12,921

The effects on the consolidated income statement for the financial year 2013 are as follows:

Consolidated income statement

€m	2013 as originally recognised	Changes due to adjustments in 2013 b)	c)	2013
3. Expenses for claims and benefits				
Gross	–40,698	–11	–	–40,709
Net	–39,916	–11	–	–39,927
5. Technical result	**3,656**	**–11**	**–**	**3,645**
6. Investment result	**7,657**	**–**	**–412**	**7,245**
7. Insurance-related investment result	**–**	**–**	**412**	**412**
12. Operating result	**4,409**	**–11**	**–**	**4,398**
13. Other non-operating result	**–673**	**2**	**–**	**–671**
17. Consolidated result	**3,342**	**–9**	**–**	**3,333**
Thereof:				
Attributable to Munich Reinsurance Company equity holders	3,313	–9	–	3,304

Standards or changes in standards not yet entered into force

Unless otherwise stated, all standards or amendments to standards that have not yet entered into force will be applied by Munich Re for the first time as from the mandatory effective date for entities domiciled in the European Union.

The following standards are mandatory for Munich Re for the first time in the financial year 2015. They were adopted into European law in June and December 2014 respectively.

The IASB concluded the project **Annual Improvement to IFRSs 2011–2013 Cycle** in December 2013 with the publication of the revised standards. These amendments concern IFRS 1, First-time Adoption of International Financial Reporting Standards; IFRS 3, Business Combinations; IFRS 13, Fair Value Measurement; and IAS 40, Investment Property Measured at Fair Value. These amendments provide clarifications of individual provisions that have turned out to be unclear in practice; they are unlikely to be relevant for Munich Re.

IFRIC Interpretation 21 (05/2013), Levies, clarifies the point of recognition of a liability within the scope of IAS 37 for levies imposed by governments, other than income taxes, that do not fall within the scope of application of other IFRSs. As well as determining the point of recognition, the Interpretation clarifies how to interpret the definition of "present obligation" within the meaning of IAS 37 with respect to such levies. As mandated by the IASB, application of this Interpretation should have been mandatory for the 2014 financial year. However, it was not adopted into European law until 13 June 2014, and may thus only be applied by companies domiciled in the European Union with respect to financial years beginning on or after 17 June 2014. It has no material effects on Munich Re.

The following new and/or revised standards are mandatory for Munich Re for the first time in the 2016 financial year. With the exception of the changes to IAS 19 from November 2013 and the 2010–2012 Cycle of Annual Improvements from December 2013, which were both adopted into European law in December 2014, all of the following legal amendments have yet to be formally adopted into European law.

In November 2013, the IASB published an amendment to **IAS 19 (rev. 11/2013), Employee Benefits,** which aims to clarify the allocation of contributions from employees or third parties that are linked to the employee's service rendered in the same period in which they are payable. This amendment will not have any material effects on Munich Re.

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

As mandated by the IASB, application of the above amendments to IAS 19 and the Annual Improvements to IFRSs 2010–2012 Cycle are mandatory as from the 2015 financial year. However, as they were not adopted into European law until December 2014, application of the two shall not be mandatory for companies domiciled in the European Union until financial years beginning on or after 1 February 2015. Voluntary application before that date is permitted, but they are of little relevance for Munich Re.

IFRS 14 (1/2014), Regulatory Deferral Accounts, is an interim standard that is only to be used by companies that are subject to rate regulation and are preparing IFRS financial statements for the first time. The rules are not applicable to Munich Re.

The publication of the IFRS **Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (05/2014)**, provides guidance on issues, including that revenue-based depreciation and amortisation of real estate, other assets and intangible assets is not permissible, or is only permissible under specified circumstances. The clarifications do not have any material effects for Munich Re.

The amendments of **IFRS 11 (05/2014), Accounting for Acquisitions of Interests in Joint Operations,** clarify the accounting for acquisitions of interests in joint operations when the operation constitutes a business. The acquirer of such interests is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs, with the exception of those principles that conflict with the guidance in IFRS 11. This amendment is unlikely to have any material effects on Munich Re.

In June 2014, the IASB published the IFRS **Agriculture: Bearer Plants, Amendments to IAS 16 and IAS 41.** The amendments bring bearer plants that are only used to grow agricultural produce within the scope of IAS 16. These can now be accounted for in the same way as property, plant and equipment. Currently, the amendments do not appear to be relevant for Munich Re.

In August 2014, **Equity Method in Separate Financial Statements (Amendments to IAS 27)** was published. This again permits entities to use the equity method to account for investments in subsidiaries, associates and joint ventures in their separate financial statements. The amendment is not applicable to Munich Re.

The amendments published in September 2014 as part of the project **Annual Improvements to IFRSs 2012–2014 Cycle,** affect IFRS 5, Non-current Assets Held for Sale and Discontinued operations; IFRS 7, Financial Instruments: Disclosures; IAS 19, Employee Benefits; and IAS 34, Interim Financial Reporting. The amendments mainly concern clarifications of individual provisions that have turned out to be unclear in practice; they are unlikely to be relevant for Munich Re.

The amendments in **IFRS 10 and IAS 28 (09/2014), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,** govern the recognition of gains or losses for transactions between an investor and an associate or joint venture dependant on whether the sale concerns a business or just assets that do not constitute a business. This amendment is unlikely to have any material effects on Munich Re.

In December 2014, amendments to IFRS 10, IFRS 12 and IAS 28 were published in **Investment Entities: Applying the Consolidation Exception.** The amendments clarify the consolidation exception where a parent company meets the definition of an investment company. This amendment is unlikely to have any material effects on Munich Re.

As part of the Disclosure Initiative, in December the IASB published the amendment **Disclosure Initiative, Amendments to IAS 1 (12/2014)**, which is designed to eradicate uncertainties in the exercise of discretion when drawing up financial statements. It makes clear which considerations need to be taken into account with respect to materiality, the line items in the financial statements, and the order of the notes. Munich Re will analyse if these amendments have any effect on our reporting requirements.

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

IFRS 9 (07/2014), Financial Instruments, replaces IAS 39 as regards the requirements relating to recognition and measurement of financial instruments. Under this revision, the categorisation of financial assets will be made in future on the basis of contractual cash flow characteristics and the business model of the asset held. Accordingly, subsequent measurement is made at amortised cost, at fair value without impact on profit or loss, or at fair value through profit or loss.

The possibility of voluntary measurement at fair value (fair value option) remains. However, the requirement for separate accounting of the component parts of certain structured products is no longer mandatory; under IFRS 9 they must be measured in their entirety at fair value through profit or loss. 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.

IFRS 9 envisages an expected loss model for recognising impairments, by which – unlike under the current incurred loss model of IAS 39 – expected losses are anticipated before they arise and must be accounted for in the balance sheet as an expense. There is to be only one model for recognising impairments that is to be used for all financial assets falling under the impairment rules of IFRS 9.

Hedge accounting under IFRS 9 focuses more strongly on the entity's risk management activities than was the case under the current rules of IAS 39. The new rules include provisions to ease requirements with respect to qualified hedged items and hedging instruments, and the assessment of hedge effectiveness.

The provisions of IFRS 9 are associated with extensive additional disclosures required in the appendices that were adopted in IFRS 7, Financial Instruments: Disclosures. The provisions are mandatory for financial years beginning on or after 1 January 2018. They are particularly important for Munich Re, and will involve significant implementation costs.

IFRS 15 (05/2014), Revenue from Contracts with Customers, governs the time and amount of the company's revenue to be recognised. As the recognition of revenue from insurance contracts and financial instruments does not fall within the scope of the new standard, it is not material for the accounting of our core business. We do not currently expect that the revisions will have any significant effects for Munich Re. The standard is mandatory for financial years beginning on or after 1 January 2017.

Consolidation

Consolidated group

The consolidated financial statements include Munich Reinsurance Company (the parent) and all the entities over which Munich Reinsurance Company directly or indirectly exercises control (subsidiaries).

Munich Reinsurance Company directly or indirectly holds all the voting rights in most of the entities included in the consolidated group. In a few cases when assessing whether control exists, there are some non-Group shareholders, but Munich Reinsurance Company directly or indirectly holds a clear majority of the voting rights. In these cases, no significant judgements or assumptions were made as to whether the entities are to be included.

We include a small number of entities in the consolidated group even though Munich Reinsurance Company does not directly or indirectly hold a majority of the voting rights in those entities. The inclusion is generally made on the basis that contractual rights are taken into consideration that result in determination of power over the relevant business activities.

Pursuant to IFRS 10, investment funds are included in the consolidated financial statements if they are controlled by Munich Re. In assessing the need to consolidate shares in investment funds, we take particular account of the role of the fund manager (including our assessment of its status as an agent for us), of similar rights that could lead to us exercising control over the fund, and of the degree of variability in the remuneration of the fund manager. This can sometimes result in an assessment that we do exercise control even though the shareholding is below 50%.

On behalf of our policyholders, in the area of unit-linked life insurance we invest in numerous retail funds that are mainly managed by companies which are not related parties of Munich Re. We do not generally control these companies, as we cannot determine the business activities that are relevant for the investee's returns. In the case of the other investment funds for unit-linked life insurance, we take the above criteria into account in determining whether there is control.

In assessing whether control exists for structured entities, we focus our analysis on the decisions still to be made within the corresponding unit and on the agency relationships between the parties. For structured entities used by us to issue catastrophe bonds, we focus above all on our relationship to the trustees and our possibilities to influence their decision-making. Generally, we do not control such structured entities, even if we hold their bonds.

Number of consolidated subsidiaries[1]

	Germany	Other countries	Total
31 Dec. previous year	100	226	326
Additions	2	14	16
Reductions	–4	–9	–13
31 Dec. financial year	98	231	329

1 In addition, 58 German and 4 non-German investment 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 2014 pursuant to Section 313 (2) of the German Commercial Code (HGB)".

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

Cash flows arising from obtaining control

€m	2014	Prev. year
Total consideration for obtaining control	–134	–95
Non-cash consideration for obtaining control	–	–
Cash consideration for obtaining control	**–134**	**–95**
Cash over which control was obtained	21	21
Total	**–113**	**–74**

Net assets obtained

€m	2014	Prev. year
Goodwill/gain from bargain purchase	28	–2
Other intangible assets	40	9
Investments	102	72
Cash	21	21
Other assets	66	46
Technical provisions (net)	–101	–
Other liabilities	–29	–51
Total	**127**	**95**

Cash flows arising from losing control

€m	2014	Prev. year
Total consideration for losing control	–	98
Non-cash consideration for losing control	–	–
Cash consideration for losing control	**–**	**98**
Cash over which control was lost	–	–132
Total	**–**	**–34**

Net assets lost

€m	2014	Prev. year
Goodwill	–	–
Other intangible assets	–	–
Investments	–	42
Cash	–	132
Other assets	–	126
Technical provisions (net)	–	–82
Other liabilities	–	–60
Total	**–**	**158**

Further information on our gains and losses from losing control can be found in the notes to the consolidated balance sheets under Assets (17) Non-current assets and disposal groups held for sale that were sold in the reporting period.

Business combinations occurring during the reporting period

With legal effect from 2 January 2014, via its subsidiary Cannock Chase Holding B.V., Amsterdam, Munich Re acquired 100% of the voting shares in Cannock Chase B.V., Leidschendam, 100% of the voting shares in Cannock Chase Incasso B.V., The Hague, 100% of the voting shares in Cannock Connect Center B.V., Brouwershaven, 100% of the voting shares in Mandaat B.V., Druten, 100% of the voting shares in Cannock Chase Purchase B.V., The Hague, and 62.50% of the voting shares in X-Pact B.V., The Hague. The Cannock Chase Group is the market leader in the public-sector client segment of the credit-management services market. The acquisitions are aimed at expanding the market position of DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam, in the area of credit management. A purchase price of €32m in cash was paid for the acquisition.

On 1 August 2014, via its subsidiary ERGO International AG, Düsseldorf, Munich Re acquired 100% of the voting shares in SHC Insurance Pte. Ltd., Singapore, which in October was renamed ERGO Insurance Pte. Ltd. (ERGO Insurance), Singapore. The purchase price was S$ 117m (€69m). It was paid in cash and fully financed from internal resources. ERGO Insurance offers a broad spectrum of property-casualty policies, including motor, liability, bond, personal accident, fire, marine, and engineering insurance. Market entry in Singapore ties in perfectly with ERGO's international growth strategy, which is focused on the highly attractive property-casualty markets of Southeast Asia.

Growth prospects for the next few years are also positive, one reason being the local supervisory authority's endeavours to turn Singapore into an international insurance hub similar to the London market by 2020. ERGO Insurance itself is well positioned for further growth.

In connection with the acquisition of ERGO Insurance, its existing client sales channels and software have been identified as other intangible assets. As part of the transaction, goodwill of approximately €21m and other intangible assets of around €19m were capitalised. The goodwill derives from anticipated synergies, the growth potential of ERGO Insurance and the further geographical spread of the ERGO Group in the desired growth regions. ERGO is already present in this region in Vietnam, where it owns a 35% share of the voting rights in Global Insurance Company (GIC). The single-entity national companies are led and supported by a regional management team, which can draw on the comprehensive expertise of the ERGO Group in the area of risk management and its vast experience in developing innovative products and sales channels. The goodwill includes the value assigned to ERGO Insurance's staff and is not tax-deductible.

The provisional IFRS carrying amounts of ERGO Insurance at the acquisition date are as follows:

Investments totalling €59m; ceded share of technical provisions amounting to €31m; cash at banks, cheques and cash in hand of €3m; intangible assets, receivables and other assets of €31m; equity of €48m; gross technical provisions of €65m; and other provisions, liabilities and deferred tax liabilities of €11m.

The fair value of the receivables acquired as part of the transaction largely corresponds to the carrying amount. No material defaults were anticipated at the time of acquisition.

No contingent liabilities or material separate transactions within the meaning of IFRS 3 were identified.

Gross premiums written of €15m and a result of €0.4m for ERGO Insurance have been included in the consolidated income statement. If Munich Re had acquired ERGO Insurance at the beginning of the financial year, ERGO Insurance would have contributed €39m in gross premiums written to the consolidated premium and a result of €3m to the consolidated result.

On 23 December 2014, via its subsidiary Munich Holdings of Australasia Pty Limited, Sydney, Munich Re acquired 100% of the voting shares in Calliden Insurance Pty Limited (Calliden), Sydney for a cash payment. Calliden specialises in commercial insurance, including niche products. Calliden has been an important partner of Munich Re since establishment in 2005. As part of this transaction, our newly-established subsidiary Calibre Commercial Insurance Pty Limited, Sydney, purchased via an asset deal, the distribution rights to certain commercial insurance portfolios of the Calliden Group Limited, Sydney, and its related IT underwriting platforms. The purchase price was also settled in cash. With these transactions, Munich Re will seek to develop niche products specifically tailored to current-market commercial insurance needs.

Consolidation principles

The annual financial statements of the consolidated subsidiaries are subject to uniform accounting policies.

The balance sheet date of the consolidated companies is generally 31 December. Some of the investment funds have different 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 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 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 and joint ventures

Pursuant to IAS 28, associates are generally all entities which are not subsidiaries or joint ventures 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.

We classify a small number of entities as associates even though we hold less than 20% of the voting rights, mainly because we are represented on their supervisory boards and/or have significant business relations with them.

Under IFRS 11, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of that arrangement.

Number of companies valued at equity

	Germany	Other countries	Total
31 Dec. previous year	22	25	47
Additions	–	–	–
Reductions	–4	–	–4
31 Dec. financial year	18	25	43

Number of companies not valued at equity

	Germany	Other countries	Total
31 Dec. previous year	39	10	49
Additions	1	–	1
Reductions	–5	–1	–6
31 Dec. financial year	35	9	44

Information on the measurement of investments in associates and joint ventures can be found in the notes under Assets B – Investments.

Joint operations

Under IFRS 11, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets specified in the arrangement, and assume obligations for the liabilities relating to the arrangement. Unlike a joint venture, a joint operation does not confer rights to net assets.

We measure joint operations on the basis of the corresponding attributable assets, liabilities, income and expenses in accordance with the relevant IFRSs.

Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant business activities are directed by means of contractual arrangements.

Munich Re has interests in both consolidated and unconsolidated structured entities. An interest in an unconsolidated structured entity is classified as such where Munich Re receives variable returns from relevant activities of the structured entity but does not control that entity.

Consolidated structured entities In 2014, Munich Re provided no financial or other support to consolidated structured entities, or intended to do so in future, without having a contractual obligation to do so.

Munich Re classifies **unconsolidated structured entities** as either investment funds or securitisation vehicles on the basis of the type of structured entity.

Investment funds As part of its investment activities Munich Re invests in investment funds on its own behalf and on behalf of policyholders under unit-linked life insurance. Investment funds are mainly financed by issuing redeemable shares or units.

Munich Re above all invests in mutual and specialised funds in Germany and in other countries that invest in securities and real estate. Some of the investment funds are managed by MEAG MUNICH ERGO AssetManagement GmbH, others by fund managers outside the Group. They also include investments in forestry, infrastructure (including renewable energies and new technologies) and private equity.

On behalf of our policyholders, we invest in numerous investment funds for unit-linked life insurance that are mainly managed by companies which are not related parties of Munich Re. These funds are usually equity and bond funds which can be found under C – Insurance-related investments – Investments for unit-linked life insurance contracts.

Securitisation vehicles Munich Re invests in debt securities that are issued by securitisation vehicles which are not set up by Munich Re. Munich Re also uses securitisation vehicles to issue catastrophe bonds, and it also invests in third-party catastrophe bonds. Securitisation vehicles finance themselves by issuing securities.

The investments in debt securities comprise asset-backed securities (ABS), mortgage-backed securities (MBS), collateralised debt obligations (CBO) and collateralised loan obligations (CLO).

In order to protect its own portfolio, Munich Re uses alternative risk transfer in addition to traditional retrocession. Under this process, underwriting risks are transferred to the capital markets with the assistance of securitisation vehicles. The sole purpose of these vehicles is to securitise underwriting risks, mostly in the area of natural catastrophes, and to issue catastrophe bonds. Depending on the design of the risk transfer agreement with the securitisation vehicle, the transaction is classified as a derivative or as an insurance contract. Derivatives are designated as at fair value through profit or loss under “other securities” or “other liabilities”. The agreements designated as insurance contracts are not recognised in the balance sheet until a loss has occurred, and they are shown under “ceded share of technical provisions”.

Munich Re also invests in the area of catastrophe risks. Munich Re invests in various securities whose repayment and interest is generally linked to the occurrence of natural catastrophes. The securities are issued by securitisation vehicles which as a matter of general policy are not set up by Munich Re. If the risk transfer agreement is not an insurance contract, the bond component of the catastrophe bond is recognised under “securities available for sale”, and the derivative portion is recognised under “other securities at fair value through profit or loss” or under “other liabilities”. If there is an insurance contract, recognition is made under “deposits retained on assumed reinsurance” or “technical provisions”.

Size of structured entities For investment funds, including investments in forestry, infrastructure (including renewable energies and new technologies) and private equity, investment funds for policyholders under unit-linked life insurances, and investments in debt securities, the carrying amount gives an indication of the size of the structured entity. For the securitisation of underwriting risks, the total emitted volume (nominal value) is used as an indicator for the valuation of the size of the structured entity. The size of the funds refers to both the issued volume of the securitisation vehicles set up by Munich Re and that of those securitisation vehicles in which Munich Re has invested.

Unconsolidated structured entities

€m	Investment funds – Munich Re investments 31.12.2014	Investment funds – Investments for unit-linked life insurance 31.12.2014	Securitisation vehicles – Debt securities 31.12.2014	Securitisation vehicles – Underwriting risks 31.12.2014	Total 31.12.2014
Other securities					
Available for sale	2,871	–	5,757	288	8,916
At fair value through profit or loss	–	–	–	2	2
Deposits retained on assumed reinsurance	–	–	–	343	343
Investments for unit-linked life insurance contracts	–	7,395	–	–	7,395
Ceded share of technical provisions	–	–	–	–	–
Total assets	**2,871**	**7,395**	**5,757**	**633**	**16,656**
Technical provisions	–	–	–	–	–
Other liabilities	–	–	–	1	1
Total equity and liabilities	**–**	**–**	**–**	**1**	**1**
Size of structured entity	2,871	7,395	5,757	8,078	24,101

Maximum exposure to loss With the exception of investment funds for investments for unit-linked life insurance, the maximum exposure to loss is the carrying amount of the respective items on the assets side, and zero for the items on the liabilities side. Therefore, for the items on the assets side, there is usually no difference between the carrying amount of interests in unconsolidated structured entities and the maximum exposure to loss.

Normally, the maximum exposure to loss for investments for unit-linked life insurance is also the carrying amount of the interests. However, the investment is held for the benefit of policyholders who bear the investment risk.

Managed fund assets MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH also manages investment funds for private clients and institutional investors, for which it receives a management fee. The management fees are recognised as an expense in the consolidated income statement (commissions). The maximum exposure to loss relates to the loss of future management fees. Fund management activities generated income of €28m in the financial year 2014. The value of fund assets under management provides information about the size of the unconsolidated structured entities. As at 31 December 2014, the managed fund assets amounted to €3,073m, and Munich Re itself also holds a small interest in these funds.

Financial support Munich Re has not provided any non-contractual financial or other support to the unconsolidated structured entities presented above, nor does it have the intention to do so in the foreseeable future.

Sponsored unconsolidated structured entities Sponsored unconsolidated structured entities Munich Re provides structuring and consultancy services for clients within the context of the foundation and structuring of third-party securitisation vehicles. As at 31 December 2014, Munich Re did not have any interests in these structured entities.

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 group of cash-generating units is compared with that unit's or group's recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. If this recoverable amount is lower than the carrying amount, a write-down for impairment is made on the goodwill.

The **other intangible assets** mainly comprise acquired insurance portfolios, acquired and self-developed 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 using a liability adequacy test as per IFRS 4; see notes under Liabilities C – Gross technical provisions. Write-downs are recognised under operating expenses.

Self-developed and other software, acquired sales networks, client bases and brand names are carried at cost. Self-developed and other software is amortised on a straight-line basis at a rate of 20–33% over its useful life – three to five years – or in exceptional circumstances at a rate of 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 or 6–50% respectively, and those of the brand names 1–30 years or 3–100%; the items in question are generally amortised on a straight-line basis. Impairments or impairment losses reversed are recognised if required. Recognised impairments and impairment losses reversed are distributed in the consolidated income statement between investment expenses, expenses for claims and benefits and operating expenses. If it is not possible to allocate impairments and impairment losses reversed to the functional areas, they are shown under other non-operating expenses or income.

B Investments

Land and buildings shown under investments comprise property used by third parties and are carried at cost. Maintenance expenses are recognised as an expense. Structural measures equivalent to 5% or more of the historical cost of a building are generally assessed with regard to whether they have to be capitalised. Buildings are depreciated on a straight-line basis in accordance with the component approach, depending on the weighted useful life for their specific building class. The underlying useful lives mainly range between 40 and 55 years. If the recoverable amount of land and buildings falls below their carrying amount, the carrying amount is written down to the recoverable amount. Impairment losses are recognised as investment expense in the consolidated income statement, and reversals of impairment losses as investment income.

Investments in affiliated companies that we do not consolidate because they are not material are generally carried at their fair values. If the investments are quoted on a stock exchange, we use the share prices at the balance sheet date (market values); 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 and joint ventures are valued by the equity method at the Group’s proportionate share of their net assets. The earnings of the associate or joint venture 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 or joint venture are used; in the case of the annual financial statements of important associates or joint ventures, appropriate adjustments are made to ensure they conform with Munich Re’s accounting policies; exceptional transactions of material importance for a true and fair picture of the financial position of the associate or joint venture are recognised in the same financial year. Investments in associates and joint ventures that are not material for assessing the Group’s financial position are generally accounted for at fair value. To determine the fair value, we use the share prices at the balance sheet date if the investments are quoted on a stock exchange; for unquoted investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in “other reserves” under unrealised gains and losses.

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

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

Fixed-interest or non-fixed-interest securities available for sale that are not designated as at fair value through profit or loss or recognised under loans are accounted for at fair value, with resulting changes in value recognised in equity with no effect on profit or loss. If no quoted prices in an active market are available, fair values are based on recognised valuation methods in line with the present value principle. Unrealised gains or losses are calculated taking into account interest accrued and, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realisation (provision for deferred premium refunds), are recognised directly in equity under “other reserves”.

Securities at fair value through profit or loss comprise securities held for trading and securities designated as at fair value through profit or loss. Securities held for trading are all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences. In addition, they include all derivative financial instruments with positive fair values which we have acquired to manage and hedge risks but which do not meet the requirements of IAS 39 for hedge accounting. Securities designated as at fair value through profit or loss comprise structured securities. This designation may only be made at the time of acquisition; reallocation to this category in later periods is not possible.

Securities at fair value through profit or loss are accounted for at fair value at the balance sheet date. If no quoted prices in an active market are available, fair values (particularly with derivatives) are based on recognised valuation methods. Munich Re uses a range of valuation models for this purpose. Information on the valuation models and processes can be found in the Notes to the consolidated balance sheet – Assets (4) Hierarchy for the fair value measurement of investments.

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

Deposits retained on assumed reinsurance are receivables from our cedants for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

Other investments comprise deposits with banks and tangible assets in renewable energies, physical gold, and forestry investments. Deposits with banks are measured at cost in accordance with the effective interest method. Tangible assets in renewable energies are generally accounted for at amortised cost. The items in question are amortised on a straight-line basis at a rate of at least 5% over a useful life of 20 years at most. In addition, these items are tested for impairment at each balance sheet date and write-downs for impairment or reversals of impairments are made if required. We measure physical gold at the acquisition cost; if the recoverable amount is lower than the carrying amount, a write-down for impairment is made. If there is a subsequent recovery in value, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the acquisition cost. 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 against payment of an amount with the obligation to sell them back to the borrower at a later date. As the risks and rewards from the securities remain with the borrower, the amounts paid are not posted as such in our accounts but are shown as a receivable from the borrower under “other investments, deposits with banks”. Interest income from these transactions is recognised in the investment result.

Securities that we lend by way of securities lending continue to be recognised in our balance sheet, as the main risks and rewards remain with Munich Re; securities that we have borrowed are not recognised in the balance sheet. Fees from securities lending are recognised in the investment result.

Recognition of financial instruments

Financial assets are accounted for at the trade date.

Determining fair values

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All investments and other items that are recognised at fair value, and such investments and other items that are not recognised at fair value but for which a fair value is disclosed in the notes, are allocated to one of the fair value hierarchy levels of IFRS 13. This fair value hierarchy provides for three levels.

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

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

Assets allocated to Level 2 are valued using models based on observable market data. For this, we use inputs directly or indirectly observable in the market, other than quoted prices. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. Moreover, we have allocated to this level such investments for which prices are provided by price quoters but for which there is no proof that these were based on actual market transactions. The financial instruments we have allocated to this level mainly comprise bearer bonds and bond funds, borrowers' note loans, covered bonds, subordinated securities, derivatives not traded on the stock market, and physical gas.

For assets allocated to Level 3, we use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data is available. The inputs used reflect Munich Re's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data. The financial instruments allocated to this level of the fair value hierarchy largely comprise land and buildings, real-estate funds, investments in private equity, certain credit structures, and investments in subsidiaries, associates and joint ventures measured at fair value. Insurance-linked derivatives are also allocated to Level 3.

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

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

Net investment result

The net investment result comprises regular income, income from write-ups, gains and losses on the disposal of investments, other income, write-downs of investments, management expenses, interest charges and other expenses. Regular income and expenses from investments not measured at fair value through profit or loss are calculated in accordance with the effective interest method, i.e. any premiums or discounts are 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 such factors providing evidence of impairment of financial assets. In addition, IAS 39.61 states that for equity investments, a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. These rules are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, we assume a significant decline in fair value if the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months. In the case of fixed-interest securities and loans, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer.

We determine acquisition cost on the basis of the average purchase price. In the case of an impairment, a write-down is made to the fair value at the balance sheet date, i.e. generally the publicly quoted market price. If there is a further fall in the fair value of equity investments that have already been written down once, a further write-down recognised in the income statement is made again immediately. Such impairments recognised in profit or loss may not be reversed through profit or loss. If, in a subsequent period, the reasons for the impairment of fixed-interest securities or loans cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

C Insurance-related investments

Investments for unit-linked life insurance contracts

Investments for policyholders under unit-linked life insurance are measured at market value. Unrealised gains or losses from changes in market value are included in the insurance-related investment result. They are matched by corresponding changes in the technical provisions (see Equity and liabilities – D Technical provisions for unit-linked life insurance), which are included in the technical result. The change in technical provisions also includes changes from additional premium components to be recognised on the liabilities side of the balance sheet. Recognising these investments at market value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

Other insurance-related investments

This refers to investments that are not utilised for asset-liability management. It includes insurance-linked derivatives, derivatives to hedge variable annuities, weather and commodity derivatives, and physical gas. Insurance-linked derivatives include derivatives embedded in variable annuities, the derivative components of natural catastrophe bonds and from securitisations of mortality and morbidity risks, individually structured insurance-linked derivatives, and derivative components which are separated from their host insurance contract in accounting. Insurance-linked derivatives also include retrocessions in the form of derivatives to hedge insurance risks assumed. Insurance risks are defined as risks which – in a modified form – can also be assumed under an insurance contract within the meaning of IFRS 4. Other insurance-related investments are accounted for at fair value, although we recognise changes in value in profit or loss. For physical gas, the fair value is reduced by estimated costs to sell. If no quoted prices in an active market are available, fair values are based on recognised valuation methods. Munich Re uses a range of valuation models for this purpose. Information on the valuation models and processes can be found in the Notes to the consolidated balance sheet under Assets (4) Hierarchy for the fair value measurement of investments.

Net insurance-related investment result

The net result from these investments comprises regular income, income from write-ups, gains and losses on the disposal of insurance-related investments, other income, write-downs of insurance-related investments, management expenses, interest charges and other expenses.

D Ceded share of technical provisions

The share of technical provisions for business ceded by us is determined from the respective technical provisions in accordance with the terms of the reinsurance agreements; see Equity and liabilities – C Gross technical provisions. Appropriate allowance is made for the credit risk.

E Receivables

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

Current tax receivables comprise current taxes on income of the individual companies, including any interest on taxes, based on their respective national taxation. Other tax receivables are shown under “other receivables”.

F Cash at banks, cheques and cash in hand

Cash and cheques are accounted for at face value.

G Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. In accordance with IFRS 4, we do not use shadow accounting for deferred acquisition costs in life primary insurance. In life business and long-term health primary insurance, acquisition costs are capitalised and amortised over the duration of the contracts. This is done either proportionally to the premium income (FAS 60) or proportionally to the respective contracts' expected gross profit margins calculated for the relevant year of the contract term (FAS 97, 120). The allocation of individual contracts to the FASs concerned is shown under Equity and liabilities – C Gross technical provisions. In determining the amount of amortisation, we take into account an actuarial interest rate and changes resulting from the disposal or withdrawal of contracts from the portfolio. In property-casualty business, short-term health primary insurance and health reinsurance, the deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using a liability adequacy test pursuant to IFRS 4; see Equity and liabilities – C Gross technical provisions.

H Deferred tax assets

Under IAS 12, deferred tax assets must be recognised in cases where asset items have to be valued lower, or liability items higher, in the consolidated balance sheet than in the tax accounts of the Group company concerned and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. Deferred tax assets are recognised to the extent that, on the basis of tax result planning, it is sufficiently probable that they will be utilised. As a rule, a five-year forecast period is considered. 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.

I Other assets

Other assets are generally carried at amortised cost. The owner-occupied property recognised under other assets is accounted for as outlined under Assets – B Investments – Land and buildings. Plant and equipment is amortised mainly on a straight-line basis, the underlying useful lives ranging between 1 and 50 years. Where required, impairment losses are recognised or reversed for the Group's owner-occupied property. These impairment losses or impairment losses reversed are distributed between the functional areas.

Equity and liabilities

A Equity

The item **issued capital and capital reserve** contains the amounts that the equity holders of Munich Reinsurance Company have paid in on shares. The issued capital comprises the subscribed capital less the accounting value of own shares held by Munich Reinsurance Company at the balance sheet date. Acquisition costs exceeding the accounting value are deducted from retained earnings. The capital reserve contains gains from the sale of own shares by Munich Reinsurance Company.

Under **retained earnings,** we show the profits which consolidated companies have earned and retained since becoming part of Munich Re, and income and expenses resulting from changes in the consolidated group. In addition, the adjustment amount resulting from changes in accounting policies for earlier periods not included in the consolidated financial statements is recognised in the opening balance of the retained earnings for the earliest prior period reported. The retained earnings are reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects.

Own shares held by Munich Re subsidiaries at the balance sheet date have been deducted directly from retained earnings.

Other reserves contain unrealised gains and losses resulting from the recognition of other securities available for sale at fair value and from investments in unconsolidated affiliated companies, and in associates and joint ventures that we do not value at equity. These reserves also include unrealised gains and losses from the valuation of associates and joint ventures at equity, differences resulting from the currency translation of foreign subsidiaries' figures, and the valuation result from the hedging of cash flows. In addition, reversals of impairment losses on equity investments available for sale are recognised in this equity item, without impact on profit or loss.

Non-controlling interests are accounted for in the balance sheet as part of equity. These are the shares of third parties in the equity of subsidiaries that are not wholly owned directly or indirectly by Munich Reinsurance Company. Direct minority interests in investment funds and in partnerships are recognised under "other liabilities". The portion of the result attributable to non-controlling interests is shown in the consolidated result.

B Subordinated liabilities

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

C Gross technical provisions

The technical provisions are shown as gross figures in the balance sheet, i.e. before deduction of the ceded share; see the explanatory remarks on Assets – D Ceded share of technical provisions. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements. Acquisition costs for insurance contracts are capitalised and amortised over the terms of the contracts; see notes on Assets – G Deferred acquisition costs. The measurement of technical provisions is based on US GAAP FAS 60, FAS 97 and FAS 120. Credit insurance contracts are accounted for in accordance with the rules of IFRS 4.

Unearned premiums are accrued premiums already written for future risk periods. For primary insurance, these premiums are calculated separately for each insurance policy pro rata temporis; for reinsurance, nominal percentages are used in some cases where the data for a calculation pro rata temporis is not available. The posting of unearned premiums is restricted to short-term underwriting business; i.e. property-casualty business and parts of accident and health business. In the case of long-term business, a provision for future policy benefits is established.

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

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 (Deutschen Aktuarvereinigung e. V.) 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 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 based on the universal life model, unit-linked life insurance and life reinsurance for assumed policies based on FAS 97) or on FAS 120 (life primary insurance with performance-related participation in surplus).

For contracts in accordance with FAS 60, the provision for future policy benefits is calculated from the present value of estimated future policy benefits (including claims adjustment expenses) less the present value of future net level premiums. Net level premium is that part of the gross premium that is needed to finance future policy benefits. Life primary insurance contracts with limited premium payment are generally valued in accordance with FAS 97.

For all other contracts as per FAS 97, an account is kept to which net level premiums and interest earnings are credited and from which risk premiums and administration expenses are debited, not all credits and debits being contractually fixed at the time the contracts are concluded. The provision for future policy benefits for life primary insurance where policyholders bear the investment risk themselves (unit-linked life insurance) is shown separately under Equity and liabilities – D Technical provisions for unit-linked life insurance (gross).

In the case of contracts as per FAS 120, the provision for future policy benefits comprises the net level premium reserve and liabilities for terminal dividends. The net level premium reserve is calculated from the present value of guaranteed policy benefits (including acquired bonuses but excluding claims adjustment expenses) less the present value of future net level premiums. The net level premium is the net premium less the portion of the premium envisaged for covering claims adjustment expenses. The actuarial assumptions are generally the same as those used for premium calculation. The provision for terminal dividends is built up proportionally with a fixed share of the expected gross profit margins. The same method is used for this as for determining the amortisation of the deferred acquisition costs.

The **provision for outstanding claims** is for payment obligations arising from insurance contracts in primary insurance and reinsurance where the size of the claim or the timing of the payment is still uncertain. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims whose occurrence is not yet known (e.g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustments. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological factors). Future payment obligations are generally not discounted; exceptions are some provisions for occupational disability pensions and annuities in workers' compensation and other lines of property-casualty business, which we discount. For determining the provision for outstanding claims, Munich Re uses a range of actuarial projection methods, including the chain ladder and the Bornhuetter-Ferguson method. In applying the statistical methods, we regard large exposures separately. The standard actuarial methods we use are applied both to the run-off triangles for the payments and to the run-off triangles for the reported claims, so that we obtain a range of estimates for the ultimate loss. Within this range, a realistic estimated value for the ultimate loss is determined.

Other technical provisions mainly include the provision for premium refunds in primary insurance and the provision for profit commission in reinsurance. Provisions for premium refunds are posted in life and health primary insurance for obligations involving policyholder bonuses and rebates that have not yet been irrevocably allocated to individual contracts at the balance sheet date. Where these provisions are posted on the basis of national regulations, a retrospective approach is usually taken based on supervisory or individual contract regulations. The provision for premium refunds based on national regulations relates only to German primary insurance business. The provision for premium refunds also incorporates the provision for premium loadings and the provision for future premium reductions in German health primary insurance.

For life insurance companies, health insurance companies and pension funds subject to supervision by the German Federal Financial Supervisory Authority (BaFin), the supervisory rules in accordance with the German Insurance Supervision Act (VAG) and with the respective regulations must be observed.

Besides this, there are provisions for deferred premium refunds, which are posted for the amounts apportionable to policyholders from the valuation differences between IFRS and local GAAP on the basis of the expected future participation quotas. For unrealised gains and losses on investments available for sale, which are recognised directly in equity (see Assets – B Investments), the resultant provision for deferred premium refunds is also posted without impact on profit or loss; otherwise, changes in this provision are recognised in the income statement.

All technical provisions are regularly subjected to a **liability adequacy test in accordance with IFRS 4.** If current experience shows that the provisions posted on the basis of the original assumptions – less the related deferred acquisition costs and the present value of the related premiums – are inadequate to cover the expected future benefits, we adjust the relevant technical provisions with recognition in profit or loss and disclose this under impairment losses/unscheduled changes in the notes to the consolidated balance sheet; see Notes to the consolidated balance sheet – Assets (2) Other intangible assets, Assets (14) Deferred acquisition costs, and Equity and liabilities (22) Provision for future policy benefits. The appropriateness of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future amount to be paid. The appropriateness of the provision for future policy benefits is assessed on the basis of realistic estimates of the actuarial assumptions, the proportional investment result and, for contracts with participation in surplus, the future profit sharing.

D Gross technical provisions for unit-linked life insurance

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

E Other accrued liabilities

This item includes **provisions for post-employment benefits and similar obligations**. Munich Re companies generally give commitments to their staff in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the staff member’s length of service and salary. Under defined contribution plans, the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies’ obligations. Under defined benefit plans, the staff member is promised a particular level of retirement benefit either by the companies or by a pension fund. The companies' contributions needed to finance this are not fixed in advance. If pension obligations are covered by assets held by a legally separate entity (e.g. a fund or a contractual trust agreement in the form of a two-way trust) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets. If the fair value of the assets exceeds the related outsourced pension commitments, this reimbursement right is recognised under "other receivables".

Pension obligations are recognised in accordance with IAS 19, using the projected unit credit method and based on actuarial studies. The calculation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

The interest rate at which the pension obligations are discounted is based on the yields for long-term high-quality bonds (e.g. commercial or government bonds).

Revaluations of pension obligations can result from changes in demographic or financial assumptions or from the change in the effect of the asset ceiling. They are recognised in equity, without impact on profit or loss.

The **other provisions** included in this item are established in the amount of the probable requirement. Such amounts are not discounted if the interest-rate effect is insignificant.

F Liabilities

This item comprises bonds and notes issued, deposits retained on ceded business, current tax liabilities, and other liabilities. Financial liabilities are generally recognised at amortised cost. Derivatives (derivative financial instruments) are recognised at fair value. Details of how the fair value is determined are provided under Assets – B Investments – Determining fair values.

Current tax liabilities comprise current taxes on income and interest on back tax of the individual companies, based on their respective national taxation. Other tax liabilities are shown under "other liabilities".

Tax liabilities for current taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

Deferred tax liabilities are shown under equity and liabilities item G.

The non-controlling interests in investment funds and partnerships are recognised 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); see notes on Assets – H Deferred tax assets.

Foreign currency translation

Munich Re's presentation currency is the euro (€). The balance sheets of foreign subsidiaries whose national currency is not the euro are translated in accordance with the functional currency principle using the year-end exchange rates, and their income statements using quarterly average exchange rates. Any exchange differences arising in the process are recognised in equity (reserve for currency translation adjustments).

In contrast to this, currency translation differences are largely recognised in profit or loss in our subsidiaries' individual financial statements. This involves the translation of foreign currency items into the respective functional currency in accordance with IAS 21. An excess of assets over liabilities in a particular foreign currency results on balance in a gain if that currency appreciates, and in a loss if it falls in value. The reverse applies if cover is insufficient.

The object of our asset-liability management, on which we report on page 102, is to economically minimise excess or insufficient cover in foreign currencies within the Group. Insofar as this is done across Group companies with different functional currencies, it produces economically non-existent fluctuations in the consolidated result. Where exchange gains or losses occur in the translation of foreign-currency transactions into the national currencies of the consolidated companies, they are accounted for under "other non-operating income" and "other non-operating expenses" respectively.

Beyond this, the impact of changes in exchange rates is reflected in period-to-period comparisons of all items in the income statement.

The following table shows the exchange rates of the most important currencies for our business:

Currency translation rates

	Balance sheet		Income statement				Income statement			
Rate for €1	31.12.2014	Prev. year	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Australian dollar	1.47865	1.54020	1.46139	1.43264	1.47064	1.52779	1.46934	1.44637	1.31878	1.27085
Canadian dollar	1.40155	1.46405	1.41862	1.44229	1.49605	1.51090	1.42889	1.37610	1.33657	1.33091
Pound sterling	0.77605	0.83200	0.78902	0.79379	0.81486	0.82797	0.84087	0.85436	0.85048	0.85064
Rand	13.99880	14.43230	14.01530	14.26520	14.45910	14.87360	13.82880	13.22540	12.37200	11.81310
Swiss franc	1.20235	1.22550	1.20437	1.21152	1.21910	1.22350	1.22920	1.23438	1.23101	1.22778
US dollar	1.21005	1.37795	1.24892	1.32546	1.37153	1.37039	1.36146	1.32442	1.30583	1.32006
Yen	145.0790	144.8300	142.9660	137.7430	140.0360	140.8670	136.7610	130.9720	128.9230	121.6110
Yuan Renminbi	7.50715	8.34200	7.67889	8.17218	8.54686	8.36070	8.29215	8.11291	8.03652	8.21540

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. Segment reporting was changed in the fourth quarter of 2014 in connection with changes to internal management, see Recognition and measurement – Changes in accounting policies and other adjustments.

We have consequently identified six segments to be reported:

— Life reinsurance (global life reinsurance business)
— Property-casualty reinsurance (global property-casualty reinsurance business)
— ERGO Life and Health Germany (German life and health primary insurance business, German property-casualty direct business, and global travel insurance business)
— ERGO Property-casualty Germany (German property-casualty insurance business, excluding direct business)
— ERGO International (ERGO primary insurance business outside Germany)
— Munich Health (global health reinsurance business and health primary insurance business outside Germany)

Certain primary insurers whose business requires special solution-finding competence are coupled to reinsurance as the risk carrier. We therefore transact their business from within reinsurance and consequently allocate them to the reinsurance segment.

Munich Re uses different performance indicators and measures. The main performance metrics at Group level are economic earnings and the return on risk-adjusted capital (RORAC). Besides this, IFRS result contributions are the basis of planning and strategy in all segments. Therefore the uniform assessment basis used for measuring the segment result is the operating result adjusted to eliminate non-operating components. The operating result is split into a technical result and a non-technical result, with an interest component allocated to the underwriting business in the form of technical interest (see Notes to the consolidated income statement – (31) Income from technical interest). The non-technical result also separately discloses the insurance-related investment result and the result of other investments. The segments reported under IFRS 8 are now shown after elimination of all intra-Group transactions (mainly dividend payments, sales, reinsurance transactions, receivables and corresponding interest income). Our segment reporting has no consolidation column.

In the case of intra-Group sales of assets where a provision for premium refunds has to be posted, the latter always has to be shown by the selling segment.

Intra-Group loans are completely eliminated in the balance sheet through consolidation. By contrast, the expenditure for the borrowers and income for the lenders is shown unconsolidated under “Other non-operating result, impairment losses of goodwill and net finance costs” for the segments concerned. All intra-Group shareholdings are consolidated, and all earnings and expenditure of the subsidiaries are shown in their segments.

Segment assets[1] » Segment assets (XLS, 56 KB)

	Reinsurance			
	Life		Property-casualty	
€m	31.12. 2014	Prev. year	31.12. 2014	Prev. year
A. Intangible assets	**160**	**160**	**2,099**	**1,925**
B. Investments				
I. Land and buildings, including buildings on third-party land	252	263	1,204	1,217
II. Investments in affiliated companies, associates and joint ventures	30	23	892	841
Thereof: Associates and joint ventures accounted for using the equity method	6	4	774	750
Thereof: Held for sale	5	–	11	–
III. Loans	40	34	156	125
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	16,261	14,171	57,512	49,608
Thereof: Held for sale	–	–	–	–
3. At fair value through profit or loss	77	84	481	1,017
	16,338	14,255	57,993	50,625
V. Deposits retained on assumed reinsurance	7,082	7,847	1,286	1,279
VI. Other investments	463	458	1,359	1,653
	24,205	**22,880**	**62,890**	**55,740**
C. Insurance-related investments	**803**	**567**	**59**	**41**
D. Ceded share of technical provisions	**1,129**	**1,096**	**1,966**	**1,932**
E. Other segment assets	**7,263**	**6,915**	**10,473**	**10,069**
Total segment assets	**33,560**	**31,618**	**77,487**	**69,707**

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

Segment equity and liabilities[1] » Segment equity and liabilities (XLS, 59 KB)

	Reinsurance			
	Life		Property-casualty	
€m	31.12. 2014	Prev. year	31.12. 2014	Prev. year
A. Subordinated liabilities	**1,122**	**1,138**	**3,235**	**3,177**
B. Gross technical provisions				
I. Unearned premiums	24	28	5,973	5,587
II. Provision for future policy benefits	13,902	13,633	26	27
Thereof: Held for sale	–	–	–	–
III. Provision for outstanding claims	6,687	5,948	39,868	37,847
IV. Other technical provisions	220	396	-123	49
	20,833	**20,005**	**45,744**	**43,510**
C. Gross technical provisions for unit-linked life insurance contracts	–	–	–	–
D. Other accrued liabilities	**179**	**164**	**550**	**487**
E. Other segment liabilities	**7,061**	**5,580**	**11,498**	**10,295**
Total segment liabilities	**29,195**	**26,887**	**61,027**	**57,469**

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

	ERGO						Munich Health		Total	
	Life and Health Germany		Property-casualty Germany		International					
	31.12. 2014	Prev. year	31.12. 2014	Prev. year	31.12. 2014	Prev. year	31.12. 2014	Prev. year	31.12. 2014	Prev. year
	664	701	974	972	375	902	11	12	4,283	4,672
	2,016	2,028	140	131	110	113	10	10	3,732	3,762
	335	362	70	94	143	100	89	94	1,559	1,514
	272	301	35	57	105	86	88	93	1,280	1,291
	9	–	1	–	1	–	–	–	27	–
	52,181	52,829	1,709	1,808	440	427	24	22	54,550	55,245
	–	5	–	–	–	–	–	–	–	5
	45,591	39,939	4,791	4,399	16,316	14,802	3,372	2,983	143,843	125,902
	–	–	–	–	–	–	79	–	79	–
	1,159	846	32	29	416	321	4	3	2,169	2,300
	46,750	40,790	4,823	4,428	16,732	15,123	3,376	2,986	146,012	128,207
	39	115	8	5	14	14	321	376	8,750	9,636
	1,733	1,218	170	123	514	271	85	80	4,324	3,803
	103,054	**97,342**	**6,920**	**6,589**	**17,953**	**16,048**	**3,905**	**3,568**	**218,927**	**202,167**
	4,301	**3,726**	**–**	**–**	**3,297**	**2,972**	**1**	**1**	**8,461**	**7,307**
	8	**44**	**76**	**112**	**1,940**	**1,950**	**209**	**171**	**5,328**	**5,305**
	10,424	**10,381**	**2,567**	**2,286**	**3,597**	**3,543**	**1,656**	**1,667**	**35,980**	**34,861**
	118,451	**112,194**	**10,537**	**9,959**	**27,162**	**25,415**	**5,782**	**5,419**	**272,979**	**254,312**

	ERGO						Munich Health		Total	
	Life and Health Germany		Property-casualty Germany		International					
	31.12. 2014	Prev. year	31.12. 2014	Prev. year	31.12. 2014	Prev. year	31.12. 2014	Prev. year	31.12. 2014	Prev. year
	–	–	–	–	25	75	31	34	4,413	4,424
	174	159	443	449	1,363	1,287	396	484	8,373	7,994
	84,896	84,375	428	426	12,328	11,990	1,068	976	112,648	111,427
	–	–	–	–	–	–	48	–	48	–
	2,653	2,598	3,866	3,766	2,231	2,065	1,037	837	56,342	53,061
	17,077	12,315	107	107	1,049	577	162	75	18,492	13,519
	104,800	**99,447**	**4,844**	**4,748**	**16,971**	**15,919**	**2,663**	**2,372**	**195,855**	**186,001**
	4,742	**4,109**	**–**	**–**	**3,094**	**2,933**	**1**	**1**	**7,837**	**7,043**
	1,981	**1,769**	**759**	**503**	**856**	**683**	**148**	**136**	**4,473**	**3,742**
	5,473	**5,676**	**1,671**	**1,356**	**3,044**	**2,841**	**1,350**	**1,166**	**30,097**	**26,914**
	116,996	**111,001**	**7,274**	**6,607**	**23,990**	**22,451**	**4,193**	**3,709**	**242,675**	**228,124**
							Equity		**30,304**	**26,188**
							Total equity and liabilities		**272,979**	**254,312**

Segment income statement[1]

» Segment income statement (XLS, 45 KB)

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Gross premiums written	**10,040**	**10,829**	**16,730**	**17,013**
1. Net earned premiums	9,627	10,374	16,150	16,237
2. Income from technical interest	683	683	1,209	1,183
3. Net expenses for claims and benefits	–7,895	–8,098	–9,728	–10,013
4. Net operating expenses	–2,135	–2,600	–5,239	–4,939
5. Technical result (1–4)	**280**	**359**	**2,392**	**2,468**
6. Investment result	811	810	1,785	1,766
7. Insurance-related investment result	–1	17	–77	–5
8. Other operating result	53	39	–67	–47
9. Deduction of income from technical interest	–683	–683	–1,209	–1,183
10. Non-technical result (6–9)	**180**	**183**	**432**	**531**
11. Operating result	**460**	**542**	**2,824**	**2,999**
12. Other non-operating result, net finance costs and impairment losses of goodwill	–95	–109	–235	–454
13. Taxes on income	45	–30	–106	–173
14. Consolidated result	**410**	**403**	**2,483**	**2,372**

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

	ERGO						Munich Health		Total	
	Life and Health Germany		Property-casualty Germany		Inter-national					
	2014	Prev. year	2014	Prev. year	2014	Prev. year	2014	Prev. year	2014	Prev. year
	9,812	**9,987**	**3,115**	**3,172**	**3,809**	**3,508**	**5,342**	**6,551**	**48,848**	**51,060**
	9,761	9,909	3,080	3,139	3,479	3,191	5,287	6,322	47,384	49,172
	4,823	4,177	99	103	652	579	37	39	7,503	6,764
	–12,923	–12,136	–1,971	–2,043	–2,816	–2,572	–4,360	–5,065	–39,693	–39,927
	–1,517	–1,567	–994	–1,022	–1,179	–1,075	–887	–1,161	–11,951	–12,364
	144	**383**	**214**	**177**	**136**	**123**	**77**	**135**	**3,243**	**3,645**
	4,453	3,785	204	238	662	551	87	95	8,002	7,245
	320	265	–	–	172	135	–	–	414	412
	–50	–68	–15	–21	–40	–20	–9	–23	–128	–140
	–4,823	–4,177	–99	–103	–652	–579	–37	–39	–7,503	–6,764
	–100	**–195**	**90**	**114**	**142**	**87**	**41**	**33**	**785**	**753**
	44	**188**	**304**	**291**	**278**	**210**	**118**	**168**	**4,028**	**4,398**
	–188	–185	–94	–119	–553	–87	–4	–3	–1,169	–957
	413	155	–34	–16	–1	–29	–5	–15	312	–108
	269	**158**	**176**	**156**	**–276**	**94**	**109**	**150**	**3,171**	**3,333**

Non-current assets by country[1]

» Non-current assets by country (XLS, 39 KB)

€m	31.12.2014	Prev. year
Germany	7,268	7,798
USA	2,062	1,798
UK	489	511
Sweden	262	287
Austria	235	358
Italy	211	234
Poland	192	182
Netherlands	169	156
France	152	154
Spain	139	123
Switzerland	92	92
Portugal	61	61
Others	271	237
Total	**11,603**	**11,991**

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.

Investments in non-current assets per segment[1]

€m	2014	Prev. year
Reinsurance life	49	105
Reinsurance property-casualty	165	380
ERGO Life and Health Germany	33	33
ERGO Property-casualty Germany	72	45
ERGO International	179	488
Munich Health	35	46
Total	**533**	**1,097**

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.

Gross premiums written[1]

	Reinsurance		ERGO		Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year	2014	Prev. year
Europe								
Germany	1,154	1,138	12,593	12,827	75	68	13,822	14,033
UK	3,993	3,830	319	286	304	207	4,616	4,323
Belgium	51	79	423	415	484	466	958	960
Spain	475	535	51	50	695	658	1,221	1,243
Poland	1,200	8	1,188	1,012	–	–	2,388	1,020
Others	1,318	2,685	2,133	2,061	324	391	3,775	5,137
	8,191	8,275	16,707	16,651	1,882	1,790	26,780	26,716
North America								
USA	8,148	8,189	–	–	384	1,120	8,532	9,309
Canada	3,891	4,709	9	3	2,570	3,111	6,470	7,823
	12,039	12,898	9	3	2,954	4,231	15,002	17,132
Asia and Australasia								
Australia	1,857	1,602	–	–	–	–	1,857	1,602
China	1,200	1,348	–	1	51	42	1,251	1,391
Japan	472	516	–	–	1	2	473	518
Taiwan	212	327	–	–	28	42	240	369
Others	783	659	17	6	41	100	841	765
	4,524	4,452	17	7	121	186	4,662	4,645
Africa, Middle East								
South Africa	330	326	–	–	–	–	330	326
United Arab Emirates	22	15	–	–	286	230	308	245
Others	346	363	–	1	99	85	445	449
	698	704	–	1	385	315	1,083	1,020
Latin America	1,318	1,513	3	5	–	29	1,321	1,547
Total	**26,770**	**27,842**	**16,736**	**16,667**	**5,342**	**6,551**	**48,848**	**51,060**

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

Notes to the consolidated balance sheet – Assets

1 Goodwill

Development of goodwill

	Reinsurance			
Goodwill from the acquisition of	Munich Re America		Other	
€m	2014	Prev. year	2014	Prev. year
Gross carrying amount at 31 Dec. previous year	1,001	1,046	440	454
Accumulated impairment losses at 31 Dec. previous year	–	–	–51	–51
Carrying amount at 31 Dec. previous year	1,001	1,046	389	403
Currency translation differences	139	–45	51	–16
Additions	–	–	2	2
Reclassifications	–	–	–	–
Impairment losses	–	–	–	–
Carrying amount at 31 Dec. financial year	**1,140**	**1,001**	**442**	**389**
Accumulated impairment losses at 31 Dec. financial year	–	–	–51	–51
Gross carrying amount at 31 Dec. financial year	1,140	1,001	493	440

→	Primary insurance			
Goodwill from the acquisition of	ERGO Insurance Group		Other	
€m	2014	Prev. year	2014	Prev. year
Gross carrying amount at 31 Dec. previous year	1,754	1,754	557	554
Accumulated impairment losses at 31 Dec. previous year	–	–	–409	–381
Carrying amount at 31 Dec. previous year	1,754	1,754	148	173
Currency translation differences	–	–	–2	–
Additions	–	–	26	3
Reclassifications	–	–	–	–
Impairment losses	–440	–	–5	–28
Carrying amount at 31 Dec. financial year	**1,314**	**1,754**	**167**	**148**
Accumulated impairment losses at 31 Dec. financial year	–440	–	–414	–409
Gross carrying amount at 31 Dec. financial year	1,754	1,754	581	557

→	Munich Health		Total	
Goodwill from the acquisition of	Other			
€m	2014	Prev. year	2014	Prev. year
Gross carrying amount at 31 Dec. previous year	156	156	3,908	3,964
Accumulated impairment losses at 31 Dec. previous year	–156	–156	–616	–588
Carrying amount at 31 Dec. previous year	–	–	3,292	3,376
Currency translation differences	–	–	188	–61
Additions	–	–	28	5
Reclassifications	–	–	–	–
Impairment losses	–	–	–445	–28
Carrying amount at 31 Dec. financial year	**–**	**–**	**3,063**	**3,292**
Accumulated impairment losses at 31 Dec. financial year	–156	–156	–1,061	–616
Gross carrying amount at 31 Dec. financial year	156	156	4,124	3,908

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 the ERGO segments Life and Health Germany and Property-casualty Germany, and to legal entities.

Our goodwill was fully allocated to the following cash-generating units or groups of cash-generating units:

Allocation of goodwill to cash-generating units

€m	Reinsurance property-casualty segment	ERGO Life and Health segment Germany	ERGO Property-casualty segment Germany	Various cash generating units
Goodwill at 31 December 2014	1,565	489	910	99

The goodwill from the acquisition of Munich Re America has been allocated to a group of divisions (cash-generating units), which together make up the "reinsurance property-casualty segment". Apart from the goodwill from the acquisition of Munich Re America, the carrying amount shown for this includes other goodwill that is impairment-tested on the basis of cash-generating units at the level of divisions or groups of divisions within the segment. This other goodwill is not significant in comparison with the total goodwill and is tested for impairment on the basis of the same key assumptions used for the goodwill from the acquisition of Munich Re America. The goodwill from the acquisition of shares in the ERGO Insurance Group was originally allocated to the cash-generating unit "ERGO". The change in management reporting and the corresponding change in segment reporting (see Recognition and measurement – Change in accounting policies and other adjustments) required a reallocation of the goodwill, as there has been a change in the composition of the cash-generating unit ERGO. On the basis of a relative valuation, the goodwill has been allocated to the new primary insurance segments ERGO Life and Health Germany, ERGO Property-casualty Germany and ERGO International. The goodwill proportionately allocated to the segment ERGO International for the acquisition of shares in ERGO Insurance Group was written off in full after impairment testing (see "Amount of impairment losses recognised in profit or loss during the period").

Goodwill allocated across other multiple cash-generating units or groups of cash-generating units is not significant in comparison with the total goodwill, either individually or in total. We regard as "significant" within the meaning of IAS 36.134 and IAS 36.135 amounts of 10% or more of total Group goodwill.

Significant assumptions for determining the recoverable amount in impairment testing

Impairment tests for cash-generating units to which a significant portion of the goodwill is allocated were carried out on the basis of the following assumptions:

Cash-generating unit or group of cash-generating units	Reinsurance property-casualty segment	ERGO Life and Health Germany segment	ERGO Property-casualty Germany segment
Basis for calculating the recoverable amount	Value in use	Value in use	Value in use
Key assumptions regarding the planning calculation (at the time of the planning)	In the detailed planning phase (three years), we expect a rise in premium income with a higher combined ratio. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.	For the detailed planning (three years), we expect results to fall initially. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.	For the detailed planning phase (three years), we expect a rise in premium income with a significantly improved combined ratio. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.
Growth rates after the detailed planning phase	1.5%	1.0%	1.5%
Discount rates	9.8%	13.2%	11.0%

The calculation of these values in use is based on distributable target results derived from the current market environment and the latest corporate planning approved by management. Prepared in an interactive process involving the operational units, the responsible controlling units and the Board of Management, the corporate plans are reviewed and updated at least every quarter. The aforementioned key assumptions regarding premium income development, the combined ratios and the results derive from the aggregation of the company plans of the individual companies of a cash-generating unit. The key assumptions regarding developments in the equity market and interest-rate level are uniformly defined within Munich Re (Group) on the basis of the current market environment. After the detailed planning phase, we estimate the target results achievable long term on the basis of the last adjusted planning year and a growth rate derived in taking macroeconomic forecasts into account.

Cost-of-equity rates derived using the Capital Asset Pricing Model (CAPM) were used as discount rates. Calculations are based on distributable target results after consideration of normalised taxes. In the above table, for disclosure purposes, a corresponding discount rate before tax is given in each case. Sensitivity analyses were performed for the discount rates, growth rates and distributable target results. No impairments were identified.

Amount of impairment losses recognised in profit or loss during the period
In the 2014 financial year, our impairment testing of goodwill identified impairments totalling –€445m. These have been recognised in the item "impairment losses of goodwill" in the income statement and are attributable in particular to the following:

The goodwill totalling €440m from the acquisition of shares in the ERGO Insurance Group and proportionately allocated to the segment ERGO International was written off in full in the fourth quarter 2014. The recoverable amount for the segment ERGO International is €2,117m. The impairment is mainly also attributable to the low-interest-rate environment. The impairment was identified as a result of the calculation of the recoverable amount on the basis of the fair value less costs to sell. To be able to take account of the different business activities and maturity of the companies in the segment

ERGO International, a sum-of-the-parts valuation was undertaken. Major life insurance companies were measured on the basis of Market Consistent Embedded Value (MCEV) plus the value of expected new business. The value of expected new business was established using a company-specific multiplier (with a multiple of 0–10.7) of the present value of the last annual new business generation. The MCEV calculations are based on the interest-rate swap curves relevant in the markets. For ERGO Italy and ERGO Austria we have additionally taken into consideration a market-consistent derived illiquidity premium of 28 basis points. The other companies of the segment were mainly valued in accordance with the discounted cash flow equity method. The discounted cash flow calculations were based on discount rates (before normalised taxes) between 9.6% and 15.5%. The detailed planning phases generally comprise three years. The growth rates after the detailed planning phases range between 0% and 4.8%. In measuring all the companies of ERGO International, the current valuation levels of insurance companies listed on the stock exchange and the acquisition prices of recent market transactions were taken into consideration. The fair value thus determined is allocated to Level 3 of the fair value hierarchy. The resulting impairment loss is recognised in the ERGO International segment.

2 Other intangible assets

Development of other intangible assets

	Acquired insurance portfolios		Software			
			Self-developed		Other	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Gross carrying amount at 31 Dec. previous year	1,309	1,311	358	350	956	889
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	–924	–818	–256	–220	–697	–659
Carrying amount at 31 Dec. previous year	385	493	102	130	259	230
Currency translation differences	8	–3	–	–	5	–4
Additions						
Business combinations	–	–	2	–	–	–
Other	–	1	24	11	99	105
Disposals						
Loss of control	–	–	–	–	–	–
Other	–	–	–9	–	–5	–3
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	–69	–63	–37	–35	–78	–65
Impairment losses	–6	–43	–	–4	–1	–4
Carrying amount at 31 Dec. financial year	**318**	**385**	**82**	**102**	**279**	**259**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	–1,002	–924	–285	–256	–770	–697
Gross carrying amount at 31 Dec. financial year	1,320	1,309	367	358	1,049	956

Continued on next page

€m	Acquired brand names 2014	Acquired brand names Prev. year	Acquired distribution networks/client bases 2014	Acquired distribution networks/client bases Prev. year	Acquired licences/ patents 2014	Acquired licences/ patents Prev. year
Gross carrying amount at 31 Dec. previous year	223	283	613	710	289	291
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	-192	-242	-317	-367	-36	-19
Carrying amount at 31 Dec. previous year	31	41	296	343	253	272
Currency translation differences	4	-1	20	-8	11	-5
Additions						
Business combinations	2	–	36	–	–	9
Other	–	–	2	1	–	–
Disposals						
Loss of control	–	–	–	–	–	–
Other	–	-1	-19	–	–	–
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	-1	-8	-37	-40	-8	-13
Impairment losses	–	–	-86	–	-3	-10
Carrying amount at 31 Dec. financial year	**36**	**31**	**212**	**296**	**253**	**253**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	-196	-192	-468	-317	-47	-36
Gross carrying amount at 31 Dec. financial year	232	223	680	613	300	289

€m	Miscellaneous Self-developed 2014	Miscellaneous Self-developed Prev. year	Miscellaneous Other 2014	Miscellaneous Other Prev. year	Total 2014	Total Prev. year
Gross carrying amount at 31 Dec. previous year	–	–	88	83	3,836	3,917
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	–	–	-34	-28	-2,456	-2,353
Carrying amount at 31 Dec. previous year	–	–	54	55	1,380	1,564
Currency translation differences	–	–	1	-1	49	-22
Additions						
Business combinations	–	–	–	–	40	9
Other	–	–	1	8	126	126
Disposals						
Loss of control	–	–	–	–	–	–
Other	–	–	-7	–	-40	-4
Reclassifications	–	–	–	–	–	–
Impairment losses reversed	–	–	–	–	–	–
Amortisation and impairment losses						
Amortisation	–	–	-9	-8	-239	-232
Impairment losses	–	–	–	–	-96	-61
Carrying amount at 31 Dec. financial year	**–**	**–**	**40**	**54**	**1,220**	**1,380**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	–	–	-47	-34	-2,815	-2,456
Gross carrying amount at 31 Dec. financial year	–	–	87	88	4,035	3,836

The impairment losses are distributed between the following different Group segments: in reinsurance, –€1m (–3m) is apportionable to life and –€27m (–11m) to property-casualty; in the ERGO field of business, –€6m (–43m) is apportionable to Life and Health Germany, – (–€1m) to Property-casualty Germany and –€62m (–) to ERGO International. The Munich Health segment saw impairment losses of – (–€3m).

Intangible assets from the purchase of sales networks/client bases were written down by –€86m, mainly owing to reduced business prospects. The impairments were recognised in the segments property-casualty reinsurance (–€25m) and ERGO International (–€61m).

Assets pledged as security and other restrictions on title amount to €159m (160m). Commitments to acquire other intangible assets total €8m (7m). Costs of –€4m (–3m) 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	2014	Prev. year
Gross carrying amount at 31 Dec. previous year	4,892	4,912
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	–1,130	–1,081
Carrying amount at 31 Dec. previous year	3,762	3,831
Currency translation differences	–13	–12
Additions		
Subsequent acquisition costs	16	9
Business combinations	–	–
Other	17	29
Disposals		
Loss of control	–	–
Other	–11	–11
Impairment losses reversed	33	20
Depreciation and impairment losses		
Depreciation	–78	–80
Impairment losses	–9	–14
Reclassification	15	–10
Carrying amount at 31 Dec. financial year	**3,732**	**3,762**
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	–1,197	–1,130
Gross carrying amount at 31 Dec. financial year	4,929	4,892

The impairment losses reversed are distributed between the following: in reinsurance, €2m (1m) is apportionable to life and €8m (4m) to property-casualty; in the ERGO field of business, €22m (15m) is apportionable to Life and Health Germany and €1m (–) to Property-casualty Germany.

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

The impairment losses are distributed between the following segments: in reinsurance, –€1m (–1m) is apportionable to life and –€1m (–2m) to property-casualty; in the ERGO field of business, –€6m (–11m) is apportionable to Life and Health Germany and –€1m (–) to Property-casualty Germany.

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

The fair value of investment property at the balance sheet date amounted to €5,738m (5,525m). Valuations for the directly held portfolio are performed by valuers within the Group, and those for the indirectly held portfolio by external valuers. Property is allocated to Level 3 of the fair value hierarchy; see Assets – B Investments –

Determining fair values. Determining the sustainability of cash inflows and outflows, taking into account the development of market conditions at the property location, is material for the valuation. The fair value is determined individually per item by discounting the future cash flow as at the valuation date. Depending on the type of property and its individual opportunity/risk profile, discount rates of 2.75% to 4.00% are used for residential buildings, 3.75% to 7.00% for office buildings, and 3.75% to 7.25% for retail.

Property pledged as security and other restrictions on title amount to €835m (838m). Contractual commitments to acquire property amount to €29m (14m).

4 Hierarchy for the fair value measurement of investments

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

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

Valuation models

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

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
OTC stock options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate Dividend yield	Black-Scholes (European) Cox, Ross and Rubinstein (American) Monte-Carlo simulation
Equity forwards	Theoretical price	Listing of underlying shares Money-market interest rate Dividend yield	Present-value method
Interest-rate risks			
Interest-rate swaps	Theoretical price	Swap curve Money-market interest-rate curve	Present-value method
Swaptions/interest-rate guarantee	Theoretical price	At-the-money volatility index and skew swap curve Money-market interest-rate curve	Black-76
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Inflation swaps	Theoretical price	Zero-coupon inflation swap rates Swap curve Money-market interest-rate curve	Present-value method
Currency risks			
Currency options	Theoretical price	At-the-money volatility Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen (European)
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
Other transactions			
Insurance derivatives (excluding variable annuities)	Theoretical price	Market values of cat bonds Historical event data Interest-rate curve	Present-value method
Insurance derivatives (variable annuities)	Theoretical price	Biometric and lapse rates Volatilities Interest-rate curve Currency spot rates	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method ISDA CDS Standard Model
Total return swaps on commodities	Theoretical price	Listing of underlying index	Index ratio calculation
Commodity options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate	Black-Scholes (European) Cox, Ross and Rubinstein (American)

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

Fund	Pricing method	Parameters	Pricing model
Real estate funds	–	–	Net asset value
Alternative investment funds (e.g. private equity, RENT, infrastructure, forestry)	–	–	Net asset value

Other	Pricing method	Parameters	Pricing model
Real estate	Theoretical market value	Interest-rate curve Market rents	Present-value method or valuation
Alternative direct investments (e.g. RENT, infrastructure, forestry)	Theoretical market value	Interest-rate curve (among others) Electricity price forecast and inflation forecast	Present-value method or valuation

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

At Munich Re, the valuation of variable annuities is performed on a fully market-consistent basis. The inputs requiring consideration in this valuation are derived either directly from market data, in particular volatilities, interest-rate curves and currency spot rates, or from actuarial data, especially biometric data and lapse rates. The lapse rates used are modelled dynamically and range between 0.5% and 20%, depending on the specific insurance product and current situation of the capital markets. A 10% increase or decrease in the lapse rates would lead to a change of –/+1% in the fair value of the portfolio. The assumptions with regard to mortality are based on published mortality tables, which are adjusted with a view to the target markets and the actuaries' expectations. The impact of these and other non-observable assumptions is not material. The dependency between different capital market inputs is modelled by correlation matrices. Since inputs not observable on the market were also used in valuation, we allocate these products to Level 3 of the fair value hierarchy.

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

At 31 December 2014, around 11% (12%) of the investments measured at fair value were allocated to Level 1 of the fair value hierarchy, 86% (84%) to Level 2 and 3% (4%) to Level 3.

Allocation of investments (including insurance-related investments) to levels of the fair value hierarchy

				31.12.2014
€m	Level 1	Level 2	Level 3	Total
Investments measured at fair value				
Investments in affiliated companies measured at fair value	–	–	274	274
Investments in associates and joint ventures measured at fair value	–	–	5	5
Other securities available for sale				
Fixed-interest	736	126,523	2,547	129,806
Non-fixed-interest	10,801	841	2,395	14,037
Other securities at fair value through profit or loss				
Held for trading, and hedging derivatives[1]	252	1,916	–	2,168
Designated as at fair value through profit or loss	–	205	–	205
Other investments	–	10	–	10
Insurance-related investments	4,605	3,747	109	8,461
Total	**16,394**	**133,242**	**5,330**	**154,966**
Investments not measured at fair value				
Loans	–	68,178	673	68,851
Other securities held to maturity	–	–	–	–
Total	**–**	**68,178**	**673**	**68,851**

→

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

1 Including hedging derivatives of €204m (229m) accounted for under “other assets”.
2 Owing to the changes made to our balance sheet structure in 2014, insurance-linked derivatives for 2013 are still recognised under investments held for trading.

In the financial year, we reallocated portions of the asset-backed securities (ABSs) in our portfolio from Level 3 to Level 2. These portfolios are now valued solely on the basis of observable market inputs. Apart from this, we maintained the allocation to the individual levels of the fair value hierarchy unchanged.

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

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

Reconciliation for investments allocated to Level 3

	Investments in affiliated companies measured at fair value		Investments in associates and joint ventures measured at fair value	
€m	2014	Prev. year	2014	Prev. year
Carrying amount at 31 Dec. previous year	176	194	9	16
Gains and losses	14	–15	–1	–7
Gains (losses) recognised in the income statement	–4	–4	–	–6
Gains (losses) recognised in equity	18	–11	–1	–1
Acquisitions	61	21	–	–
Disposals	–15	–10	–1	–
Transfer to Level 3	38	5	–	–
Transfer out of Level 3	–	–19	–2	–
Changes in the market value of derivatives	–	–	–	–
Carrying amount at 31 Dec. financial year	**274**	**176**	**5**	**9**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	–6	–4	–	–6

→

	Other securities available for sale			
	Fixed-interest		Non-fixed-interest	
€m	2014	Prev. year	2014	Prev. year
Carrying amount at 31 Dec. previous year	2,777	2,118	2,107	1,978
Gains and losses	163	–3	173	45
Gains (losses) recognised in the income statement	11	27	1	–18
Gains (losses) recognised in equity	152	–30	172	63
Acquisitions	1,151	1,895	460	299
Disposals	–1,529	–1,627	–344	–214
Transfer to Level 3	6	488	4	1
Transfer out of Level 3	–21	–93	–5	–1
Changes in the market value of derivatives	–	–1	–	–1
Carrying amount at 31 Dec. financial year	**2,547**	**2,777**	**2,395**	**2,107**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	11	33	–5	–21

Continued on next page

€m	Held for trading, and hedging derivates 2014	Held for trading, and hedging derivates Prev. year	Insurance-related investments 2014	Insurance-related investments Prev. year[1]	Total 2014	Total Prev. year
Carrying amount at 31 Dec. previous year	–	33	77	–	5,146	4,339
Gains and losses	–	38	83	–	432	58
Gains (losses) recognised in the income statement	–	39	78	–	86	38
Gains (losses) recognised in equity	–	-1	5	–	346	20
Acquisitions	–	14	48	–	1,720	2,229
Disposals	–	-9	-99	–	-1,988	-1,860
Transfer to Level 3	–	–	–	–	48	494
Transfer out of Level 3	–	–	–	–	-28	-113
Change in the market value of derivatives	–	1	–	–	–	-1
Carrying amount at 31 Dec. financial year	**–**	**77**	**109**	**–**	**5,330**	5,146
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	–	36	39	–	39	38

1 Owing to changes made in our balance sheet structure in 2004, investments for 2013 are still recognised under investments held for trading.

5 Investments in affiliated companies, associates and joint ventures

Breakdown of investments in affiliated companies, associates and joint ventures

€m	31.12.2014	Prev. year
Investments in affiliated companies		
Accounted for at fair value	274	214
Investments in associates and joint ventures		
Accounted for using the equity method	1,280	1,291
Accounted for at fair value	5	9
Total	**1,559**	**1,514**

The fair value of investments in associates and joint ventures accounted for using the equity method amounted to €1,796m (1,721m) at the balance sheet date. In the financial year, shares of losses of associates amounting to – (€2m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet totalled – (€4m).

The impairment losses reversed with respect to associates and joint ventures amounted to €22m (1m). They are distributed between the following different Group segments: in reinsurance, €16m (1m) is apportionable to property-casualty; in the ERGO field of business, €5m (–) is apportionable to Life and Health Germany and €1m (–) to Property-casualty Germany.

Write-downs with respect to these companies amounted to –€34m (–101m). They are distributed between the following different Group segments: in reinsurance, – (–€1m) is apportionable to life and –€16m (–81m) to property-casualty; in the ERGO field of business, –€1m (–4m) is apportionable to Life and Health Germany and –€2m (–15m) to Property-casualty Germany; –€15m (–) is allocable to Munich Health.

At the balance sheet date, there were contingent liabilities of €26m (24m) from investments in associates and joint ventures. These essentially comprised payment obligations.

There are also other financial commitments in the amount of €104m (95m) with respect to joint ventures. These essentially comprised investment obligations for financing.

These contingent liabilities and other financial commitments are also included under Other information (51) Contingent liabilities, other financial commitments.

There were no significant limitations on the possibility for associates and joint ventures to transfer dividends or liquid funds to Munich Reinsurance Company and its subsidiaries, or to repay loans to Munich Reinsurance Company and its subsidiaries.

Aggregated financial information on shares in associates and joint ventures:

€m	31.12.2014	Prev. year
Overall result for the year after tax from continued operations	109	131
Result after tax from discontinued operations	–	–
Income and expenses recognised directly in equity	–12	2
Total recognised income and expenses	**97**	**133**

The total carrying amounts of the holdings (investments) in associates and joint ventures amounted to €1,285m (1,300m) in the period under review.

Further information about associates and joint ventures can be found in the section "List of shareholdings as at 31 December 2014 in accordance with Section 313 (2) of the German Commercial Code (HGB)".

6 Loans

Breakdown of loans

	Carrying amounts	
€m	31.12.2014	Prev. year
Mortgage loans	4,440	4,482
Loans and advance payments on insurance policies	519	593
Other loans	49,591	50,170
Total	**54,550**	**55,245**

The other loans mainly comprise covered bonds, government bonds and borrowers' note loans of banks.

The fair value of the loans is based on recognised valuation methods in line with the present value principle and taking observable market inputs into account; see note (4) Hierarchy for the fair value measurement of investments. The fair value totalled €68,950m (61,316m) at the reporting date.

Contractual period to maturity

	Carrying amounts	
€m	31.12.2014	Prev. year
Up to one year	2,722	2,016
Over one year and up to two years	1,852	2,723
Over two years and up to three years	2,427	1,947
Over three years and up to four years	2,059	2,498
Over four years and up to five years	2,885	2,209
Over five years and up to ten years	13,537	13,394
Over ten years	29,068	30,458
Total	**54,550**	**55,245**

Rating of "other loans" according to carrying amounts

€m	31.12.2014	Prev. year
AAA	23,934	23,784
AA	17,694	18,277
A	4,993	4,743
BBB or lower	2,211	2,770
No rating	759	596
Total	**49,591**	**50,170**

The rating categories are based on those of the leading international rating agencies. Virtually no credit risk exists in respect of the mortgage loans or the loans and advance payments on insurance policies.

7 Other securities held to maturity

At 31 December 2014, the category "Other securities held to maturity" contains debt securities issued by banks of – (€5m). The fair value of these debt securities amounts to – (€5m). This is based on recognised valuation methods in line with the present value principle and taking observable market inputs into account.

Contractual period to maturity

	Carrying amounts		Fair values	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Up to one year	–	5	–	5
Over one year and up to two years	–	–	–	–
Total	**–**	**5**	**–**	**5**

8 Other securities available for sale

Breakdown of other securities available for sale

	Carrying amounts		Unrealised gains/losses		Amortised cost	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Fixed-interest securities						
Government bonds						
Germany	8,692	7,858	1,195	302	7,497	7,556
Rest of EU	27,285	21,751	3,417	920	23,868	20,831
USA	14,793	10,784	952	254	13,841	10,530
Other	16,069	11,933	1,045	265	15,024	11,668
Corporate debt securities	50,796	50,322	3,821	2,330	46,975	47,992
Other	12,171	11,023	1,537	590	10,634	10,433
	129,806	**113,671**	**11,967**	**4,661**	**117,839**	**109,010**
Non-fixed-interest securities						
Shares	9,786	7,700	1,776	1,683	8,010	6,017
Investment funds						
Equity funds	487	438	58	44	429	394
Bond funds	1,548	2,019	85	65	1,463	1,954
Real estate funds	560	540	36	26	524	514
Other	1,656	1,534	315	157	1,341	1,377
	14,037	**12,231**	**2,270**	**1,975**	**11,767**	**10,256**
Total	**143,843**	**125,902**	**14,237**	**6,636**	**129,606**	**119,266**

Over half the corporate debt securities are covered bonds or issues by development banks and comparable institutions. The remaining portfolio is composed of securities issued by companies outside the banking sector, with each individual risk making up less than 1%, bonds issued by banks and state central savings banks (with state guarantees) and asset-backed securities/mortgage backed securities. The asset-backed securities/mortgage-backed securities are largely rated A or better. Assets pledged as security and other restrictions on title amount to €7,327m (7,309m). Some €2,073m (1,525m) of the securities shown are loaned to third parties. These securities are not derecognised, as the main resultant risks and rewards remain with Munich Re. Of the €14,237m (6,636m) in unrealised gains and losses, €5,773m (3,121m) has been recognised in equity (other reserves), after deduction of provisions for deferred premium refunds, deferred taxes, non-controlling interests, and consolidation and currency translation effects.

Disposal proceeds in the financial year

€m	2014	Prev. year
Fixed-interest securities	40,798	43,641
Non-fixed-interest securities		
Quoted	16,867	20,491
Unquoted	190	789
Total	**57,855**	**64,921**

Realised gains and losses

€m	2014	Prev. year
Gains on disposal	2,691	2,083
Fixed-interest securities	1,309	1,043
Non-fixed-interest securities	1,382	1,040
Losses on disposal	–327	–441
Fixed-interest securities	–123	–250
Non-fixed-interest securities	–204	–191
Total	**2,364**	**1,642**

Contractual period to maturity of fixed-interest securities

	Carrying amounts		Amortised cost	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Up to one year	8,634	8,812	8,570	8,737
Over one year and up to two years	10,384	10,109	10,146	9,862
Over two years and up to three years	11,449	11,224	11,034	10,785
Over three years and up to four years	9,884	10,546	9,381	10,079
Over four years and up to five years	11,571	9,775	10,825	9,278
Over five years and up to ten years	38,566	32,712	35,323	31,154
Over ten years	39,318	30,493	32,560	29,115
Total	**129,806**	**113,671**	**117,839**	**109,010**

Rating of fixed-interest securities according to fair values

€m	31.12.2014	Prev. year
AAA	42,905	39,968
AA	40,440	35,486
A	19,234	15,897
BBB	22,394	19,071
Lower	4,563	3,064
No rating	270	185
Total	**129,806**	**113,671**

The rating categories are based on those of the leading international rating agencies.

9 Other securities at fair value through profit or loss and insurance-related investments

Securities at fair value through profit or loss comprise securities of €1,964m (2,136m) held for trading and securities of €205m (164m) designated as at fair value through profit or loss.

The securities held for trading are made up of fixed-interest securities totalling €45m (647m), non-fixed-interest securities totalling €45m (37m) and derivatives amounting to €1,874m (1,452m). The securities designated as at fair value through profit or loss comprise €204m (163m) assignable to fixed-interest securities and €1m (1m) to non-fixed interest securities. Some €37m of the securities at fair value through profit or loss is due within one year.

Rating of fixed-interest securities according to fair values

€m	31.12.2014	Prev. year
AAA	66	472
AA	22	107
A	91	136
BBB	70	95
Lower	–	–
No rating	–	–
Total	**249**	**810**

The rating categories are based on those of the leading international rating agencies.

The insurance-related investments include investments for unit-linked life insurance contracts of €7,592m (6,699m) and other insurance-related investments of €869m (608m).

Derivative financial instruments are used by Munich Re to manage and hedge against interest-rate, currency, and other market risks. This is done at the Group companies within the framework of individual supervisory regulations and additional internal company directives. The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, Munich Re selects only top-quality counterparties for such transactions.

As at 31 December 2014, Munich Re held collateral for derivatives in the form of securities with a rating of at least AA that may either be sold or transferred as collateral. The fair value of this collateral amounts to €867m (1,056m).

Disclosure of derivatives by balance sheet item

€m			31.12.2014	Prev. year
Fair value	Qualifying for hedge accounting	Balance sheet item		
Positive	No	Investments, other securities, designated as at fair value through profit or loss	1,874	1,452
	No	Insurance-related investments	839	587
	Yes	Other assets	204	229
Negative	No Yes	Liabilities, other liabilities	–1,903	–955
Total			**1,014**	**1,313**

The following table shows the fair values and the related notional amounts of all our open positions, broken down according to risk type. Positive and negative fair values have been netted. At 31 December 2014, the open positions amounted to €1,019m (1,313m), or 0.4% (0.5%) of the balance sheet total.

Open positions

Periods to maturity in years	< 1	1–2	2–3	3–4	4–5	> 5	31.12. 2014	Prev. year
€m								
Interest-rate risks								
Traded on the stock exchange								
Fair values	–5	–	–	–	–	–	–5	9
Notional amounts	9,739	–	–	–	–	–	9,739	8,283
Over-the-counter								
Fair values	62	46	203	–6	–5	398	698	1,036
Notional amounts	458	936	1,635	169	2,131	20,065	25,394	25,373
Total interest-rate risks								
Fair values	57	46	203	–6	–5	398	693	1,045
Notional amounts	10,197	936	1,635	169	2,131	20,065	35,133	33,656
Currency risks								
Traded on the stock exchange								
Fair values	–	–	–	–	–	–	–	–
Notional amounts	–	–	–	–	–	–	–	20
Over-the-counter								
Fair values	4	1	–	–	–	24	29	12
Notional amounts	20,100	36	–	–	–	219	20,355	19,838
Total currency risks								
Fair values	4	1	–	–	–	24	29	12
Notional amounts	20,100	36	–	–	–	219	20,355	19,858
Equity and index risks								
Traded on the stock exchange								
Fair values	103	17	–	–	–	–	120	47
Notional amounts	7,488	262	–	–	–	–	7,750	6,464
Over-the-counter								
Fair values	–	–	–	–	–	–	–	8
Notional amounts	8	1	–	–	–	–	9	154
Total equity and index risks								
Fair values	103	17	–	–	–	–	120	55
Notional amounts	7,496	263	–	–	–	–	7,759	6,618
Credit risks								
Over-the-counter								
Fair values	–	–	–	2	66	–	68	57
Notional amounts	19	5	15	21	3,161	25	3,246	2,598
Weather risks								
Traded on the stock exchange								
Fair values	–8	–	–	–	–	–	–8	1
Notional amounts	19	–	–	–	–	–	19	3
Over-the-counter								
Fair values	–32	–	–	–	–	–	–32	–1
Notional amounts	74	2	–	–	–	–	76	53
Total weather risks								
Fair values	–40	–	–	–	–	–	–40	–
Notional amounts	93	2	–	–	–	–	95	56
Commodity risks								
Traded on the stock exchange								
Fair values	10	–	–	–	–	–	10	1
Notional amounts	181	–	–	–	–	–	181	200
Over-the-counter								
Fair values	–5	2	4	1	–	–	2	1
Notional amounts	674	193	163	39	–	–	1,069	1,173
Total commodity risks								
Fair values	5	2	4	1	–	–	12	2
Notional amounts	855	193	163	39	–	–	1,250	1,373
Insurance risks								
Over-the-counter								
Fair values	–92	55	26	39	17	92	137	142
Notional amounts	1,618	1,058	1,058	1,035	1,149	9,231	15,149	13,424
Total of all risks								
Fair values	**37**	**121**	**233**	**36**	**78**	**514**	**1,019**	**1,313**
Notional amounts	**40,378**	**2,493**	**2,871**	**1,264**	**6,441**	**29,540**	**82,987**	**77,583**

Under the risk type “insurance risks”, we essentially subsume the derivative portions of the line item “Other insurance-related investments”. This excludes derivatives that fall under the risk type “weather or commodity risks”. Information about other insurance-related investments can be found under Assets – C Insurance-related investments.

Although the derivatives used by Munich Re essentially serve to manage and hedge risks, only an amount of €190m (219m) 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”. With Munich Reinsurance Company’s hedged subordinated bond, this information is shown under net finance costs. Munich Re uses hedging relationships in the form of fair value hedges to selectively and efficiently mitigate interest-rate and other market risks. The main types of transaction employed for hedging are swaps and forwards. The fair value of the derivatives used for this purpose amounted to €153m (184m) at the balance sheet date. In 2014, the following changes in value were recognised in the consolidated income statement: –€31m for the hedging instruments and €30m for the relevant underlyings.

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. Munich Re uses cash flow hedges chiefly to hedge against interest-rate risks, with interest-rate swaps being the main instruments employed. Changes in the fair value of the hedging instrument are recognised directly in equity for this purpose. Only when the actual cash inflow or outflow takes place, as a result of the hedged circumstance, is the relevant equity item reversed with recognition in profit or loss.

The change in fair value assignable to the ineffective portion of the hedging was negligible at the reporting date.

At the balance sheet date, there is an equity item of –€2m (3m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €37m (35m) 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	31.12.2014	Prev. year
Notional amounts of hedged transactions	68	37	25	–	50	200	380	389

10 Deposits retained on assumed reinsurance

Deposits retained on assumed reinsurance serve directly as collateral for technical provisions covering business assumed from cedants in reinsurance. They do not trigger any cash flows and may not be used by the cedant independently. The credit risk is therefore limited. The amount of and changes in deposits retained on assumed reinsurance in the financial year generally derive from the values for the changes in the related technical provisions for the reinsured business. Deposits retained on assumed reinsurance business thus do not have a fixed maturity date, their release generally being dependent on the run-off of the corresponding provisions.

11 Other investments

Other investments comprise deposits with banks totalling €3,513m (3,006m), tangible assets in renewable energies amounting to €470m (498m), physical gold of €331m (290m), and forestry investments totalling €10m (9m). Deposits with banks include receivables of €347m (144m) from borrowers under repurchase agreements that have been booked by us as the lender.

Of the amounts held on deposit with banks, €3,473m (2,993m) is due within one year. With these deposits, the fair values largely correspond to the carrying amounts. Assets pledged as security and other restrictions on title amount to €16m (10m) for deposits with banks.

Development of tangible assets in renewable energies

€m	2014	Prev. year
Gross carrying amount at 31 Dec. previous year	584	545
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	–86	–45
Carrying amount at 31 Dec. previous year	498	500
Changes due to currency translation	5	–3
Additions		
Business combinations	–	38
Other	1	4
Disposals		
Loss of control	–	–
Other	–1	–
Impairment losses reversed	5	–
Depreciation and impairment losses		
Depreciation	–31	–31
Impairment losses	–7	–10
Reclassification	–	–
Carrying amount at 31 Dec. financial year	**470**	**498**
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	–119	–86
Gross carrying amount at 31 Dec. financial year	589	584

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

The impairment losses are distributed between the following different Group segments: in reinsurance, –€1m (–2m) is apportionable to life and –€6m (–8m) to property-casualty.

The tangible assets in renewable energies include items pledged as security and other restrictions on title amounting to €245m (253m).

12 Ceded share of technical provisions

Ceded share of technical provisions

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Unearned premiums	–	–	160	109
Provision for future policy benefits	775	736	–	–
Provision for outstanding claims	351	363	1,802	1,817
Other technical provisions	3	-3	4	6
Total	**1,129**	**1,096**	**1,966**	**1,932**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Unearned premiums	2	10	-1	–	99	83
Provision for future policy benefits	3	23	–	–	1,570	1,644
Provision for outstanding claims	3	11	79	113	270	222
Other technical provisions	–	–	-2	-1	1	1
Total	**8**	**44**	**76**	**112**	**1,940**	**1,950**

→	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Unearned premiums	71	74	331	276
Provision for future policy benefits	7	7	2,355	2,410
Provision for outstanding claims	131	90	2,636	2,616
Other technical provisions	–	–	6	3
Total	**209**	**171**	**5,328**	**5,305**

Details of the ceded share of technical provisions are shown in the Notes to the consolidated balance sheet – Equity and liability (21) Unearned premiums, (22) Provisions for future policy benefits, (23) Provisions for outstanding claims, (24) Other technical provisions and in the Disclosures on risks from insurance contracts and financial instruments (41) Credit risks from ceded reinsurance business.

13 Other receivables

Breakdown of other receivables

€m	31.12.2014	Prev. year
Amounts receivable on primary insurance business	1,373	1,345
Accounts receivable on reinsurance business	4,382	4,255
Interest and rent	2,748	2,722
Miscellaneous receivables	2,966	3,053
Total	**11,469**	**11,375**

Of the amounts receivable on primary insurance business, €549m (498m) is apportionable to receivables from insurance agents. The miscellaneous receivables contain receivables of €1,079m (887m) resulting from reinsurance contracts without significant risk transfer, which do not fall within the scope of IFRS 4.

Assets pledged as security and other restrictions on title amount to €47m (35m).

Other receivables include received cash collateral for derivative transactions of €244m (437m).

Contractual period to maturity of other receivables according to carrying amounts

	Carrying amounts	
€m	31.12.2014	Prev. year
Up to one year	10,246	10,061
Over one year and up to two years	128	91
Over two years and up to three years	74	100
Over three years and up to four years	269	386
Over four years and up to five years	31	24
Over five years and up to ten years	539	87
Over ten years	182	626
Total	**11,469**	**11,375**

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 2014, our accounts receivable on ceded reinsurance business were split between the following ratings (based on those of Standard & Poor's):

Rating of accounts receivable

€m	31.12.2014	Prev. year
AAA	2	–
AA	23	26
A	29	61
BBB and lower	–	1
No external rating	133	113

Of all our receivables on underwriting business at the balance sheet date, €255m (367m) was outstanding for more than 90 days. The average defaults of the last three years amount to €202m (161m).

14 Deferred acquisition costs

Deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	2,466	2,365	1,336	1,327
Ceded share	–1	–1	–48	–31
Net	**2,465**	**2,364**	**1,288**	**1,296**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	4,166	4,362	344	367	1,138	1,090
Ceded share	–	–1	1	–	–19	–15
Net	**4,166**	**4,361**	**345**	**367**	**1,119**	**1,075**

→	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	105	92	9,555	9,603
Ceded share	–12	–13	–79	–61
Net	**93**	**79**	**9,476**	**9,542**

Development of gross deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Status at 31 Dec. previous year	2,365	1,984	1,327	1,271
Currency translation differences	119	–150	117	–59
Change in consolidated group/Other	–	–	6	–
New deferred acquisition costs	279	729	1,373	1,573
Changes				
Amortisation	–273	–198	–1,396	–1,458
Impairment losses	–24	–	–91	–
Status at 31 Dec. financial year	**2,466**	**2,365**	**1,336**	**1,327**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Status at 31 Dec. previous year	4,362	4,507	367	384	1,090	1,008
Currency translation differences	–	–	–	–	–21	–11
Change in consolidated group/Other	–	–11	–	–	5	–3
New deferred acquisition costs	386	396	127	138	352	352
Changes						
Amortisation	–477	–466	–150	–155	–286	–249
Impairment losses	–105	–64	–	–	–2	–7
Status at 31 Dec. financial year	**4,166**	**4,362**	**344**	**367**	**1,138**	**1,090**

Continued on next page

	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Status at 31 Dec. previous year	92	102	9,603	9,256
Currency translation differences	3	–7	218	–227
Change in consolidated group/Other	–	–	11	–14
New deferred acquisition costs	188	173	2,705	3,361
Changes				
Amortisation	–179	–176	–2,761	–2,702
Impairment losses	1	–	–221	–71
Status at 31 Dec. financial year	**105**	**92**	**9,555**	**9,603**

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.

An adjustment in the assumptions led to an impairment loss of deferred acquisition costs in the segments life reinsurance and property-casualty reinsurance.

In the ERGO Life and Health Germany segment, assumptions regarding future mortality, lapses and profit participation, and regarding long-term interest-rate levels were adjusted in 2014 on the basis of the long-term regular return on investments. Overall, the adjustment led to impairment losses of deferred acquisition costs.

15 Deferred tax

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

Deferred tax

	31.12.2014		Prev. year	
€m	Assets	Liabilities	Assets	Liabilities
Assets				
A. Intangible assets	81	255	179	288
B. Investments	2,018	3,708	2,324	2,643
C. Insurance-related investments	2	11	–	11
E. Receivables	129	76	21	96
I. Other assets	751	1,055	663	912
Total assets	**2,981**	**5,105**	**3,187**	**3,950**
Equity and liabilities				
C. Net technical provisions	2,232	4,292	2,157	3,856
E. Other accrued liabilities	1,199	346	765	373
F. Liabilities	303	33	340	9
Total equity and liabilities	**3,734**	**4,671**	**3,262**	**4,238**
Off balance sheet				
Loss carry-forwards and tax credits	886	–	546	–
Total	**7,601**	**9,776**	**6,995**	**8,188**

The deferred taxes for technical provisions include the deferred taxes for deferred acquisition costs and €2,625m (2,207m) for claims equalisation provisions, which are not posted under IFRS.

The excess of deferred tax liabilities over deferred tax assets amounts to €2,175m (1,193m). The change of –€982m (1,387m) was recognised as follows: –€837m (1,008m) without impact on profit or loss and –€166m (419m) 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 €54m (45m) in connection with investments in subsidiaries and associates, also referred to as outside basis differences.

We have broken down the existing deferred tax assets relating to loss carry-forwards and the loss carry-forwards themselves.

Development of deferred tax assets for loss carry-forwards and tax credits

€m	Prev. year	Subsequent additions and reductions due to changes in valuation allowances	Additions due to new losses	Set off against income/ Deconsolidation	31.12.2014
Deferred tax assets for					
Corporation tax loss carry-forwards	489	-52	284	-271	450
Trade tax loss carry-forwards	19	–	322	-2	339
Loss carry-forwards from capital losses	–	–	–	–	–
Tax credits	38	–	60	-1	97
Total	**546**	**-52**	**666**	**-274**	**886**

The column “Set off against income/Deconsolidation” includes changes due to losing control and changes in exchange rates.

Tax loss carry-forwards and tax credits

			31.12.2014			Prev. year
€m	For which deferred tax assets are recognised	For which deferred tax assets are not recognised	Total	For which deferred tax assets are recognised	For which deferred tax assets are not recognised	Total
Corporation tax loss carry-forwards						
Expiring in up to three years	124	103	227	84	98	182
Expiring in over three years and up to ten years	110	103	213	489	64	553
Expiring in over ten years	234	126	360	469	17	486
Not expiring	1,598	909	2,507	563	690	1,253
	2,066	**1,241**	**3,307**	**1,605**	**869**	**2,474**
Trade tax loss carry-forwards						
Not expiring	1,995	181	2,176	121	135	256
	1,995	**181**	**2,176**	**121**	**135**	**256**
Loss carry-forwards from capital losses						
Expiring in up to three years	–	–	–	–	–	–
Expiring in over three years and up to ten years	–	72	72	–	18	18
Expiring in over ten years	–	–	–	–	–	–
Not expiring	–	–	–	–	–	–
	–	**72**	**72**	**–**	**18**	**18**
Tax credits						
Expiring in up to three years	4	–	4	–	–	–
Expiring in over three years and up to ten years	13	–	13	–	–	–
Expiring in over ten years	3	–	3	–	–	–
Not expiring	77	–	77	38	–	38
	97	**–**	**97**	**38**	**–**	**38**

Loss carry-forwards excluding deferred tax assets stem mainly from Australia and New Zealand. Based on planning for future taxable income, no deferred tax assets were set aside to cover most of these loss carry-forwards.

16 Other assets

These mainly comprise owner-occupied property totalling €2,424m (2,419m), plant and equipment of €274m (249m), advance payments on insurance amounting to €384m (389m), derivatives totalling €204m (229m), miscellaneous deferred items of €162m (134m), and recoveries from policyholders totalling €38m (33m). Of the owner-occupied property, – (€12m) involves finance leases.

Development of property, plant and equipment

€m	Owner-occupied property 2014	Operating and office equipment 2014	Other 2014	Total 2014
Gross carrying amount at 31 Dec. previous year	3,510	978	51	4,539
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	–1,091	–729	–31	–1,851
Carrying amount at 31 Dec. previous year	2,419	249	20	2,688
Currency translation differences	15	4	2	21
Additions				
Business combinations	–	–	–	–
Other	81	129	5	215
Disposals				
Loss of control	–	–	–	–
Other	–17	–11	–16	–44
Impairment losses reversed	7	–	–	7
Depreciation and impairment losses				
Depreciation	–61	–96	–3	–160
Impairment losses	–5	–1	–	–6
Reclassification	–15	–	–	–15
Carrying amount at 31 Dec. financial year	**2,424**	**274**	**8**	**2,706**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	–1,137	–758	–34	–1,929
Gross carrying amount at 31 Dec. financial year	3,561	1,032	42	4,635

→

€m	Owner-occupied property Prev. year	Operating and office equipment Prev. year	Other Prev. year	Total Prev. year
Gross carrying amount at 31 Dec. previous year	3,417	962	55	4,434
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	–1,026	–689	–34	–1,749
Carrying amount at 31 Dec. previous year	2,391	273	21	2,685
Currency translation differences	–11	–4	–	–15
Additions				
Business combinations	–	–	–	–
Other	84	95	7	186
Disposals				
Loss of control	–	–	–	–
Other	–	–7	–3	–10
Impairment losses reversed	7	–	–	7
Depreciation and impairment losses				
Depreciation	–58	–105	–5	–168
Impairment losses	–4	–2	–	–6
Reclassification	10	–1	–	9
Carrying amount at 31 Dec. financial year	**2,419**	**249**	**20**	**2,688**
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	–1,091	–729	–31	–1,851
Gross carrying amount at 31 Dec. financial year	3,510	978	51	4,539

The impairment losses reversed are distributed between the following different Group segments: in reinsurance, €2m (1m) is apportionable to life and €2m (1m) to property-casualty; in the ERGO field of business, €2m (5m) is apportionable to Life and Health Germany, and €1m (–) is allocable to Munich Health.

The impairment losses are distributed between the following different Group segments: in reinsurance, –€2m (–) is apportionable to life and –€2m (–) to property-casualty; in the ERGO field of business, – (–€4m) is apportionable to Life and Health Germany, –€1m (–1m) to Property-casualty Germany, and –€1m (–1m) is allocable to Munich Health.

The fair value of the property amounts to €2,909m (2,828m). This is allocated to Level 3 of the fair value hierarchy; see Assets – B Investments, Determining fair values. The methodology for determining the fair values is described in (3) Land and buildings, including buildings on third-party land.

The expenditures recognised in the carrying amount for assets in the course of construction total €21m (78m) for property and €21m (15m) for plant and equipment. Commitments to acquire property total €5m (33m) and commitments to acquire plant and equipment €12m (13m). For plant and equipment, no assets were pledged as security or other restrictions on title.

17 Non-current assets and disposal groups held for sale and sold during the reporting period

In the third quarter of 2014, ERGO Versicherungsgruppe AG, via its subsidiary Victoria Lebensversicherung Aktiengesellschaft, Düsseldorf, sold its shares in its associates TERTIANUM Besitzgesellschaft Berlin Passauer Strasse 5-7 mbH, Munich, TERTIANUM Besitzgesellschaft Konstanz Marktstätte 2-6 und Sigismundstrasse 5-9 mbH, Munich, TERTIANUM Besitzgesellschaft München Jahnstrasse 45 mbH, Munich, TERTIANUM Seniorenresidenz Betriebsgesellschaft München mbH, Munich and TERTIANUM Seniorenresidenzen Betriebsgesellschaft mbH, Constance. The sale price for all five companies totalled €26.9m. The sale affected our operating result to the amount of €0.7m.

In the fourth quarter of 2014, Munich Health Holding AG, Munich, decided to sell its shares in the fully consolidated company DKV Luxembourg S.A., Luxembourg. The sale is planned for the first half-year of 2015.

In the fourth quarter of 2014, MEAG MUNICH ERGO AssetManagement GmbH sold its shares in its associate PICC Asset Management Company Limited, Shanghai, probably with effect from the first half-year 2015. The participation is accounted for using the equity method, and we expect a positive result from disposals in the low single-digit million euro range. The sale is subject to approval by the supervisory authorities.

How the non-current assets 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 2014 is divided into 172,942,618 no-par-value registered shares, each fully paid up and carrying one vote. In the year under review, the number of shares in circulation developed as follows:

Development of shares in circulation

Number of shares	2014	Prev. year
Status at 31 Dec. previous year	177,421,900	178,527,270
Additions		
Disposals from hedging stock appreciation rights under long-term incentive plans	10,944	816,883
Reductions		
Acquisition of shares for retirement (share buy-back programme)	–8,917,837	–1,905,838
Acquisition of shares to hedge stock appreciation rights under long-term incentive plans	–	–16,415
Status at 31 Dec. financial year	**168,515,007**	**177,421,900**

On 31 December 2014, a total of 4,427,611 Munich Reinsurance Company shares with a calculated nominal value of around €15.0m were held by Group companies. This represents around 2.6% of the share capital.

On 7 November 2013, Munich Reinsurance Company's Board of Management decided on a share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 20 April 2011, in accordance with Section 71 (1) no. 8 of the German Stock Corporation Act (AktG). From 14 November 2013 to 22 April 2014, a total of 6,398,594 Munich Reinsurance Company shares were purchased via the stock exchange. Of these, 4,492,756 shares were acquired in the 2014 calendar year at an average price of €155.81. All shares from this buy-back programme were retired on 30 April 2014 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.

On 20 March 2014, Munich Reinsurance Company's Board of Management decided on another share buy-back programme. The share buy-back will be restricted to a total purchase price (excluding incidental expenses) of €1bn up to the 2015 Annual General Meeting. Munich Reinsurance Company's Board of Management thus availed itself of the authorisation granted by the Annual General Meeting on 30 April 2014, in accordance with Section 71 (1) no. 8 of the Stock Corporation Act. From 14 May 2014 to 31 December 2014, a total of 4,425,081 shares were acquired at an average price of €156,74 as part of this new programme.

MEAG Munich ERGO AssetManagement GmbH sold 10,944 Munich Re shares at an average price of €158.94 in the financial year 2014 in connection with the hedging of obligations from its long-term incentive plan. The sale generated proceeds of €1.7m, which were used to strengthen liquid funds. With the remaining Munich Re shares acquired in prior years to hedge the stock appreciation rights granted, MEAG had a total portfolio of 2,530 shares at 31 December 2014.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €693,905,654.78.

In the year under review, a total of €1,254m was distributed to Munich Reinsurance Company's equity holders for the financial year 2013 in the form of a dividend of €7.25 per dividend-bearing share.

Composition of the capital authorised for capital increases

€m	31.12.2014
Authorised Capital Increase 2011 (until 19 April 2016)	10
Authorised Capital Increase 2013 (until 24 April 2018)	280
Total	**290**

Composition of contingent capital

€m	31.12.2014
Contingent Capital Increase 2010 (until 27 April 2015)	117
Total	**117**

Composition of equity

€m	31.12.2014	Prev. year
Issued capital	572	581
Capital reserve	6,845	6,845
Retained earnings	13,005	12,841
Other reserves	6,458	2,374
Consolidated result attributable to Munich Reinsurance Company equity holders	3,153	3,304
Non-controlling interests	271	243
Total equity	**30,304**	**26,188**

Included in the retained earnings are claims equalisation provisions of €6,837m (6,084m). 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 €434m (–997m) from currency translation and –€2m (3m) 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	31.12.2014	Prev. year
Unconsolidated affiliated companies, associates and joint ventures not accounted for using the equity method	168	158
Associates and joint ventures accounted for using the equity method	113	100
Other securities available for sale		
Fixed-interest	11,967	4,661
Non-fixed-interest	2,270	1,975
Less		
Provision for deferred premium refunds recognised in equity	–6,384	–2,754
Deferred taxes recognised in equity	–1,986	–796
Non-controlling interests	–24	–8
Consolidation and currency translation effects	–98	32
Total	**6,026**	**3,368**

Tax effects in the income and expenses recognised directly in equity

	2014			Prev. year		
€m	Before tax	Tax	After tax	Before tax	Tax	After tax
Currency translation	1,428	–	1,428	–709	–	–709
Unrealised gains and losses on investments	3,851	–1,190	2,661	–3,821	1,209	–2,612
Change resulting from valuation at equity	9	–	9	35	–	35
Change resulting from cash flow hedges	1	–	1	–1	–	–1
Remeasurements of defined benefit plans	–780	259	–521	282	–98	184
Other changes	23	–	23	2	–	2
Income and expense recognised directly in equity	**4,532**	**–931**	**3,601**	**–4,212**	**1,111**	**–3,101**

The taxes of –€931m (1,111m) recognised directly in equity comprise current taxes on unrealised gains and losses of –€94m (103m) on assets, with the remainder of –€837m (1,008m) being deferred tax assets.

Non-controlling interests

€m	31.12.2014	Prev. year
Unrealised gains and losses	24	8
Consolidated result	18	29
Other equity	229	206
Total	**271**	**243**

The non-controlling interests are mainly minority interests in individual companies of the primary insurance group. We disclose direct minority interests in special funds and in partnerships under “other liabilities”. In the financial year 2014, there were no significant changes in the percentage interest held in consolidated subsidiaries.

Information on capital management and minimum capital requirements is provided in the management report under “Financial position – Capital management” and “Financial position – Group solvency” respectively.

19 Fair value hierarchy of liabilities

All financial liabilities that are recognised at fair value, and such financial instruments that are not recognised at fair value but for which a fair value is disclosed in the notes, are allocated to one of the fair value hierarchy levels of IFRS 13.

Regularly, at each reporting date, we assess whether the allocation of these liabilities to the levels of the fair value hierarchy is still appropriate. If changes in the basis of valuation have occurred – for instance, if a market is no longer active or the valuation was performed using inputs requiring another allocation – we make the necessary adjustments.

For information on the valuation models used for measuring derivatives, please see the table and explanations in the Notes to the consolidated balance sheet - Assets (4) Hierarchy for the fair value measurement of investments. The valuation of subordinated bonds for which no market prices are available is conducted using the present value method and taking observable market inputs into account. For the bonds we have issued, we use the market values provided by price quoters for the corresponding assets. The fair values of our amounts due to banks are determined using the present value method, in part exclusively with observable market inputs, and partly also taking into account non-observable inputs.

The following table shows the allocation of the financial liabilities to levels of the fair value hierarchy.

Allocation of liabilities to levels of the fair value hierarchy

				31.12.2014
€m	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Other liabilities				
Derivatives	96	1,526	276	1,898
Total	**96**	**1,526**	**276**	**1,898**
Liabilities not measured at fair value				
Subordinated liabilities	4,955	62	–	5,017
Bonds and notes issued	371	–	–	371
Amounts due to banks	1	184	276	461
Total	**5,327**	**246**	**276**	**5,849**

→				Prev. year
€m	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Other liabilities				
Derivatives	127	681	147	955
Total	**127**	**681**	**147**	**955**
Liabilities not measured at fair value				
Subordinated liabilities	4,716	112	–	4,828
Bonds and notes issued	309	–	–	309
Amounts due to banks	–	8	30	38
Total	**5,025**	**120**	**30**	**5,175**

In the financial statements, only derivatives with a negative market value are currently recognised at fair value. Of these, we allocate the derivative portions to level 3 of the fair value hierarchy.

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

Reconciliation for liabilities allocated to Level 3

	Other liabilities at fair value through profit or loss	
€m	31.12.2014	Prev. year
Carrying amount at 31 Dec. previous year	147	191
Gains and losses	–173	84
Gains (losses) recognised in the income statement	–161	78
Gains (losses) recognised in equity	–12	6
Acquisitions	104	68
Disposals	–150	–29
Transfer to Level 3	2	–
Transfer out of Level 3	–	–
Change in the market value of derivatives	–	1
Carrying amount at 31 Dec. financial year	**276**	**147**
Gains (losses) recognised in the income statement that are attributable to liabilities shown at the end of the financial year	–121	72

20 Subordinated liabilities

Breakdown of subordinated liabilities

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2014	Prev. year
Munich Reinsurance Company, Munich, 6.25% until 2022, thereafter floating, €900m, Bonds 2012/2042	WKN: A1ML16 ISIN: XS0764278528 Reuters: DE076427852= Bloomberg: MUNRE	a	A	–	A	894	893
Munich Reinsurance Company, Munich, 6.625% until 2022, thereafter floating, £450m, Bonds 2012/2042	WKN: A1ML15 ISIN: XS0764278288 Reuters: DE076427828= Bloomberg: MUNRE	a+	A	–	A	578	539
Munich Reinsurance Company, Munich, 6.00% until 2021, thereafter floating, €1,000m, Bonds 2011/2041	WKN: A1KQYJ ISIN: XS0608392550 Reuters: DE060839255= Bloomberg: MUNRE	a	A	–	A	991	990
Munich Reinsurance Company, Munich, 5.767% until 2017, thereafter floating, €1,349m, Bonds 2007/perpetual	WKN: A0N4EX ISIN: XS0304987042 Reuters: DE030498704= Bloomberg: MUNRE	a	A	A3 (hyb)	A	1,502	1,531
Munich Reinsurance Company, Munich, 7.625% until 2018, thereafter floating, £300m, Bonds 2003/2028	WKN: 843449 ISIN: XS0167260529 Reuters: DE016726052= Bloomberg: MUNRE	a+	A	A2 (hyb)	A	385	359
ERGO Versicherung Aktiengesellschaft, Vienna, 4.95%, €50m[1], Registered bonds 2004/2014		–	–	–	–	–	50
ERGO Versicherung Aktiengesellschaft, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €12m[2], Registered bonds 2001/perpetual		–	–	–	–	12	12
ERGO Versicherung Aktiengesellschaft, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m[3], Registered bonds 1998/perpetual		–	–	–	–	13	13
HSB Group Inc., Delaware, LIBOR +91 BP, US$ 76m, Bonds 1997/2027		–	–	–	–	38	37
Total						**4,413**	**4,424**

1 In the first quarter of 2014, the issuer redeemed bonds with a nominal value of €50m.
2 ERGO International AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
3 ERGO Versicherungsgruppe AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.

In the case of Munich Reinsurance Company's bonds, annual outflows of liquidity amounting to the respective interest payments occur until the first possible call dates in 2022, 2021, 2017 and 2018. In the financial year, these amounted to –€259m. Thereafter, the liquidity outflows will vary, depending on the respective interest-rate level. On 2 January 2014, we fully redeemed the registered bonds (from 2004) of ERGO Versicherung Aktiengesellschaft, Vienna, with a nominal value of €50m. For its registered bonds from 2001 and 1998, and for the HSB Group bonds, the annual outflow is variable, depending on the respective interest-rate levels.

The fair value of the subordinated bond issued by Munich Reinsurance Company in June 2007 is hedged in respect of the risk-free interest rate by means of an interest-rate swap. The hedged changes in value of the subordinated liabilities and of the interest-rate swap are shown in the net finance costs with impact on profit or loss in each case.

The fair value of the subordinated liabilities at the balance sheet date amounted to €5,017m (4,828m). For the Munich Reinsurance Company bonds, we take the stock market prices as fair values. For the other subordinated liabilities, we determine the fair values using net present value methods with observable market parameters.

21 Unearned premiums

Unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	24	28	5,973	5,587
Ceded share	–	–	-160	-109
Net	**24**	**28**	**5,813**	**5,478**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	174	159	443	449	1,363	1,287
Ceded share	-2	-10	1	–	-99	-83
Net	**172**	**149**	**444**	**449**	**1,264**	**1,204**

→	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	396	484	8,373	7,994
Ceded share	-71	-74	-331	-276
Net	**325**	**410**	**8,042**	**7,718**

Development of gross unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Status at 31 Dec. previous year	28	37	5,587	5,776
Currency translation effects	3	–2	506	–282
Change in consolidated group	–	–	–	–
Gross premiums written	10,040	10,829	16,730	17,013
Earned premiums	–10,047	–10,836	–16,850	–16,920
Status at 31 Dec. financial year	**24**	**28**	**5,973**	**5,587**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Status at 31 Dec. previous year	159	156	449	455	1,287	1,258
Currency translation effects	–1	–1	–1	–	–9	–14
Change in consolidated group	–	–	–	–	–	–32
Gross premiums written	9,812	9,987	3,115	3,172	3,809	3,508
Earned premiums	–9,796	–9,983	–3,120	–3,178	–3,724	–3,433
Status at 31 Dec. financial year	**174**	**159**	**443**	**449**	**1,363**	**1,287**

→	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Status at 31 Dec. previous year	484	452	7,994	8,134
Currency translation effects	20	–29	518	–328
Change in consolidated group	–	–	–	–32
Gross premiums written	5,342	6,551	48,848	51,060
Earned premiums	–5,450	–6,490	–48,987	–50,840
Status at 31 Dec. financial year	**396**	**484**	**8,373**	**7,994**

22 Provision for future policy benefits

Provision for future policy benefits

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	13,902	13,633	26	27
Ceded share	-775	-736	–	–
Net	**13,127**	**12,897**	**26**	**27**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	84,896	84,375	428	426	12,328	11,990
Ceded share	-3	-23	–	–	-1,570	-1,644
Net	**84,893**	**84,352**	**428**	**426**	**10,758**	**10,346**

→	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	1,068	976	112,648	111,427
Ceded share	-7	-7	-2,355	-2,410
Net	**1,061**	**969**	**110,293**	**109,017**

Gross provision for future policy benefits according to type of insurance cover

€m	31.12.2014	Prev. year
Life	**82,659**	**82,815**
Reinsurance	13,902	13,633
Primary insurance	68,757	69,182
Term life insurance	3,046	2,975
Other life insurance	32,734	35,676
Annuity insurance	31,654	29,286
Disability insurance	1,299	1,221
Contracts with combination of more than one risk	24	24
Health	**29,525**	**28,151**
Munich Health	1,068	976
Primary insurance	28,457	27,175
Property-casualty	**464**	**461**
Reinsurance	26	27
Primary insurance	438	434
Total	**112,648**	**111,427**

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. 87% of the provisions for future policy benefits are apportionable, biometric actuarial assumptions based on the tables of the German Association of Actuaries (Deutsche Aktuarvereinigung e.V.) are used.

In the ERGO Life and Health Germany segment, assumptions regarding future mortality, lapses and profit participation, and regarding long-term interest-rate levels were adjusted in 2014 on the basis of the long-term regular return on investments. The provision for future policy benefits was increased as a result of these adjustments.

Further information on the underwriting risks and discount rates can be found in the Disclosures on risks from insurance contracts and financial instruments (39) Risks from life and health insurance business and (40) Risks from property-casualty insurance business.

Development of gross provision for future policy benefits

€m	2014	Prev. year
Status at 31 Dec. previous year	111,427	109,769
Currency translation differences	770	–571
Change in consolidated group/Other	–103	2,220
Changes		
Scheduled	361	–60
Unscheduled	193	69
Status at 31 Dec. financial year	**112,648**	**111,427**

The change under “Other” contains €433m (361m) in savings premiums for capitalisation products and –€647m (1,266m) for portfolio entries and withdrawals. Scheduled changes in the provision for future policy benefits contain the changes deriving from prospective calculation as a result of premium payments, benefit cases and the unwinding of discount in the year under review.

23 Provision for outstanding claims

Provision for outstanding claims

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	6,687	5,948	39,868	37,847
Ceded share	–351	–363	–1,802	–1,817
Net	**6,336**	**5,585**	**38,066**	**36,030**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	2,653	2,598	3,866	3,766	2,231	2,065
Ceded share	–3	–11	–79	–113	–270	–222
Net	**2,650**	**2,587**	**3,787**	**3,653**	**1,961**	**1,843**

→	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Gross	1,037	837	56,342	53,061
Ceded share	–131	–90	–2,636	–2,616
Net	**906**	**747**	**53,706**	**50,445**

Gross provision by type

	Reinsurance			
	Life		Property-casualty	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Annuity claims provision	4,136	3,520	263	260
Case reserve	1,033	951	17,095	16,970
IBNR reserve	1,518	1,477	22,510	20,617
Total	**6,687**	**5,948**	**39,868**	**37,847**

→

	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Annuity claims provision	1,277	1,232	392	379	112	91
Case reserve	1,145	1,128	2,653	2,510	1,708	1,598
IBNR reserve	231	238	821	877	411	376
Total	**2,653**	**2,598**	**3,866**	**3,766**	**2,231**	**2,065**

→

	Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year
Annuity claims provision	39	38	6,219	5,520
Case reserve	460	352	24,094	23,509
IBNR reserve	538	447	26,029	24,032
Total	**1,037**	**837**	**56,342**	**53,061**

The provision for annuity claims involves periodic payments for disability cases and is usually due long term. A major part of this provision is established in the life reinsurance and life primary insurance segment for future annuity payments; a small part refers to provisions for annuities in personal accident, liability and workers' compensation insurance. The biometric actuarial assumptions are selected using appropriate actuarial principles. Provisions for annuity claims are calculated as the present value of the expected future payments. The discount rates used are presented in the Disclosures on risks from insurance contracts and financial instruments (39) Risks from life and health insurance business and (40) 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	
%	31.12.2014	Prev. year	31.12.2014	Prev. year
Up to one year	31.9	29.8	35.1	37.3
Over one year and up to five years	43.0	44.7	39.4	39.4
Over five years and up to ten years	13.6	14.3	14.3	13.3
Over ten years and up to fifteen years	5.4	5.4	5.6	4.9
Over fifteen years	6.1	5.8	5.6	5.1

The expected timing of payments from the provisions for outstanding claims may involve considerable uncertainty.

Development of the claims reserve in the property-casualty segment[1]

	2014			Prev. year		
€m	Gross	Ceded share	Net	Gross	Ceded share	Net
Status at 31 Dec. previous year	43,494	-2,121	41,373	44,493	-2,317	42,176
Currency translation differences	2,682	-143	2,539	-1,604	55	-1,549
Change in consolidated group	–	–	–	-25	1	-24
Claims expenses						
For the year under review	14,415	-387	14,028	14,426	-343	14,083
For previous years	-1,358	88	-1,270	-917	12	-905
Total claims expenses	13,057	-299	12,758	13,509	-331	13,178
Unwinding of discount	60	-3	57	56	-2	54
Less payments						
For the year under review	-5,357	98	-5,259	-5,566	72	-5,494
For previous years	-8,184	359	-7,825	-7,369	401	-6,968
Total payments	-13,541	457	-13,084	-12,935	473	-12,462
Status at 31 Dec. financial year	**45,752**	**-2,109**	**43,643**	**43,494**	**-2,121**	**41,373**

1 Comprises the segments property-casualty reinsurance, ERGO Property-casualty Germany and the property-casualty section of the ERGO International segment.

The claims expenses for the year under review show 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	≤ 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
2004	10,811											
2005	6,722	3,517										
2006	3,533	3,720	3,366									
2007	2,635	1,714	2,554	4,205								
2008	2,729	552	1,374	2,820	4,309							
2009	2,005	506	579	1,291	3,287	4,425						
2010	1,593	258	445	831	1,685	3,215	4,900					
2011	1,850	162	284	525	614	1,327	3,311	5,827				
2012	1,019	105	176	212	442	504	1,630	4,217	5,768			
2013	848	62	27	36	199	353	720	1,998	2,966	5,679		
2014	806	94	135	182	281	348	602	1,112	1,410	3,219	5,389	13,578

Claims reserves for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
31.12.2004	36,763											
31.12.2005	27,801	9,328										
31.12.2006	24,439	5,848	7,668									
31.12.2007	21,995	4,123	5,055	7,986								
31.12.2008	19,219	3,145	3,561	5,361	9,085							
31.12.2009	16,820	2,598	2,779	3,980	6,043	8,767						
31.12.2010	15,388	1,905	2,061	3,074	4,329	5,544	8,738					
31.12.2011	13,516	1,562	1,683	2,503	3,433	3,769	5,662	11,804				
31.12.2012	12,394	1,252	1,341	1,932	2,867	3,163	3,913	7,674	8,728			
31.12.2013	11,501	1,114	1,351	1,679	2,488	2,813	3,284	5,358	5,614	8,800		
31.12.2014	10,637	954	1,099	1,422	1,952	2,160	2,693	3,913	3,998	5,772	9,002	43,602

Ultimate loss for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
31.12.2004	47,574											
31.12.2005	45,334	12,845										
31.12.2006	45,505	13,085	11,034									
31.12.2007	45,696	13,074	10,975	12,191								
31.12.2008	45,649	12,648	10,855	12,386	13,394							
31.12.2009	45,255	12,607	10,652	12,296	13,639	13,192						
31.12.2010	45,416	12,172	10,379	12,221	13,610	13,184	13,638					
31.12.2011	45,394	11,991	10,285	12,175	13,328	12,736	13,873	17,631				
31.12.2012	45,291	11,786	10,119	11,816	13,204	12,634	13,754	17,718	14,496			
31.12.2013	45,246	11,710	10,156	11,599	13,024	12,637	13,845	17,400	14,348	14,479		
31.12.2014	45,188	11,644	10,039	11,524	12,769	12,332	13,856	17,067	14,142	14,670	14,391	177,622
Net run-off result	2,386	1,201	995	667	625	860	–218	564	354	–191	n/a	7,243
Change 2013 to 2014	58	66	117	75	255	305	–11	333	206	–191	n/a	1,213

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 2014). This ensures that currency translation does not lead to run-off effects.

24 Other technical provisions

Breakdown of other technical provisions

	Reinsurance		Primary insurance		Munich Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Provision for premium refunds based on national regulations	4	3	7,553	6,649	–	–	7,557	6,652
Provision for deferred premium refunds	–	–	10,609	6,238	13	5	10,622	6,243
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	–	–	6,325	2,736	25	14	6,350	2,750
Thereof resulting from other revaluations (recognised in profit or loss)	–	–	4,284	3,502	-12	-9	4,272	3,493
Provision for profit commission	67	414	–	–	93	21	160	435
Other	26	28	71	112	56	49	153	189
Total (gross)	**97**	**445**	**18,233**	**12,999**	**162**	**75**	**18,492**	**13,519**

Of the provision for premium refunds based on national regulations, €87m (84m) 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 €6m (3m), of which – (€2m) 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	2014	Prev. year
Status at 31 Dec. previous year	6,652	6,403
Change in consolidated group	–	-33
Allocations/Withdrawals	905	282
Status at 31 Dec. financial year	**7,557**	**6,652**

Development of provision for deferred premium refunds

€m	2014	Prev. year
Status at 31 Dec. previous year	6,243	6,849
Change in consolidated group	–	–231
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	3,600	–952
Change resulting from other revaluations (recognised in profit or loss)	779	577
Status at 31 Dec. financial year	**10,622**	**6,243**

The above change resulting from unrealised gains and losses on investments reflects the proportional allocation to expected future policyholders' bonuses of the change in market values that occurred in the past year. Changes in the provision for deferred premium refunds are only recognised in the income statement to the extent that they result from valuation differences recognised in profit or loss.

To determine the portion of the valuation differences allocable to the provision for deferred premium refunds, rates of between 50% and 92.5% after tax were used.

25 Gross technical provisions for unit-linked life insurance

Development of gross provision

€m	2014	Prev. year
Status at 31 Dec. previous year	7,043	6,258
Change in consolidated group and other influences	148	107
Savings premiums	722	780
Unrealised gains/losses on fund assets	495	401
Withdrawal for expenses and risk	–84	–80
Withdrawal for benefits	–487	–423
Status at 31 Dec. financial year	**7,837**	**7,043**

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 unit-linked life insurance contracts. Small differences in relation to these investments arise as a result of including unearned revenue liability in these provisions.

26 Other accrued liabilities

Breakdown of other accrued liabilities

€m	31.12.2014	Prev. year
Provisions for post-employment benefits	2,965	2,140
Other provisions	1,508	1,602
Total	**4,473**	**3,742**

Provisions for post-employment benefits

Munich Re companies generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. Special regional economic, legal and tax features are taken into account. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. The pension commitments comprise obligations towards active beneficiaries or retired beneficiaries with vested benefits, and current pension payments. Defined benefit plans are funded internally through provisions for post-employment benefits and externally through funds and insurance contracts concluded to cover the benefit obligations.

Expenses for defined contribution plans in the year under review totalled –€72m (–69m). Expenses for contributions to state plans totalled –€114m (–117m) in the financial year.

The present value of obligations under defined benefit pension plans amounted to €5,584m (3,992m), the plan assets to be deducted totalled €2,741m (2,012m). The defined benefit obligations comprise the following main plans:

Munich Reinsurance Company's pension obligations account for €1,484m (1,014m) of the present value of obligations under defined pension plans and €1,432m (1,022m) of plan assets. The obligations include disability and old-age pensions, and pensions for surviving dependants. The amount of the pensions generally depends on salary and length of service. The defined benefits granted up to 31 December 2007 are financed through a fund. New members on or after 1 January 2008 receive pension commitments in the form of defined contribution plans financed by means of intra-Group insurance contracts securing the obligations under pension schemes. The fund and insurance contracts have been grouped in a contractual trust agreement (CTA).

The pension obligations of the ERGO Insurance Group account for €2,779m (1,966m) of the present value of obligations under defined pension plans and €285m (194m) of plan assets. The obligations include disability and old-age pensions, and pensions for surviving dependants. The amount of the pensions generally depends on salary and length of service. The commitments are generally funded through pension provisions. New members receive pension commitments in the form of defined contribution plans financed by means of intra-Group insurance contracts securing the obligations under pension schemes. There are medical-care benefit obligations.

The pension obligations of Munich Re America account for €695m (524m) of the present value of obligations under defined pension plans and €466m (326m) of plan assets. The obligations include pensions for employees and surviving dependants. The amount of the pensions generally depends on includable compensation and length of service. The plan is financed through a trust and pension provisions. The plan was closed to new members effective 1 January 2006 and to all remaining members effective 31 December 2011. With effect from 1 January 2012, all members now receive pension commitments in the form of defined contribution plans. There are also retiree medical-care benefit obligations.

Change in the present value of the defined benefit obligations

€m	2014	Prev. year
Status at 31 Dec. previous year	3,992	4,234
Currency translation differences	122	–60
Change in consolidated group	–1	–1
Current service cost	118	125
Past service cost	17	10
Gains and losses from plan settlements	–14	–
Contributions by plan participants	4	5
Interest expense	145	132
Payments	–121	–110
Payments from plan settlements	–28	–2
Transfer of obligations	1	6
Actuarial gains/losses: Change in demographic assumptions	35	2
Actuarial gains/losses: Change in financial assumptions	1,281	–319
Actuarial gains/losses: Experience adjustments	28	–34
Other	5	4
Status at 31 Dec. financial year	**5,584**	**3,992**

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to €285m (207m) at the balance sheet date.

The plan settlements mainly derive from an offer made by Munich Re America to compensate for pension commitments towards departing staff members with vested benefits.

The present value of the obligations under defined benefit plans breaks down as follows:

Breakdown of the present value of defined benefit obligations

%	31.12.2014	Prev. year
Active members	53	50
Deferred members	13	13
Pensioners	34	37
Total	**100**	**100**

The consolidated companies used the following actuarial assumptions (weighted -average values) for calculating their pension obligations:

Actuarial assumptions

%	2014	Prev. year
Discount rate	2.1	3.6
Future increases in entitlement/salary	1.9	2.0
Future pension increases	1.5	1.5
Medical cost trend rate	3.9	3.9

Pension obligations are measured using generally recognised biometric actuarial assumptions, adjusted as a rule to take account of company-specific circumstances.

Change in the fair value of plan assets for defined benefit plans

€m	2014	Prev. year
Status at 31 Dec. previous year	2,012	2,000
Currency translation differences	86	–43
Change in consolidated group	–	–
Interest income	80	67
Return excluding interest income	516	–54
Contributions by the employer	120	75
Contributions by plan participants	3	5
Payments	–43	–33
Payments from plan settlements	–32	–4
Transfer of assets	–	1
Other	–1	–2
Status at 31 Dec. financial year	**2,741**	**2,012**

Breakdown of the fair value of plan assets for defined benefit plans

%	31.12.2014	Prev. year
Quoted market price in an active market		
Cash or cash equivalents	1	2
Equity instruments	9	11
Debt instruments	51	52
Real estate	–	–
Derivatives	–	–
Securities funds	18	17
Asset-backed securities	–	–
Structured debt	–	–
Insurance contracts	20	17
Other	1	1
Total	**100**	**100**

As in the previous year, the plan assets do not include any own shares.

For the financial year 2015, capital transfers of €78m (63m) to plan assets are expected.

Change in the reimbursement rights for defined benefit plans

€m	2014	Prev. year
Status at 31 Dec. previous year	177	167
Interest income	6	5
Return excluding interest income	46	–12
Contributions by the employer	16	15
Contributions by plan participants	–	–
Payments	–5	–5
Transfer of assets	–	7
Other	7	–
Status at 31 Dec. financial year	**247**	**177**

The reimbursement rights derive from insurance concluded to cover the benefit obligations.

There were no effects resulting from the asset ceiling on overfunded defined benefit plans.

Funded status of defined benefit plans

€m	31.12.2014	Prev. year
Obligations funded through provisions		
Present value of defined benefit obligations	2,763	1,968
Other	–	–
Net balance sheet liability	2,763	1,968
Obligations funded through plan assets		
Present value of defined benefit obligations	2,821	2,024
Fair value of plan assets	–2,741	–2,012
Assets from the defined benefit plan	122	160
Effect of asset ceiling	–	–
Other	–	–
Net balance sheet liability	202	172
Obligations independent of funded obligations		
Present value of defined benefit obligations	5,584	3,992
Fair value of plan assets	–2,741	–2,012
Assets from the defined benefit plan	122	160
Effect of asset ceiling	–	–
Other	–	–
Net balance sheet liability	**2,965**	**2,140**

The plan assets have the exclusive purpose of fulfilling the defined benefit obligations to which they are allocated and making provision for future outflows. This is required by law in several countries, whilst in other countries plan assets are provided on a voluntary basis.

The relationship between the fair value of the plan assets and the present value of the defined benefit obligations is referred to as the funded status. If the present value of defined benefit obligations exceeds the fair value of the plan assets, this excess of liabilities over assets is financed by means of provisions for post-employment benefits. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, an asset arises out of the defined benefit plan. As each plan is analysed individually, this may give rise to both a provision for post-employment benefits and an asset from the defined benefit plan.

Market fluctuations may give rise to changes in the fair value of the plan assets over the course of time. Adjustments to the actuarial assumptions (e.g. life expectancy, actuarial interest rate) or deviations in actual risk experience from the risk experience assumed may result in changes in the present value of the defined benefit obligations. Both factors may therefore lead to fluctuations in the funded status. To avoid these fluctuations wherever possible, care is taken, when choosing investments, that fluctuations in the fair value of the plan assets and in the present value of defined benefit obligations offset each other as far as possible whenever changes in certain influencing variables occur (asset-liability matching).

Breakdown of expenses booked in the financial year

€m	2014	Prev. year
Net interest income or expense	–59	–60
Service cost	–125	–140
Other	11	11
Total	**–173**	**–189**

The expenses are distributed between the functional areas and shown mainly under “Operating expenses” and “Expenses for claims and benefits” in the consolidated income statement.

The actual return on plan assets amounts to €596m (13m), and the actual gains on reimbursements to €52m (actual losses of –€7m).

Contractual period to maturity of pension obligations

€m	31.12.2014	Prev. year
Up to one year	133	119
Over one year and up to five years	599	537
Over five years and up to ten years	867	788
Over ten years and up to twenty years	2,257	2,106
Over 20 years	6,585	6,442
Total	**10,441**	**9,992**

The weighted average contractual period to maturity of our pension obligations is 21 (18) years.

An increase or decrease in the following essential actuarial assumptions has an impact on the present value of defined benefit obligations:

Sensitivity analysis

€m	31.12.2014	Prev. year
Increase in actuarial discount rate by 50 BP	–515	–316
Decrease in actuarial discount rate by 50 BP	600	364
Increase in salary/entitlement trends by 10 BP	43	15
Decrease in salary/entitlement trends by 10 BP	–42	–14
Increase in pension trends by 10 BP	57	35
Decrease in pension trends by 10 BP	–56	–36
Increase in medical cost trend rate by 100 BP	47	28
Decrease in medical cost trend rate by 100 BP	–38	–24
Increase in mortality rate by 10%	–143	–77
Decrease in mortality rate by 10%	154	84

The calculations for the actuarial assumptions classified as essential were carried out individually in order to display their effects separately.

Other provisions

Other provisions

€m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2014
Restructuring	529	95	–147	–2	–	475
Earned commission	220	1,169	–1,183	–7	–2	197
Salary obligations and other remuneration for desk and field staff	120	99	–94	–3	–3	119
Anniversary benefits	90	16	–4	–1	2	103
Early retirement benefits/semi-retirement	93	6	–32	–1	–	66
Medium- and long-term incentive plans	92	15	–35	–7	–	65
Anticipated losses	82	–16	–2	–6	–8	50
Miscellaneous	376	273	–205	–27	16	433
Total	**1,602**	**1,657**	**–1,702**	**–54**	**5**	**1,508**

The provisions for restructuring also included in this item mainly concern €140m (178m) for the ERGO Group's "Continuous improvement of our competitive position" project and €327m (343m) for the comprehensive restructuring of its sales organisation. The miscellaneous other provisions comprise a large number of different items, including €22m (19m) for competitions for sales staff, €22m (25m) for settlements, and €42m (43m) for litigation risks.

The provisions for restructuring, early-retirement benefits/semi-retirement, anniversary benefits and medium- and long-term incentive plans are mainly long term, whereas the provisions for earned commission, salary obligations, other remuneration for desk and field staff and miscellaneous are essentially short term.

27 Bonds and notes issued

Breakdown of bonds and notes issued

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2014	Prev. year
Munich Re America Corporation, Wilmington, 7.45%, US$ 342m, Senior Notes 1996/2026	CUSIP No.: 029163AD4 ISIN, Reuters: – Bloomberg: AMER RE CORP MUNRE	a–	A+	A2	A–	282	248
Total						**282**	**248**

Outflows of liquidity occur annually in the amount of the interest payments until the notes mature. These totalled –US$ 25m in the financial year. We use the prices provided by price quoters to determine the fair value of the notes issued. The fair value at the reporting date amounts to €371m (309m).

28 Deposits retained on ceded business

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires, and do not trigger any cash flows. As a rule, the changes in deposits retained on ceded business derive from the changes in the relevant technical provisions covering ceded business. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

29 Other liabilities

Breakdown of other liabilities

€m	31.12.2014	Prev. year
Amounts payable on primary insurance business	3,086	3,358
Accounts payable on reinsurance business	5,462	4,553
Amounts due to banks	443	462
Miscellaneous liabilities	5,646	4,548
Total	**14,637**	**12,921**

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.

Of the amounts owed to banks, €164m is attributable to bank borrowing by Group companies acquired by Munich Re under its infrastructure investment programme including renewable energies and new technologies.

The miscellaneous liabilities contain liabilities of €500m (230m) resulting from reinsurance contracts without significant risk transfer, derivative financial instruments with a negative fair value of €1,228m (528m), and negative fair values totalling €675m (427m) for insurance-linked derivatives and hedging derivatives of variable annuities. The miscellaneous liabilities also include €28m (17m) for social security and €190m (199m) 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; see Disclosures on risks from insurance contracts and financial instruments (39) Risks from life and health insurance business and (40) 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	31.12.2014	Prev. year
Up to one year	8,713	7,087
Over one year and up to two years	106	156
Over two years and up to three years	31	135
Over three years and up to four years	45	179
Over four years and up to five years	267	35
Over five years and up to ten years	856	531
Over ten years	837	865
Total	**10,855**	**8,988**

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. A total of €50m (56m) of the amounts owed to banks and €399m (389m) of the liabilities from derivatives are due within one year. Any deviations in the liabilities with remaining terms of over one year from the undiscounted cash flows are not material for the presentation and significance of the financial liabilities for our financial position and performance.

Notes to the consolidated income statement

30 Premiums

Premiums

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Total gross premiums	10,040	10,829	16,730	17,013
Gross premiums written	10,040	10,829	16,730	17,013
Change in unearned premiums – Gross	7	7	120	–93
Gross earned premiums	**10,047**	**10,836**	**16,850**	**16,920**
Ceded premiums written	–420	–462	–731	–677
Change in unearned premiums – Ceded share	–	–	31	–6
Earned premiums ceded	**–420**	**–462**	**–700**	**–683**
Net earned premiums	**9,627**	**10,374**	**16,150**	**16,237**

→

	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Total gross premiums	10,730	10,981	3,115	3,172	4,213	3,876
Gross premiums written	9,812	9,987	3,115	3,172	3,809	3,508
Change in unearned premiums – Gross	–16	–4	5	6	–85	–75
Gross earned premiums	**9,796**	**9,983**	**3,120**	**3,178**	**3,724**	**3,433**
Ceded premiums written	–27	–71	–39	–39	–251	–257
Change in unearned premiums – Ceded share	–8	–3	–1	–	6	15
Earned premiums ceded	**–35**	**–74**	**–40**	**–39**	**–245**	**–242**
Net earned premiums	**9,761**	**9,909**	**3,080**	**3,139**	**3,479**	**3,191**

→

	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Total gross premiums	5,342	6,551	50,170	52,422
Gross premiums written	5,342	6,551	48,848	51,060
Change in unearned premiums – Gross	108	–61	139	–220
Gross earned premiums	**5,450**	**6,490**	**48,987**	**50,840**
Ceded premiums written	–155	–150	–1,623	–1,656
Change in unearned premiums – Ceded share	–8	–18	20	–12
Earned premiums ceded	**–163**	**–168**	**–1,603**	**–1,668**
Net earned premiums	**5,287**	**6,322**	**47,384**	**49,172**

The total gross premiums include not only the gross premiums written but also savings premiums from unit-linked life insurance and capitalisation products. Premiums from long-term insurance business, especially in life primary insurance, 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; see notes to the consolidated balance sheet – Equity and liabilities (21) Unearned premiums. Over the duration of the contracts, unearned premiums are reversed in accordance with the reduction in risk.

31 Income from technical interest

Income from technical interest

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Income from technical interest	683	683	1,209	1,183

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Income from technical interest	4,823	4,177	99	103	652	579

→	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Income from technical interest	37	39	7,503	6,764

The income from technical interest is the amount earned by assumed insurance business from the mainly risk-free investment of assets covering the technical provisions. The deposits retained on ceded business are also taken into account as a basis for the technical interest. Thus the portion of investment income corresponding to the deposit interest expense is included as a component in the calculation of the technical interest and reallocated to the technical result.

In terms of the assets required to cover the technical provisions, the composition of the technical interest varies from segment to segment, depending on the type of insurance business conducted and the related statutory regulations.

In the life reinsurance segment, the income from technical interest corresponds to the risk-free interest on our technical provisions. For deposited provisions, the income from technical interest corresponds to the contractually agreed interest rate.

In property-casualty reinsurance, we allow for the fact that provisions established in prior years were invested at higher interest rates than the current level of market interest rates. The income from technical interest therefore corresponds to the risk-free interest on our discounted technical provisions at the respective historical interest rate, taking into account the relevant period of insurance and currency. For balance sheet provisions in excess of the discounted provisions, short-term interest rates are applied.

In the ERGO Life and Health Germany segment, the income from technical interest for life primary insurance companies comprises the gains and losses from unit-linked life insurance plus the guaranteed interest rate and profit sharing on the basis of the non-technical result sources. For health primary insurance companies, the income from technical interest for primary insurance business corresponds to the allocation of interest to the ageing reserve (actuarial interest) and the allocation to the provision for premium refunds. The latter is based on the allocation of interest to the provision for non-performance-related premium refunds, on the investment result exceeding the actuarial interest rate, and on policyholders' participation in the other non-technical result components.

In the ERGO Property-casualty Germany segment, the income from technical interest is calculated analogously to the procedure in the property-casualty reinsurance segment.

In the ERGO International segment, the income from technical interest for life primary insurance companies 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. The income from technical interest for property-casualty primary insurance companies is calculated analogously to the procedure in the property-casualty reinsurance segment.

In the Munich Health segment, income from technical interest for primary insurance business is based on the interest on other technical provisions at the relevant national risk-free interest rate and, where applicable, on the interest allocated to the provision for future policy benefits. In the case of long-term reinsurance treaties, the interest corresponds to the contractually agreed allocations of interest. For short-term reinsurance business, the income from technical interest is calculated on the basis of the risk-free interest on technical provisions at the relevant national interest rate.

32 Expenses for claims and benefits

Expenses for claims and benefits

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Gross				
Claims and benefits paid	-7,604	-8,035	-10,578	-9,896
Change in technical provisions				
Provision for future policy benefits	-214	431	1	5
Provision for outstanding claims	-318	-711	624	-316
Provision for premium refunds	–	–	-6	-5
Other technical result	2	-8	-2	1
Gross expenses for claims and benefits	**-8,134**	**-8,323**	**-9,961**	**-10,211**
Ceded share				
Claims and benefits paid	333	356	374	394
Change in technical provisions				
Provision for future policy benefits	-36	-76	–	–
Provision for outstanding claims	-22	-20	-140	-195
Provision for premium refunds	–	–	–	–
Other technical result	-36	-35	-1	-1
Expenses for claims and benefits – Ceded share	**239**	**225**	**233**	**198**
Net				
Claims and benefits paid	-7,271	-7,679	-10,204	-9,502
Change in technical provisions				
Provision for future policy benefits	-250	355	1	5
Provision for outstanding claims	-340	-731	484	-511
Provision for premium refunds	–	–	-6	-5
Other technical result	-34	-43	-3	–
Net expenses for claims and benefits	**-7,895**	**-8,098**	**-9,728**	**-10,013**

Continued on next page

	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Gross						
Claims and benefits paid	-9,591	-9,307	-1,825	-1,871	-2,386	-2,340
Change in technical provisions						
Provision for future policy benefits	-585	-643	-1	-7	-410	-179
Provision for outstanding claims	-56	-91	-99	-173	-133	-184
Provision for premium refunds	-2,584	-2,014	-19	-21	-47	-41
Other technical result	-129	-123	-7	-2	11	7
Gross expenses for claims and benefits	**-12,945**	**-12,178**	**-1,951**	**-2,074**	**-2,965**	**-2,737**
Ceded share						
Claims and benefits paid	28	40	16	9	280	206
Change in technical provisions						
Provision for future policy benefits	8	7	–	–	-98	-21
Provision for outstanding claims	-8	1	-35	24	32	47
Provision for premium refunds	–	–	-2	1	–	–
Other technical result	-6	-6	1	-3	-65	-67
Expenses for claims and benefits – Ceded share	**22**	**42**	**-20**	**31**	**149**	**165**
Net						
Claims and benefits paid	-9,563	-9,267	-1,809	-1,862	-2,106	-2,134
Change in technical provisions						
Provision for future policy benefits	-577	-636	-1	-7	-508	-200
Provision for outstanding claims	-64	-90	-134	-149	-101	-137
Provision for premium refunds	-2,584	-2,014	-21	-20	-47	-41
Other technical result	-135	-129	-6	-5	-54	-60
Net expenses for claims and benefits	**-12,923**	**-12,136**	**-1,971**	**-2,043**	**-2,816**	**-2,572**

	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Gross				
Claims and benefits paid	-4,216	-5,151	-36,200	-36,600
Change in technical provisions				
Provision for future policy benefits	-93	-94	-1,302	-487
Provision for outstanding claims	-146	2	-128	-1,473
Provision for premium refunds	–	–	-2,656	-2,081
Other technical result	-4	57	-129	-68
Gross expenses for claims and benefits	**-4,459**	**-5,186**	**-40,415**	**-40,709**
Ceded share				
Claims and benefits paid	66	98	1,097	1,103
Change in technical provisions				
Provision for future policy benefits	–	–	-126	-90
Provision for outstanding claims	33	23	-140	-120
Provision for premium refunds	–	–	-2	1
Other technical result	–	–	-107	-112
Expenses for claims and benefits – Ceded share	**99**	**121**	**722**	**782**
Net				
Claims and benefits paid	-4,150	-5,053	-35,103	-35,497
Change in technical provisions				
Provision for future policy benefits	-93	-94	-1,428	-577
Provision for outstanding claims	-113	25	-268	-1,593
Provision for premium refunds	–	–	-2,658	-2,080
Other technical result	-4	57	-236	-180
Net expenses for claims and benefits	**-4,360**	**-5,065**	**-39,693**	**-39,927**

The change in the provision for future policy benefits (net) contains €495m (401m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, –€1,414m (–1,135m) is for the allocation to the provision for premium refunds on the basis of national regulations, –€763m (–337m) for the change in the provision for deferred premium refunds recognised in the income statement, and –€102m (–173m) for direct crediting. The "Other technical result" for life primary insurance mainly includes interest on policyholders' accumulated credit.

Expenses for profit commission in reinsurance are shown under "Operating expenses", not under "Expenses for claims and benefits".

33 Operating expenses

Operating expenses

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Gross				
Acquisition costs, profit commission and reinsurance commission paid	–2,160	–3,023	–4,185	–3,987
Administrative expenses	–289	–275	–1,211	–1,171
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	169	549	83	149
Gross operating expenses	**–2,280**	**–2,749**	**–5,313**	**–5,009**
Ceded share				
Acquisition costs, profit commission and reinsurance commission paid	144	152	86	69
Change in deferred acquisition costs and contingent commissions	1	–3	–12	1
Operating expenses – Ceded share	**145**	**149**	**74**	**70**
Net operating expenses	**–2,135**	**–2,600**	**–5,239**	**–4,939**

Continued on next page

	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Gross						
Acquisition costs, profit commission and reinsurance commission paid	-931	-1,025	-482	-522	-975	-897
Administrative expenses	-369	-347	-492	-488	-271	-286
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	-223	-223	-23	-18	32	75
Gross operating expenses	**-1,523**	**-1,595**	**-997**	**-1,028**	**-1,214**	**-1,108**
Ceded share						
Acquisition costs, profit commission and reinsurance commission paid	5	21	3	6	37	33
Change in deferred acquisition costs and contingent commissions	1	7	–	–	-2	–
Operating expenses – Ceded share	**6**	**28**	**3**	**6**	**35**	**33**
Net operating expenses	**-1,517**	**-1,567**	**-994**	**-1,022**	**-1,179**	**-1,075**

	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Gross				
Acquisition costs, profit commission and reinsurance commission paid	-761	-1,012	-9,494	-10,466
Administrative expenses	-105	-173	-2,737	-2,740
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	-71	-16	-33	516
Gross operating expenses	**-937**	**-1,201**	**-12,264**	**-12,690**
Ceded share				
Acquisition costs, profit commission and reinsurance commission paid	48	36	323	317
Change in deferred acquisition costs and contingent commissions	2	4	-10	9
Operating expenses – Ceded share	**50**	**40**	**313**	**326**
Net operating expenses	**-887**	**-1,161**	**-11,951**	**-12,364**

34 Investment result

Investment result by type of investment and segment (before deduction of income from technical interest)

			Reinsurance	
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Land and buildings, including buildings on third-party land	19	19	98	95
Investments in affiliated companies	-1	–	10	1
Investments in associates and joint ventures	–	-1	54	-31
Loans	3	1	9	3
Other securities held to maturity	–	–	–	–
Other securities available for sale				
Fixed-interest	580	490	1,961	1,586
Non-fixed-interest	206	147	911	703
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	–	–	–	3
Non-fixed-interest	–	–	1	2
Derivatives	-239	-89	-1,152	-405
Designated at fair value through profit or loss				
Fixed-interest	–	–	–	–
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	287	283	59	-33
Expenses for the management of investments, other expenses	-44	-40	-166	-158
Total	811	810	1,785	1,766

→

						ERGO
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Land and buildings, including buildings on third-party land	180	152	8	9	9	9
Investments in affiliated companies	-4	-11	-7	4	1	9
Investments in associates and joint ventures	25	19	4	1	6	8
Loans	2,315	2,272	61	77	16	20
Other securities held to maturity	–	–	–	–	–	–
Other securities available for sale						
Fixed-interest	1,542	1,655	131	134	463	512
Non-fixed-interest	225	182	95	72	67	88
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	–	–	1	-6
Non-fixed-interest	–	–	–	–	–	–
Derivatives	394	-263	-76	-43	70	-75
Designated at fair value through profit or loss						
Fixed-interest	–	–	–	–	46	3
Non-fixed-interest	–	–	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	7	9	2	–	11	11
Expenses for the management of investments, other expenses	-231	-230	-14	-16	-28	-28
Total	4,453	3,785	204	238	662	551

Continued on next page

	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Land and buildings, including buildings on third-party land	1	1	315	285
Investments in affiliated companies	9	-44	8	-41
Investments in associates and joint ventures	-12	6	77	2
Loans	1	1	2,405	2,374
Other securities held to maturity	–	–	–	–
Other securities available for sale				
Fixed-interest	94	118	4,771	4,495
Non-fixed-interest	–	10	1,504	1,202
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	–	–	1	-3
Non-fixed-interest	–	–	1	2
Derivatives	-1	7	-1,004	-868
Designated at fair value through profit or loss				
Fixed-interest	–	–	46	3
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	1	1	367	271
Expenses for the management of investments, other expenses	-6	-5	-489	-477
Total	87	95	8,002	7,245

The result for land and buildings includes rental income of €349m (339m). The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling –€62m (–74m). We earned interest income of €2,190m (2,250m) on loans. Other securities available for sale produced regular income of €4,067m (4,160m), while derivatives produced €68m (117m).

Investment income by segment (before deduction of income from technical interest)

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Regular income	805	823	1,710	1,783
Thereof: Interest income	724	738	1,235	1,327
Write-ups of non-derivative investments	3	2	31	11
Gains on the disposal of non-derivative investments	351	224	1,751	1,156
Write-ups and gains on the disposal of derivatives	303	370	1,519	1,704
Other income	–	–	–	–
Total	**1,462**	**1,419**	**5,011**	**4,654**

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Regular income	3,880	3,987	198	202	528	538
Thereof: Interest income	3,480	3,574	150	162	489	494
Write-ups of non-derivative investments	51	21	13	1	34	3
Gains on the disposal of non-derivative investments	604	578	142	135	95	126
Write-ups and gains on the disposal of derivatives	707	218	86	67	109	20
Other income	–	–	2	3	–	–
Total	**5,242**	**4,804**	**441**	**408**	**766**	**687**

→	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Regular income	82	88	7,203	7,421
Thereof: Interest income	78	80	6,156	6,375
Write-ups of non-derivative investments	–	–	132	38
Gains on the disposal of non-derivative investments	27	51	2,970	2,270
Write-ups and gains on the disposal of derivatives	2	12	2,726	2,391
Other income	–	–	2	3
Total	**111**	**151**	**13,033**	**12,123**

Investment expenses by segment (before deduction of income from technical interest)

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Write-downs of non-derivative investments	–22	–45	–165	–287
Losses on the disposal of non-derivative investments	–41	–53	–219	–285
Write-downs and losses on the disposal of derivatives	–540	–466	–2,659	–2,136
Management expenses, interest charges and other expenses	–48	–45	–183	–180
Thereof:				
Interest charges	–2	–3	–8	–16
Total	**–651**	**–609**	**–3,226**	**–2,888**

→

	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Write-downs of non-derivative investments	–107	–93	–27	–28	–30	–20
Losses on the disposal of non-derivative investments	–49	–117	–27	–16	–4	6
Write-downs and losses on the disposal of derivatives	–389	–565	–162	–110	–42	–95
Management expenses, interest charges and other expenses	–244	–244	–21	–16	–28	–27
Thereof:						
Interest charges	–4	–5	–	–	–	–
Total	**–789**	**–1,019**	**–237**	**–170**	**–104**	**–136**

→

	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Write-downs of non-derivative investments	–15	–1	–366	–474
Losses on the disposal of non-derivative investments	–1	–46	–341	–511
Write-downs and losses on the disposal of derivatives	–2	–4	–3,794	–3,376
Management expenses, interest charges and other expenses	–6	–5	–530	–517
Thereof:				
Interest charges	–	–	–14	–24
Total	**–24**	**–56**	**–5,031**	**–4,878**

Write-downs of non-derivative investments

€m	2014	Prev. year
Land and buildings, including buildings on third-party land	–87	–94
Investments in affiliated companies	–11	–4
Investments in associates and joint ventures	–34	–101
Loans	–23	–4
Other securities available for sale	–169	–110
Other securities at fair value through profit or loss	–3	–14
Other investments	–39	–147
Total	**–366**	**–474**

35 Insurance-related investment result

Result from insurance-related investments

€m	2014	Prev. year
Result from investments for unit-linked life insurance contracts	495	401
Result from other insurance-related investments	–81	11
Total	**414**	**412**

36 Other operating result

Other operating result

			Reinsurance	
		Life		Property-casualty
€m	2014	Prev. year	2014	Prev. year
Other operating income	131	113	253	290
Thereof:				
Interest income	75	74	13	29
Write-ups of other operating assets	4	4	9	21
Other operating expenses	–78	–74	–320	–337
Thereof:				
Interest charges	–12	–21	–24	–36
Write-downs of other operating assets	–3	–2	–10	–6

→						ERGO
		Life and Health Germany		Property-casualty Germany		International
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Other operating income	107	154	69	42	127	113
Thereof:						
Interest income	5	5	2	1	4	3
Write-ups of other operating assets	5	33	1	1	1	2
Other operating expenses	–157	–222	–84	–63	–167	–133
Thereof:						
Interest charges	–52	–61	–15	–13	–15	–12
Write-downs of other operating assets	–15	–16	–12	–5	–35	–15

→		Munich Health		Total
€m	2014	Prev. year	2014	Prev. year
Other operating income	60	70	747	782
Thereof:				
Interest income	6	12	105	124
Write-ups of other operating assets	3	7	23	68
Other operating expenses	–69	–93	–875	–922
Thereof:				
Interest charges	–12	–19	–130	–162
Write-downs of other operating assets	–3	–12	–78	–56

Other operating income mainly comprises income of €483m (470m) from services rendered, interest and similar income of €105m (124m), income of €76m (120m) from the release/reduction of miscellaneous provisions and provisions for bad and doubtful debts, and income of €36m (42m) from owner-occupied property, some of which is also leased out.

In addition to expenses of –€362m (–370m) for services rendered, other operating expenses chiefly include interest charges and similar expenses of –€131m (–162m), other write-downs of –€71m (–44m), and other tax of –€96m (–89m). They also contain expenses of –€16m (–18m) for owner-occupied property, some of which is also leased out.

37 Other non-operating result, impairment losses of goodwill and net finance costs

Other non-operating result, impairment losses of goodwill and net finance costs

	Reinsurance			
	Life		Property-casualty	
€m	2014	Prev. year	2014	Prev. year
Other non-operating income	540	596	1,361	1,226
Other non-operating expenses	–599	–644	–1,477	–1,562
Impairment losses of goodwill	–	–	–	–
Net finance costs	–36	–61	–119	–118

→	ERGO					
	Life and Health Germany		Property-casualty Germany		International	
€m	2014	Prev. year	2014	Prev. year	2014	Prev. year
Other non-operating income	521	626	210	169	78	81
Other non-operating expenses	–680	–781	–289	–271	–158	–112
Impairment losses of goodwill	–	–	–	–	–445	–29
Net finance costs	–29	–30	–15	–17	–28	–27

→	Munich Health		Total	
€m	2014	Prev. year	2014	Prev. year
Other non-operating income	18	39	2,728	2,737
Other non-operating expenses	–21	–38	–3,224	–3,408
Impairment losses of goodwill	–	–	–445	–29
Net finance costs	–1	–4	–228	–257

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 €2,572m (2,560m), the other non-operating income contains other non-technical income of €156m (177m).

Besides foreign-currency exchange losses of –€2,707m (–2,868m), the other non-operating expenses comprise write-downs of –€145m (–87m) on other intangible assets, and other non-technical expenses of –€372m (–453m), such as restructuring expenses and other amounts that cannot be allocated elsewhere.

Net finance costs include all interest income, interest expenses and other expenses directly attributable to strategic debt. They also include income and expenses from intra-Group financing that cancel each other out. Debt has a strategic character for us if it does not have an original, direct link with our operative business.

Net finance costs by financing instrument

€m	2014	Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich	–205	–232
Senior notes of Munich Re America Corporation, Wilmington	–19	–19
Subordinated bonds of ERGO Versicherung Aktiengesellschaft, Vienna	–	–3
Other	–4	–3
Total	**–228**	**–257**

Information on the Group's strategic debt can be found in the management report on page 101 and in the Notes to the consolidated balance sheet – Equity and Liabilities (20) Subordinated liabilities and (27) Bonds and notes issued.

38 Taxes on income

This item shows the corporation tax and municipal trade earnings tax paid by the German consolidated companies (including solidarity surcharge and interest on back tax) and the comparable taxes on earnings paid by the foreign consolidated companies in the Group. In accordance with IAS 12, the determination of taxes on income includes the calculation of deferred taxes.

Recognised tax expenses/income broken down according to Germany and other countries

€m	2014	Prev. year
Current tax	478	–527
Germany	897	–59
Other countries	–419	–468
Deferred tax	–166	419
Germany	15	319
Other countries	–181	100
Taxes on income	**312**	**–108**

Main components of tax expenses/income

€m	2014	Prev. year
Current tax for financial year	–993	–1,440
Current tax for other periods	1,471	913
Deferred tax resulting from the occurrence or reversal of temporary differences	–513	391
Deferred tax resulting from the occurrence or utilisation of loss carry-forwards	392	–211
Valuation allowances for deferred taxes/loss carry-forwards	–48	227
Effects of changes in tax rates on deferred tax	3	12
Taxes on income	**312**	**–108**

The current tax for the year under review is derived from the tax results of the financial year, to which the local tax rates of the respective Group companies are applied.

The following table shows the reconciliation between the expected taxes on income and the tax on income actually shown. The expected tax expenses are calculated by multiplying the consolidated 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 (GewSt). Trade-tax municipal factors range from 240% to 490%.

Reconciliation to effective tax expenses/income

€m	2014	Prev. year
Result before taxes on income (after "other tax")	2,859	3,441
Group tax rate in %	33	33
Derived taxes on income	–943	–1,136
Tax effect of:		
Tax rate differences	320	142
Tax-free income	245	255
Non-deductible expenses	–586	–494
Valuation allowances for deferred taxes/loss carry-forwards	–48	227
Change in tax rates and tax legislation	3	12
Tax for prior years	1,341	946
Trade tax adjustments	14	–11
Other	–34	–49
Taxes on income shown	**312**	**–108**

The effective tax burden is the ratio between the "Taxes on income shown" and the "Result before taxes on income (after "other tax")". In the year under review, there was tax relief of –10.9% (in the previous year, a tax burden of 3.1%).

"Tax-free income" is made up of tax-free currency gains, gains on the sales of share-holdings in joint-stock companies, and other tax-free income.

The non-deductible expenses mainly comprise non-tax-deductible write-downs of goodwill, expenses in connection with tax-free income and interest on back tax payments.

The tax effect of –€48m (227m) from changes in valuation allowances for deferred taxes/loss carry-forwards mainly involves an amount of –€66m (35m) in expenses from the subsequent revaluation of deferred tax assets for loss carry-forwards and the non-application for new loss carry-forwards, and an amount of €14m (211m) in tax savings from the offsetting of positive taxable income with tax loss carry-forwards for which no deferred tax assets had previously been recognised. The remaining amount involves counter-effects from the change in valuation allowances for deferred tax assets from temporary differences.

The income from changes in tax rates and tax legislation primarily relates to the UK.

"Tax for prior years" is for actual and expected changes to tax assessments for previous years and includes deferred tax for other periods totalling –€130m (33m) as well as current tax for other periods amounting to €1,471m (913m). Deferred taxes result from adjustments to tax accounts after the tax returns have been filed or tax audits have been concluded. Current tax results in particular from adjustments made to the tax provisions for all years not yet finally assessed to take account of recent legal judgments, changes in administrative opinion and ongoing tax audits. A significant one-off effect in this context is the retroactive recognition of the tax deductibility of losses on equities incurred in 2001 and 2002 in our special fund investments.

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 (2) no. 2 of the German Commercial Code (HGB) prescribes disclosures in the management report on risk management objectives and methods, hedging and risks in connection with financial instruments. These requirements are specified in more detail in German Accounting Standard No. 20 (DRS 20) for management reports.

Risk reporting concerns not only accounting but also the activities of integrated risk management (IRM) at Munich Re. To take both perspectives into account, information on risks is provided in the risk report within the management report, in the disclosures on risks from insurance contracts and in the disclosures on financial instruments in the notes to the financial statements. The disclosures in the risk report largely adopt a purely economic view. The report provides a detailed account of the organisation of risk management and Munich Re's risk strategy, briefly outlines the main risks we are exposed to, and describes in detail the economic risk capital calculated by means of our internal risk model and available financial resources. The report also contains information on specific risk complexes.

In accordance with the requirements of IFRS 4, the quantitative effects of a change in the assumptions underlying the measurement of insurance contracts and/or in the market environment are covered by information about economic risk capital stated in the risk report.

The notes to the financial statements deal in detail with the various risks from insurance contracts and describe uncertainties in measuring them. For risks from financial instruments, IFRS 7 stipulates that the disclosures must comprise information on 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.

39 Risks from life and health insurance business

Of primary importance for life and health 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-specific or plan-specific discount rates and actuarial interest rates. Besides this, measurement includes assumptions regarding the lapse rate and profit sharing. In addition, other market risks from unit-linked contracts and risks from embedded derivatives, as well as the liquidity risk, have to be taken into account.

Biometric risks Our portfolios' degree of exposure to biometric risks depends on the type of insurance contracts:

Biometric risks

Product category	Characteristics	Important risks
Life primary insurance		
Endowment and term life insurance	– Long-term contracts with a death benefit – In most cases, a lump-sum payment on termination – Actuarial assumptions fixed when contract is concluded; premium adjustments not possible	Mortality (short-term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long-term): – Increase in claims expenditure due to sustained rise in mortality in the portfolio
Annuity insurance	– In most cases, guaranteed lifetime annuity payment – Actuarial assumptions mainly fixed when contract is concluded	Longevity: – Increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
Disability insurance	– Long-term contracts with a guaranteed limited annuity in the event of disablement – Actuarial assumptions fixed when contract is concluded	Disablement: – Increased expenditure due to rise in the number of cases of disablement in the portfolio or a reduction in the average age at which the insured event occurs Longevity: – Increased expenditure due to rise in the average duration of the annuity period
Life reinsurance		
	– Largely long-term contracts under which mainly mortality, longevity and disability risks are assumed from cedants	Mortality (short-term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long-term): – Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios Disablement: – Increased expenditure for disability insurance in cedants' portfolios Longevity: – Increase in expected expenditure for annuities due to a sustained rise in life expectancy in cedants' portfolios.
Health primary insurance		
	– Largely long-term contracts guaranteeing assumption of costs for medical treatment; provisions are established for covering increased costs on ageing – Variable actuarial assumptions; premium adjustment generally possible if there are sustained changes in the cost structure	Morbidity: – Increase in medical costs that cannot be absorbed through premium adjustments – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)
Health reinsurance		
	– In most cases, short-term contracts under which morbidity risks are assumed from cedants	Morbidity (short-term): – Increase in costs of medical treatment within the risk period – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)

The quantitative structure of our business is shown in the notes to the consolidated balance sheet – Equity and liabilities (22) Provision for future policy benefits.

The biometric assumptions we use for measuring insurance contracts in our portfolios are regularly reviewed on the basis of updated portfolio information. Especially in primary insurance, this includes considering country-specific reviews by supervisory authorities.

We also take account of market standards when checking the adequacy of biometric actuarial assumptions and the trend assumptions included in them. This may result in a change in the provision for adverse deviation allowed for in the actuarial assumptions. The amount of the technical provisions or the deferred acquisition costs is not directly affected as long as there is provision for adverse deviation. In the view of the appointed actuaries, the biometric actuarial assumptions used by us are deemed sufficient. However, in long-term health insurance, we are proceeding on the assumption that there will be further advances in medical treatment, potentially giving rise to higher costs. For this business, it is generally possible to modify the actuarial assumptions by means of a premium adjustment to reflect the changes.

For short-term health insurance business, on the other hand, the main risk is a sudden increase in expenses due to exceptional one-off events.

Interventions by legislatures 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.

Interest-rate risks A distinction must be made between risks of changes in interest rates on the one hand, and interest-rate guarantee risks on the other. Risks of changes in interest rates would result from the discounting of the provision for future policy benefits and of parts of the provision for outstanding claims. In accordance with accounting valuation rules, the discount rate is fixed at contract commencement and will generally not be adjusted during the term of the contract. To this extent, the accounting valuation of these technical provisions does not depend directly on the level of the market interest rates.

Economically, however, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision.

In reinsurance, we use the following discount rates for the provision for future policy benefits and the provision for outstanding claims:

Discount rates used for provisions – Reinsurance (gross)

€m	31.12.2014	Prev. year
Without discount rate	3,093	2,663
Discount rate ≤ 1.5%	139	38
1.5% < discount rate ≤ 2.5%	193	199
2.5% < discount rate ≤ 3.5%	2,515	2,026
3.5% < discount rate ≤ 4.5%	2,700	2,319
4.5% < discount rate ≤ 5.5%	3,681	3,310
5.5% < discount rate ≤ 6.5%	1,183	1,095
6.5% < discount rate ≤ 7.5%	460	438
Discount rate > 7.5%	203	176
Covered by deposits retained on assumed reinsurance	7,135	7,875
Total	**21,302**	**20,139**

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 €1,000m (1,035m), cedants do not provide any interest-rate guarantee. Therefore, for the remaining group of all provisions whose interest is not guaranteed by cedants, the application of the liability adequacy test as per IFRS 4 ensures that the expected income from the investments covering the technical provisions is sufficient to meet future obligations as a whole.

In life primary insurance, an implicit or explicit interest-rate guarantee is granted for the majority of contracts over their whole duration, based on a fixed interest rate applying at the time the contract is concluded. The discount rate used to calculate the provision for future policy benefits is identical with this interest rate for the majority of contracts in our portfolios. An appropriate minimum return needs to be earned in the long term from the investment result (possibly also with assistance from the technical result) for the contractually guaranteed benefits. In health primary insurance, a discount rate is also used for calculating the provision for future policy benefits, but for long-term business this rate can generally be altered by way of premium adjustment. For short-term business, there is no direct interest-rate risk.

The discount rates relevant for the portfolio in calculating the provision for future policy benefits and the provision for outstanding claims are as follows:

Discount rates used for provisions – Primary insurance (gross)

	Life		Health		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Without discount rate	3,626	3,599	1,290	1,364	4,916	4,963
Discount rate ≤ 2.0%	2,240	3,211	16	17	2,256	3,228
2.0% < discount rate ≤ 2.5%	11,799	8,981	83	34	11,882	9,015
2.5% < discount rate ≤ 3.0%	15,429	15,855	3,345	251	18,774	16,106
3.0% < discount rate ≤ 3.5%	25,402	25,925	4,950	6,779	30,352	32,704
3.5% < discount rate ≤ 4.0%	12,199	13,319	2,866	2,964	15,065	16,283
4.0% < discount rate ≤ 4.5%	26	27	2,546	2,575	2,572	2,602
4.5% < discount rate ≤ 5.0%	9	11	15,514	15,290	15,523	15,301
Discount rate > 5.0%	12	12	93	97	105	109
Total	**70,742**	**70,940**	**30,703**	**29,371**	**101,445**	**100,311**

Besides this, in German health primary insurance, discount rates of 2.5–3.5% are applied for calculating the provision for premium loadings and the provision for future premium reductions, which are both part of the provision for premium refunds and total €4,552m (4,152m). These discount rates can be altered by way of a premium adjustment.

Provisions in reinsurance and primary insurance that are not covered by deposits retained are covered by investments. In the case of a discrepancy between the durations of these investments and the liabilities (duration mismatch), the main risk lies in the fact that if interest rates fall markedly over the remaining settlement period of the liabilities, the return on the reinvested assets may be lower than the discount rates and thus necessitate further expenses. But a complete duration matching of liabilities with fixed-interest investments of identical maturities would not be expedient, because if interest rates rise significantly, policyholders might make increasing use of their surrender rights, resulting in a liquidity requirement for premature payouts.

Other market risks and embedded derivatives In reinsurance, other market risks are generally ruled out through suitable contract design.

Some primary insurance and reinsurance contracts contain derivative components of variable annuities. These are measured separately from the underlying contract and their changes in value are recognised in the investment result. The valuation of these embedded derivatives is sensitive to share prices, exchange rates and interest rates, but these sensitivities are nearly fully compensated for by the fact that such derivatives are for the most part directly matched by financial derivatives for hedging purposes.

In primary insurance, the risks to be considered – besides the interest-rate guarantee, which we analyse in the modelling of the interest-rate risk – are particularly risks from unit-linked life insurance and the lump-sum option in the case of deferred annuity policies. Other embedded derivatives are financially insignificant.

For the unit-linked insurance contracts in our portfolios, the investments are held for the benefit of life insurance policyholders who bear the investment risk, meaning that there is no direct market risk. Appropriate product design ensures that the necessary premium portions for payment of a guaranteed minimum benefit on occurrence of death are based on the current fund assets.

The lump-sum option in the case of deferred annuity policies gives policyholders the option of having their annuity paid out in a single payment at a fixed date. As a result, there is a potential risk if an unexpectedly large number of policyholders exercise their option at an interest-rate level markedly higher than the discount rate used for the annuity calculation. But there is no direct interest-rate sensitivity or market sensitivity, since the exercise of the option by the policyholder is determined to a crucial extent by individual factors and relates to the insurance components. This option is specifically taken into account when applying the liability adequacy test prescribed by IFRS 4 to technical provisions.

Lapse risks In reinsurance, a lapse risk derives primarily from the indirect transfer of lapse risks from cedants. As a rule, both this risk and the financial risk from extraordinary termination of reinsurance contracts are largely ruled out through appropriate contract design.

In life primary insurance, the reported technical provision in the case of contracts with a surrender option is generally at least as high as the relevant surrender value. As with the lump-sum option in the case of deferred annuity policies, a potential lapse risk may result from a higher interest-rate level than that on which the calculation was based. This is allowed for by means of appropriate liquidity planning and adequate calculation of the surrender value. Expected surrenders are taken into account in the amortisation of deferred acquisition costs in life primary insurance and reinsurance. The policyholder's right in some contracts to maintain the contract with a waiver of premium and an adjustment of the guaranteed benefits constitutes a partial lapse and is taken into account in the calculations analogously. Based on the relevant legal parameters, reserves for primary health insurance business are calculated considering amounts payable due to cancellation of policies. The underlying assumptions are regularly checked and can be altered by means of a premium adjustment.

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

At the balance sheet date, this results in the future expected technical payment balances (including variable annuities) shown in the following table according to duration bands. As only the technical payment flows are considered, inflows from investment income and investments that become free are not included in the quantifications. Taking into account the inflows from investments, whose cash flows are largely aligned with those of the liabilities through our asset-liability management, items in the future expectations are positive throughout, so that the liquidity risk of these insurance contracts is minimised accordingly.

Expected future technical cash flow (gross)[1]

€m	31.12.2014	Prev. year
Up to one year	–3,441	–2,738
Over one year and up to five years	–12,505	–11,208
Over five years and up to ten years	–17,913	–17,518
Over ten years and up to 20 years	–41,192	–40,326
Over 20 years	–101,918	–95,349

1 Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).

With these numerical estimates, it should be borne in mind that this forward-looking data may involve considerable uncertainty.

Further information on the liquidity risk is provided in the risk report on page 124.

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 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 94% (96%) of the amounts shown in the notes to the consolidated balance sheet – Equity and liabilities (22) Provision for future policy benefits is apportionable to such contracts. Given the relevant margins in the actuarial assumptions, it is also possible to fulfil the future guaranteed obligations without adjusting the provisions in the case of moderate changes in assumptions. Of great significance for risk-balancing in the case of adverse developments are parts of the provision for premium refunds based on national regulations, parts of the provision for deferred premium refunds resulting from other revaluations, and unrealised gains and losses on investments taken as a basis for posting the provision for deferred premium refunds; see notes to the consolidated balance sheet – Equity and liabilities (24) Other technical provisions.

In health primary insurance, there is the additional possibility of adjusting premiums for most long-term contracts. If it is foreseeable that the assumptions behind the calculation are permanently inadequate to cover expenses for claims or the actual mortalities deviate significantly from the calculated ones, premiums can be raised accordingly, thus closely limiting the financial and balance sheet effects of cost increases in healthcare and permanent changes in morbidity.

For information on our risk management processes, reference is made to pages 117–122 of the risk report.

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 adequate. 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 If Munich Re manages its business on the basis of a consolidated Group view, using its internal risk model to determine the capital needed to ensure the Group's ability to meet its commitments even after extreme loss events. The key figure calculated using the internal model is our economic risk capital. Detailed information and relevant data are provided in the risk report on pages 126–130.

40 Risks from property-casualty insurance business

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

The basis for measuring the risk assumed is an estimate of the claims frequency to be expected for a contract or a portfolio of contracts. In addition, an estimation of the claims amount is necessary, from which a mathematical distribution of the expected losses is derived. The result of these two steps is an estimation of the expected overall claims in a portfolio. A third element comprises the expected cash flows to settle claims incurred, a process which frequently extends over several years.

As the proportion of business ceded is small, the following analysis of underwriting risks largely adopts a gross approach.

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

Premiums, loss ratios and combined ratios by class of business[1]

	2014	2013	2012	2011	2010
Gross premiums written in €m					
Reinsurance					
Liability	2,473	2,348	2,326	2,061	2,112
Accident	282	275	246	226	278
Motor	3,557	3,377	3,190	3,544	2,793
Marine, aviation, space	1,596	1,639	1,915	1,787	1,838
Fire	4,247	4,560	4,816	4,501	4,350
Engineering	1,476	1,490	1,573	1,536	1,658
Credit and surety	644	709	705	696	744
Other classes of business	2,455	2,615	2,281	2,206	1,928
Primary insurance	5,755	5,507	5,554	5,595	5,498
Loss ratio in %					
Reinsurance					
Liability	65.4	91.8	85.8	84.3	101.1
Accident	67.1	65.2	37.6	159.4	114.4
Motor	72.5	75.0	70.2	70.2	74.6
Marine, aviation, space	50.8	45.3	47.1	52.5	65.2
Fire[2]	49.9	51.0	49.6	132.2	62.8
Engineering	57.1	39.4	52.0	53.6	63.2
Credit and surety	56.2	64.5	56.4	–0.7	48.1
Other classes of business	62.1	58.1	67.8	63.6	50.7
Primary insurance	60.0	62.5	64.7	65.0	63.1
Combined ratio in %					
Reinsurance					
Liability	97.1	122.3	115.6	113.9	133.1
Accident	107.4	102.2	74.8	197.5	144.3
Motor	104.9	105.1	101.7	100.1	102.0
Marine, aviation, space	84.0	75.1	75.7	82.4	94.1
Fire[2]	76.9	76.0	73.7	157.3	89.8
Engineering	101.9	82.2	93.2	93.9	104.0
Credit and surety	98.7	101.7	94.9	41.4	82.4
Other classes of business	92.3	89.0	98.0	95.1	89.8
Primary insurance	95.7	97.2	98.7	99.1	96.8

1 In 2012, our segment reporting was modified and no longer has a consolidation column. The figures for the previous year have been adjusted accordingly. Comparability with 2010 is thus limited.
2 The figure for 2011 is not adjusted for relief of 4.9 percentage points from economic risk transfer to the capital markets.

The estimation of technological, social and demographic parameters plays an important part in assessing and pricing risks assumed in all classes of business. Beyond this, in liability insurance, workers' compensation insurance, credit insurance and sections of motor insurance, the development of economic and legal parameters can be significant, whereas – especially in the lines of business accident, fire and marine, and also in sections of engineering reinsurance and in primary insurance – there is a high degree of sensitivity regarding the underlying assumptions about natural catastrophes. In the latter area, we include expected trends in our considerations when assessing the risks, with special importance given to a precise analysis of climate-related changes in the risk profile. The following table shows Munich Re's combined ratios for property-casualty reinsurance including and excluding natural catastrophe losses.

Combined ratio in reinsurance for the last ten years[1]

%	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Including natural catastrophes[2]	92.7	92.1	91.0	113.8	100.5	95.3	99.4	96.4	92.6	111.7
Excluding natural catastrophes	89.4	87.4	83.3	84.4	89.5	93.9	93.2	91.7	91.6	92.5

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

Large losses, by which we mean individual losses exceeding €10m, are of particular relevance for property-casualty business in reinsurance. The analysis below shows that the volatility of the individual years in this loss category is mainly attributable to the respective intensity of natural catastrophe losses, whilst the other accumulation risks exhibit a distinctly less volatile pattern.

Large losses in reinsurance according to individual calendar years (net)[1]

€m	2014	2013	2012	2011	2010
Large losses	–1,162	–1,689	–1,799	–5,048	–2,228
Thereof losses from natural catastrophes	–537	–764	–1,284	–4,538	–1,564
Thereof other accumulation losses	–625	–925	–515	–510	–664

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

Further information on risks from large and accumulation losses can be found in the section on business performance on pages 78–82 and 87–88, and in the risk report on pages 128–130.

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 in the notes to the consolidated balance sheet – Equity and liabilities (23) Provision for outstanding claims.

A particular sensitivity exists in the case of contracts with long run-off periods. This characteristic applies especially to casualty insurance, where liabilities may manifest themselves with a considerable time lag. In addition, changes in court verdicts, class actions, inflation in medical care costs and modifications in general life expectancy can influence the valuation of reserves. The following section discusses the areas in the current reserve portfolio where, within the framework of an appropriate reserve estimate, the uncertainty is the greatest.

Asbestos insurance liabilities currently emanating predominantly from the US and some European countries are an area of concern for the entire insurance and reinsurance industry. Since the mid-1980s, industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. This also applies to Munich Re. In our case, the policies mainly cover claims which manifest themselves after a latency period of as long as 30–50 years. In response, we have posted provisions for claims under long-cancelled general liability policies which provided coverage according to the legal environment applicable at that time.

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, finally, notification to the reinsurer. Therefore, besides monitoring these developments on a claim-by-claim level, we also monitor the development from an industry perspective, as this may be considered an important early indicator.

Provisions for asbestos and environmental claims

	31.12.2014		Prev. year	
€m[1]	Gross	Net	Gross	Net
Asbestos	1,944	1,597	2,067	1,707
Environmental	401	326	422	317

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 jurisprudence of 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 in particular 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; see notes to the consolidated balance sheet – Assets (12) Ceded share of technical provisions and notes to the consolidated income statement (30) Premiums. All our companies have intra-Group and/or external reinsurance and retrocession cover. Particularly important in this context is an accumulation excess-of-loss cover, which provides protection against property damage losses from natural catastrophes. The dimensions of this cover are based on analyses of our accumulation budgets in those parts of the world exposed to natural catastrophes. The protection afforded by retrocession comes into play if we are hit by an extremely large loss.

We further diversify our risk management instruments by issuing catastrophe bonds.

For information on our risk management processes, reference is made to pages 117–121 of the risk report.

Interest-rate risks Economically, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision. In balance sheet terms, the interest-rate risk affects only those parts of the technical provisions that are discounted and for which an inflow of investment income from deposits retained is not secured from cedants in at least the same amount.

Discounted technical provisions according to discount rates (gross)

	Reinsurance		Primary insurance		Total	
€m	31.12.2014	Prev. year	31.12.2014	Prev. year	31.12.2014	Prev. year
Discount rate ≤ 2.5%	40	30	343	304	383	334
2.5% < discount rate ≤ 3.5%	218	175	539	545	757	720
3.5% < discount rate ≤ 4.5%	1,446	1,260	51	54	1,497	1,314
Discount rate > 4.5%	–	–	–	–	–	–
Total	**1,704**	**1,465**	**933**	**903**	**2,637**	**2,368**

The major part of the discounted provisions in reinsurance are for US workers' compensation business, for which the discount rates are governed by supervisory law and are determined prospectively per accident year. We currently do not expect any changes in the US regulatory authorities' approval procedure. A sustained reduction in the level of market interest rates is taken into account through appropriate discount rate assumptions for future provisions for outstanding claims. If the discount rate were subsequently lowered by 100 BP, this would necessitate additional reserving of €174m (157m), which would have to be recognised as an expense in the income statement.

The discounting of the provisions in primary insurance is also largely governed by supervisory law. An interest-rate risk arises for us here primarily for annuity insurance claims. However, as only around 14.4% (14.6%) of the actuarial and claims reserves to be considered in this connection in our property-casualty primary insurance are discounted, this risk can be assessed as small. If the investment income failed to cover the expenses arising from the discounting, this would result in losses not included in the calculations. In such a case, a reserve adjustment might be necessary. Conversely, if the investment income were higher, this would result in unforeseen gains.

Liquidity risks Such risks could result for Munich Re if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. In property-casualty insurance, a distinction must be made between payments for claims for which reserves were posted in previous years and immediate payments, i.e. payments for claims incurred in the current financial year. If claims reserves are posted, the liquidity risk can be minimised through our asset-liability management, in which investments are geared to the character of the liabilities. The proportion of immediate claims payments, which is temporally stable according to our experience, constitutes only a fraction of the total payments to be made. Consequently, the liquidity risks in respect of these payments can also be minimised by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation in underwriting has always been positive. Besides this, we also have extensive, sufficiently liquid investments available to fulfil our liquidity obligations. We pursue a consistent asset-liability management approach in our investment strategy. The structure and characteristics of the payment obligations from insurance business determine the investments selected. In addition, we regularly simulate the impact of major shock scenarios on our liquidity situation; details of our risk-bearing capacity with regard to large losses and accumulation situations are provided in the risk report on page 124.

Payment flows and liquid funds in the individual calendar years (gross)

€m	2014	2013	2012	2011	2010
Premiums received	22,335	22,520	22,606	22,152	20,834
Claims payments for financial year	–5,495	–5,617	–5,968	–5,930	–5,213
Claims payments for previous years	–8,193	–7,388	–8,898	–8,096	–8,613
Costs	–7,298	–7,024	–6,839	–6,808	–6,517
Balance	**1,349**	**2,491**	**901**	**1,318**	**491**

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.

41 Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is of relevance. For our reinsurance and retrocessions placed externally, we choose only business partners that meet the requirements of our Retro Security Guideline and analogous regulations.

The credit ratings of our retrocessionaires and reinsurers for the externally ceded share of our provisions are given on page 132 of the risk report, which also includes further information on credit risks on page 123–124.

Of the ceded share of provisions, 50% (52%) 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 (40) Risks from property-casualty insurance business. We do not conduct active credit insurance business to any material extent in our primary insurance.

42 Market risks from financing instruments – Sensitivity analysis

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

To analyse equities and equity derivatives, a change in market value of ±10% and ±30% is calculated on the basis of the portfolio's delta. Non-linear effects of equity options or other asymmetrical strategies are not taken into account in this presentation. For interest-rate-sensitive instruments, on the other hand, the change in market value resulting from a global change in interest rates of ±100 BP, ±50 and –25 BP is determined using duration and convexity. The currently low level of interest rates in the capital markets is responsible for the asymmetrical selection of scenarios for presenting the market risk of investments sensitive to interest rates. The reaction of interest-rate derivatives to the change in market value of the underlying investment is taken into account using the delta of the derivative. Alternative investments (private equity, hedge funds and commodities) are analysed together with the equities.

The effects of the capital market events listed here do not take account of tax or the provision for premium refunds (gross disclosure), i.e. the analysis does not take into account the effects resulting from policyholders' participation in surplus in insurances of the person. The impact on the results and equity shown below would be substantially reduced if these effects were considered. It is also assumed that changes in the capital markets occur instantaneously, preventing our limit systems and active countermeasures from taking effect. The analysis considers around 99% of Munich Re's investments.

Market risk – Share prices The impact of a change on the stock markets in terms of absolute amounts on the market value of investments sensitive to share prices and on equity increased in the year under review. This is due to additional equity investments and the good development of the stock markets in the reporting period. A change in the stock market by 10% has an impact of 8.8% (10.4%) on the market value of investments sensitive to share prices. The relative change in market value is influenced in particular by additional and restructured derivative hedging. This also contributes to the impact shown on the consolidated income statement at the reporting date.

Change in market value of investments sensitive to share prices

Change in share prices		31.12.2014			Prev. year	
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 30%	–0.237	3.533	3.953	0.255	2.851	3.839
Increase of 10%	–0.124	1.178	1.273	0.054	0.950	1.249
Decrease of 10%	–0.341	–0.708	–1.268	–0.391	–0.641	–1.248
Decrease of 30%	–1.650	–1.499	–3.806	–1.728	–1.370	–3.743
Market values			14.410			12.021

1 Gross before tax and policyholder participation in surplus.

Market risk – Interest rates The change in the market value of investments sensitive to interest rates is calculated using a parallel shift of the interest-rate curve and a revaluation of the fixed-interest securities and interest-rate derivatives on the basis of their duration and convexity. Cash and other derivatives are not included in the calculation.

The interest-rate sensitivity of Munich Re's investments increased in the year under review. Restructurings of the interest-rate derivatives used for hedging result in the impact on the consolidated income statement shown as at the reporting date.

The impact on the consolidated income statement is small compared with the impact on equity, as most of the changes in the value of fixed-interest investments are accounted for in equity, with no effect on profit or loss. Also, around a third of the investments considered in this analysis are measured at amortised cost, so that changes in market value have no effect on the balance sheet or income statement.

Economically speaking, the impact of the interest-rate sensitivity of fixed-interest investments on equity is paralleled by a change in the market value of the underwriting liabilities. That is why, in managing interest-sensitive investments, our asset-liability management takes particular account of the effect of interest-rate changes on the economic value of the underwriting liabilities. This offsetting does not have an impact on the balance sheet, however, since significant portions of the underwriting 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	31.12.2014			Prev. year		
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 100 BP	–0.244	–8.138	–14.460	0.089	–6.218	–11.050
Increase of 50 BP	–0.129	–4.214	–7.604	0.037	–3.210	–5.830
Decrease of 25 BP	0.070	2.215	4.082	–0.012	1.682	3.144
Decrease of 50 BP	0.144	4.503	8.351	–0.020	3.414	6.440
Market values			203.339			179.492

1 Gross before tax and policyholder participation in surplus.

Other information

43 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.

44 Related parties

Information on the remuneration of Board members and transactions with these persons can be found in the remuneration report, starting on page 49 and under (48) 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 and joint ventures.

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; see Notes to the consolidated balance sheet – Equity and liabilities (26) Other accrued liabilities. For transactions of related parties with Munich Reinsurance Company shares, please refer to Notes to the consolidated balance sheet – Equity and liabilities (18) Equity.

45 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	2014	Prev. year
Wages and salaries	2,728	2,733
Social security contributions and employee assistance	510	487
Expenses for employees' pensions	225	215
Total	**3,463**	**3,435**

46 Long-Term Incentive Plan

Every year from 1999 to 2010, Munich Reinsurance Company set up long-term incentive plans, each with a term of seven years. From 1999 to 2009, the members of the Board of Management and senior management in Munich, and the top executives in Munich Re's international organisation, were participants in the scheme. In 2010, this share-price-related remuneration plan was provided only for senior management members and selected top executives in the international organisation.

Under each long-term incentive plan, participants received a certain number of stock appreciation rights.

The relevant initial share price for the stock appreciation rights was calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to the respective plan commencement.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in the fair value of the underlying options. The fair value recognises not only the intrinsic value (difference between current share price and initial share price of the stock appreciation rights) but also the possibility of growth in value up to the date of forfeiture or expiry of the rights and is determined on the basis of recognised valuation models, taking into account the exercise conditions. At each balance sheet date, the fair value is calculated and reserved in full. In the year under review, provisions of €5.8m (10.9m) 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 2014, this resulted in expenses of –€1.1m (–18.6m). The weighted average share price for the stock appreciation rights in 2014 was €161.49 for plan year 2007, €161.63 for plan year 2008, €159.38 for plan year 2009, and €150.26 for plan year 2010. The intrinsic value of the exercisable stock appreciation rights amounted to €5.8m at the balance sheet date.

Munich Reinsurance Company's Long-Term Incentive Plans 2007–2010

	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	134.07 €	121.84 €	97.57 €	109.11 €
Intrinsic value 2014 for one right	26.83 €	39.06 €	63.33 €	51.79 €
Fair value 2014 for one right	–	39.06 €	63.33 €	51.79 €
Number of rights on 31 Dec. 2007	341,234	–	–	–
Additions	4,013	444,104	–	–
Forfeited	5,848	3,063	–	–
Number of rights on 31 Dec. 2008	339,399	441,041	–	–
Additions	–	463	459,271	–
Forfeited	2,804	4,194	–	–
Number of rights on 31 Dec. 2009	336,595	437,310	459,271	–
Additions	–	–	–	675,029
Forfeited	1,379	1,462	1,287	–
Number of rights on 31 Dec. 2010	335,216	435,848	457,984	675,029
Additions	–	–	–	6,546
Forfeited	5,333	7,623	7,338	16,266
Number of rights on 31 Dec. 2011	329,883	428,225	450,646	665,309
Exercised	–	–	320,709	365,529
Forfeited	783	1,422	1,253	3,655
Number of rights on 31 Dec. 2012	329,100	426,803	128,684	296,125
Exercised	269,776	385,298	90,862	168,961
Forfeited	7,842	–	–	–
Number of rights on 31 Dec. 2013	51,482	41,505	37,822	127,164
Exercised	51,482	16,993	10,022	67,502
Forfeited	–	–	–	–
Number of rights on 31 Dec. 2014	–	**24,512**	**27,800**	**59,662**
Exercisable at year-end	–	**24,512**	**27,800**	**59,662**

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 provided only for senior management at the MEAG companies and for the managing directors of MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH. The design of the plans is identical to that of Munich Re's long-term incentive plans and they are accounted for in the same way. The obligations arising from the long-term incentive plans are covered by options on Munich Reinsurance Company shares. In the year under review, provisions of €0.2m (1.2m) 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 2014, this resulted in income of – (€0.5m). The weighted average share price for the stock appreciation rights exercised in 2014 was €161.89 for plan year 2007, €161.75 for plan year 2008, €159.00 for plan year 2009, and €158.05 for plan year 2010. The intrinsic value of the exercisable stock appreciation rights amounted to €0.2m at the balance sheet date.

Long-Term Incentive Plans 2007–2010 of ERGO and MEAG companies

	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Initial share price	134.07 €	121.84 €	97.57 €	109.11 €
Intrinsic value 2014 for one right	26.83 €	39.06 €	63.33 €	51.79 €
Fair value 2014 for one right	–	39.06 €	63.33 €	51.79 €
Number of rights on 31 Dec. 2007	111,399	–	–	–
Additions	–	173,153	–	–
Forfeited	1,597	601	–	–
Number of rights on 31 Dec. 2008	109,802	172,552	–	–
Additions	–	–	148,834	–
Forfeited	1,578	1,803	–	–
Number of rights on 31 Dec. 2009	108,224	170,749	148,834	–
Additions	–	–	–	39,046
Forfeited	1,856	2,506	–	–
Number of rights on 31 Dec. 2010	106,368	168,243	148,834	39,046
Forfeited	176	275	255	–
Number of rights on 31 Dec. 2011	106,192	167,968	148,579	39,046
Exercised	–	–	127,974	19,266
Forfeited	4,985	1,798	306	668
Number of rights on 31 Dec. 2012	101,207	166,170	20,299	19,112
Exercised	83,046	160,030	16,913	12,024
Forfeited	198	296	–	–
Number of rights on 31 Dec. 2013	17,963	5,844	3,386	7,088
Exercised	17,963	5,285	1,420	5,417
Forfeited	–	–	–	–
Number of rights on 31 Dec. 2014	**–**	**559**	**1,966**	**1,671**
Exercisable at year-end	**–**	**559**	**1,966**	**1,671**

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 share- holders 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.

47 Mid-Term Incentive Plan

Since 1 January 2009, Munich Reinsurance Company has set up medium-term incentive plans, each with a term of three years. Eligible for participation in these cash-settled share-based remuneration plans are senior management in Munich. The participants receive performance share units (PSUs). In the fourth year after plan commencement, participants are entitled to a bonus payment dependent on the achievement of value-based performance targets and the increase in the total shareholder return (TSR).

The value-based performance targets are set in the form of an average target to be achieved over the following three years of the plan and are allocated according to responsibilities.

The share-based factor TSR represents the total return on Munich Re shares and comprises share price increases plus dividends paid over a certain observation period. The initial TSR value and the final TSR value are determined from the average of the last 60 calendar days prior to plan commencement and plan termination respectively.

At plan commencement, the PSUs are granted on the basis of the set target amount for 100% achievement of objectives and the initial TSR value. The total return index of the Xetra listing of Munich Re shares, starting on 22 January 1996, is used for the TSR. The basis for the full and partial allocation of the PSUs is the first plan year.

The final number of PSUs is calculated by multiplying the number of PSUs at plan commencement by the percentage achievement of the performance target at plan termination. The number of PSUs may fluctuate between 0 and 1.5 times the initially allocated number. Payment is capped if the TSR doubles. The maximum amount payable is limited to 300%.

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 2011–2014

	Incentive Plan 2011	Incentive Plan 2012	Incentive Plan 2013	Incentive Plan 2014
Plan commencement	1.1.2011	1.1.2012	1.1.2013	1.1.2014
Plan end	31.12.2013	31.12.2014	31.12.2015	31.12.2016
Fair value 2014 for one right	–	344.04 €	359.94 €	377.07 €
Number of rights (for 100% achievement of objectives) on 1 January 2011	63,769	–	–	–
Additions	–	–	–	–
Forfeited	–	–	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2011	63,769	–	–	–
Number of rights (for 100% achievement of objectives) on 1 January 2012	63,769	78,568	–	–
Additions	185	–	–	–
Forfeited	424	–	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2012	63,530	78,568	–	–
Number of rights (for 100% achievement of objectives) on 1 January 2013	63,530	78,568	51,168	–
Additions	761	977	–	–
Forfeited	2,147	2,891	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2013	62,144	76,654	51,168	–
Number of rights (for 100% achievement of objectives) on 1 January 2014	62,144	76,654	51,168	42,233
Additions	–	–	544	–
Exercised	61,854	–	–	–
Forfeited	290	559	500	–
Number of rights (for 100% achievement of objectives) on 31 December 2014	–	76,095	51,212	42,233

In the financial year 2014, expenses of –€7.9m (–26.6m) were recognised for the Mid-Term Incentive Plan. The provision at the reporting date amounted to €58.9m (79.5m).

48 Remuneration report

The members of Munich Reinsurance Company's Board of Management received remuneration totalling €24.1m (24.7m). The total remuneration of Munich Reinsurance Company's Supervisory Board amounted to €2.6m (2.3m); not included in this figure is €0.2m (0.1m) for membership of supervisory boards at other Group companies, so that the overall amount came to €2.8m (2.4m).

Payments to retired members of the Board of Management or their surviving dependants totalled €7.2m (5.7m).

Personnel expenses were not incurred for retired members of the Board of Management. After deduction of plan assets held by a separate entity (under a contractual trust agreement), there were no pension provisions or provisions for comparable benefits for retired members of the Board of Management or their surviving dependants.

There are no pension commitments for former members of the Supervisory Board or their surviving dependants.

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. For their service as employees of the Group, Supervisory Board members received remuneration in the amount of €1.4m (1.3m). There were no significant notifiable transactions between Board members and Munich Re.

All other disclosures on the remuneration and structure of the remuneration system for the Board of Management can be found in the remuneration report on page 49. Information on share trading and shares held by members of the Board of Management and the Supervisory Board is provided in the corporate governance report on page 29.

49 Number of staff

The number of staff employed by the Group at year-end totalled 21,899 (23,131) in Germany and 21,417 (21,534) in other countries.

Breakdown of number of staff

	31.12.2014	Prev. year
Reinsurance	11,749	11,619
ERGO	28,560	30,119
Munich Health	3,007	2,927
Total	**43,316**	**44,665**

50 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 (2) of the German Commercial Code – HGB), the following fees have been recognised as an expense in the financial year:

Breakdown of auditor's fees pursuant to Section 314 (1) no. 9 of the German Commercial Code (HGB)

€k	2014
Audits of financial statements[1]	6,073
Other assurance and appraisal services	2,288
Tax consultancy services	946
Other services	1,752
Total	**11,059**

1 Thereof fees totalling €5,978k for KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft.

51 Contingent liabilities, other financial commitments

Munich Re enters into contingent liabilities in connection with its normal business operations. In this context, the obligations from guarantees total – (€50m), those from legal disputes €7m (3m), and those from letters of support – (€5m). There are other financial commitments amounting to €3m (–). Additionally, Munich Re has entered into a payment commitment of £20m towards an associate, the amount being payable in the event of over-indebtedness. Further information on risks arising from legal disputes can be found on page 137 f. in the risk report.

Estimates and judgements are necessary for contingent liabilities where the likely impact cannot be clearly determined. This is the case, for example, with respect for contingent liabilities in legal disputes. Like the evaluation process for other accrued liabilities, the assessment is made by experts in the affected units on the basis of the best estimate. Contingent liabilities are stated unless the experts estimate that the possibility of an outflow of resources is remote.

ERGO companies have assumed unlimited liability for the sale of insurance products by insurance intermediaries acting exclusively on their behalf. In this respect, there is a risk of a claim being made by customers. In case of a claim, there is a general possibility of recourse against the insurance intermediary or the latter's fidelity guarantee insurance carrier.

The application of fiscal regulations may yet be unresolved at the time of calculation of tax refund claims and tax liabilities. The calculation of tax items is based on the regulations most likely to be applied in each case. Regardless of this, the tax authorities may take a different view, which may give rise to additional tax liabilities.

In accordance with the German Insurance Supervision Act (VAG), all German life and health insurers of our Group are obliged to be members of a protection fund. For life insurers, the protection fund can levy special contributions of up to one per mille of total net technical provisions, in addition to a regular contribution of 0.2 per mille of total net technical provisions. For the health insurers, there is no pre-financing, but the fund may levy special contributions of up to two per mille of net technical provisions to fulfil its functions. This could give rise to a potential payment obligation of €135m (129m) 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 €303m (192m) for work and service contracts and €1,075m (831m) for investment obligations. At the reporting date, there were loan commitments amounting to €610m (385m). These figures represent undiscounted nominal amounts. There are other financial commitments amounting to €7m (–).

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.

Contingent liabilities and other financial commitments of associates and joint ventures are presented in the Notes to the consolidated balance sheet – Assets (5) Investments in affiliated companies, associates and joint ventures. These are included in the figures set out here.

52 Significant restrictions

Regulatory, legal or contractual restrictions and protective rights of non-controlling interests may restrict the Group's ability to access or use assets, and settle liabilities.

As at 31 December 2014, there were no protective rights of non-controlling interests restricting Munich Re's transfer of assets.

There are no significant restrictions on Munich Re's ability to settle the liabilities of the Group.

The carrying amounts of Group assets with restrictions on title can be found in the notes to the consolidated balance sheet – Assets. The restrictions primarily result from contractual agreements, including pledged securities deposits to collateralise payment obligations from insurance business, the collateralisation of derivative transactions with securities or of bank liabilities with non-financial assets.

As insurers, we are subject to supervisory requirements that may restrict access to assets. Individual national regulations require that assets held to cover insurance liabilities be managed separately. In principle, there are special supervisory regulations governing access to these assets and their use.

In addition, we are subject to supervisory requirements that may restrict dividend payments or other capital distributions, loans and advance payments within the Group.

Our subsidiary Munich American Reassurance Company shows a negative earned surplus in its local financial statements as at 31 December 2014 (Statutory Accounting Principles). For this reason, the company can only pay dividends or transfer capital to the parent company with the approval of the competent US regulatory authority.

53 Leasing

Munich Re as lessee At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €440m (446m).

Due dates

€m	31.12.2014	Prev. year
Not later than one year	84	90
Later than one year and not later than five years	212	222
Later than five years	144	134
Total	**440**	**446**

The contracts mainly concern offices and business premises of the Group, IT infrastructure, and land that we use in connection with our infrastructure investment programme (including renewable energies and new technologies). They include extension options as well as restrictions regarding the agreement of subleases. In the period under review, minimum lease payments of –€108m (–89m) and contingent lease payments of –€9m (–9m) were recognised as an expense. The total of future minimum sublease payments expected to be received under non-cancellable subleases was €15m (16m) at the reporting date.

There were no finance leases at 31 December 2014.

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 €845m (911m).

Due dates

€m	31.12.2014	Prev. year
Not later than one year	182	186
Later than one year and not later than five years	433	477
Later than five years	230	248
Total	**845**	**911**

There were several finance leases for property at the balance sheet date:

Due dates

€m	Gross investment 31.12.2014	Interest element 31.12.2014	Net investment 31.12.2014	Gross investment Prev. year	Interest element Prev. year	Net investment Prev. year
Minimum lease payments not later than one year	–	–	–	–	–	–
Minimum lease payments later than one year and not later than five years	2	–	2	2	–	2
Minimum lease payments later than five years	73	57	16	74	57	17
Total minimum lease payments	**75**	**57**	**18**	**76**	**57**	**19**
Unguaranteed residual values	42	36	6	41	37	4
Total	**117**	**93**	**24**	**117**	**94**	**23**

Net investments in leases correspond to the carrying amounts of the lease payments receivable at the balance sheet date.

54 Events after the balance sheet date

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management in March 2014, we repurchased a further 1.0 million Munich Re shares with a volume of €172m from the balance sheet date to 25 February 2015.

On 1 January 2015, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park companies KS SPV 23 Limited, London, England, and Countryside Renewables (Forest Heath) Limited, London, England, von BayWa r.e. 205. Projektgesellschaft mbH, Gräfelfing, Germany and BayWa r.e. 149. Projektgesellschaft mbH, Gräfelfing, Germany. The solar parks have a total installed capacity of 22.7 megawatts.

On 1 March 2015, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in the solar park company Cornwall Power (Polmaugan) Limited, London, England from BayWa r.e. 148. Projektgesellschaft mbH, Gräfelfing, Germany. The solar park has a total installed capacity of 5 megawatts.

The acquisitions are part of our infrastructure investment programme (including renewable energies and new technologies).

On 1 March 2015, the Austrian Financial Market Authority (FMA) initiated insolvency proceedings against Heta Asset Resolution AG, Klagenfurt (Heta) in accordance with the new EU Regulation on insolvency proceedings for banks. To be able to prepare an insolvency plan, FMA has imposed a deferral of Heta's liabilities towards its creditors until 31 May 2016. For the first quarter of 2015, we expect a write-down of our fixed-interest portfolio in the two-digit million euro range, after taking into account policy-holder participation.

55 Earnings per share

There were no diluting effects to be disclosed for the calculation of earnings per share 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

		2014	Prev. year
Consolidated result attributable to Munich Reinsurance Company equity holders	€m	3,153	3,304
Weighted average number of outstanding shares		172,170,439	179,065,855
Earnings per share	€	18.31	18.45

The previous year's figures have been adjusted retrospectively, see "Changes in accounting policies and other adjustments". Without adjustments, the earnings per share in the previous year would have been €18.50. The number of outstanding shares decreased by 8,906,893 (1,105,370) over the course of the financial year 2014, essentially owing to the share buy-back programme.

56 Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2014 according to its financial statements prepared on the basis of German GAAP accounting amount to €1,340,305,289.50. The Board of Management will propose to shareholders at the Annual General Meeting that these net retained profits be used for payment of a dividend of €7.75 per dividend-bearing share, with the remaining amount being carried forward to new account.

List of shareholdings as at 31 December 2014 pursuant to Section 313 (2) of the German Commercial Code (HGB)

The following disclosures relate to companies in which our directly and indirectly held shareholdings (as defined in Section 16 (2) and (4) of the German Stock Corporation Act – AktG) add up to 20% or more of the share capital, and large companies (as defined in Section 267 (3) of the German Commercial Code – HGB) in which our directly and indirectly held shareholdings add up to more than 5% of the voting rights.

Company and registered seat	% share of capital
Consolidated subsidiaries	
40, Rue Courcelles SAS, Paris	100.0000
Adelfa Servicios a Instalaciones Fotovoltaicas, S.L., Santa Cruz de Tenerife	100.0000
AEVG 2004 GmbH, Frankfurt[4]	0.0000
AGC Gerechtsdeurwaarders & Incasso B.V., Stadskanaal	100.0000
ALICE GmbH, Düsseldorf	100.0000
American Alternative Insurance Corporation, Wilmington, Delaware	100.0000
American Family Home Insurance Company, Jacksonville, Florida	100.0000
American Modern Home Insurance Company, Amelia, Ohio	100.0000
American Modern Home Service Company, Amelia, Ohio	100.0000
American Modern Insurance Company of Florida, Inc., Jacksonville, Florida	100.0000
American Modern Insurance Group, Inc., Amelia, Ohio	100.0000
American Modern Lloyds Insurance Company, Dallas, Texas	100.0000
American Modern Property & Casualty Insurance Company, Cincinnati, Ohio	100.0000
American Modern Select Insurance Company, Amelia, Ohio	100.0000
American Modern Surplus Lines Insurance Company, Amelia, Ohio	100.0000
American Southern Home Insurance Company, Jacksonville, Florida	100.0000
American Western Home Insurance Company, Oklahoma City, Oklahoma	100.0000
Amicus Legal Ltd., Bristol	100.0000
ArztPartner almeda AG, Munich	100.0000
avanturo GmbH, Düsseldorf	100.0000
Bagmoor Holdings Limited, London	100.0000
Bagmoor Wind Limited, Bristol	100.0000
Beaufort Dedicated No.1 Ltd, London	100.0000
Beaufort Dedicated No.2 Ltd, London	100.0000
Beaufort Dedicated No.5 Ltd, London	100.0000
Beaufort Underwriting Agency Limited, London	100.0000
Bell & Clements (Bermuda) Ltd., Hamilton, Bermuda	100.0000
Bell & Clements (London) Ltd, London	100.0000
Bell & Clements (USA) Inc, Reston, Virginia	100.0000
Bell & Clements Inc, Reston, Virginia	100.0000
Bell & Clements Ltd, London	100.0000
Bos Incasso B.V., Groningen	89.7640
Calibre Commercial Insurance Pty Ltd, Sydney	90.0000
Calliden Insurance Pty Limited, Sydney	100.0000
Cannock Chase B.V., Leidschendam	100.0000
Cannock Chase Holding B.V., Amsterdam	85.0000
Cannock Chase Incasso B.V., The Hague	100.0000
Cannock Chase Purchase B.V., The Hague	100.0000
Cannock Connect Center B.V., Brouwershaven	100.0000
CAPITAL PLAZA Holding GmbH & Co. Singapur KG, Düsseldorf	100.0000
CJSIC "European Travel Insurance", Moscow	100.0000
Comino Beteiligungen GmbH, Grünwald	100.0000
Compagnie Européenne d'Assurances, Nanterre	100.0000
Compania Europea de Seguros S.A., Madrid	99.9985
Corion Pty Limited, Sydney	100.0000
D.A.S. Defensa del Automovilista y de Siniestros – Internacional, S.A. de Seguros y Reaseguros, Barcelona	100.0000
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich[3]	100.0000
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens	99.9983
D.A.S. Jogvédelmi Biztosíto Részvénytársaság, Budapest	100.0000
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen	99.9500
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn	100.0000
D.A.S. Rechtsschutz Aktiengesellschaft, Vienna	99.9800
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	99.9900
D.A.S. Towarzystwo Ubezpieczen Ochrony Prawnej S.A., Warsaw	99.9524
Daman Health Insurance - Qatar LLC, Doha, Qatar	100.0000
DAS Assistance Limited, Bristol	100.0000
DAS Holding N.V., Amsterdam	51.0000
DAS Law Solicitors Limited, Bristol	100.0000
DAS Legal Expenses Insurance Co., Ltd., Seoul	100.0000
DAS Legal Expenses Insurance Company Limited, Bristol	100.0000
DAS Legal Finance B.V., Amsterdam	100.0000
DAS Legal Protection Insurance Company Ltd., Toronto	100.0000
DAS MEDICAL ASSIST LIMITED, Bristol	100.0000
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	100.0000
DAS Rechtsschutz-Versicherungs-AG, Lucerne	100.0000
DAS Services Limited, Bristol	100.0000
DAS UK Holdings Limited, Bristol	100.0000
DB Platinum IV SICAV (Subfonds Institutional Fixed Income, Inhaber-Anteile I2D), Luxembourg[4]	100.0000
DB Platinum IV SICAV (Subfonds Institutional Fixed Income, Inhaber-Anteile I4D), Luxembourg[4]	100.0000
DB Platinum IV SICAV (Subfonds Institutional Fixed Income, Inhaber-Anteile I5D), Luxembourg[4]	100.0000
DKV BELGIUM S.A., Brussels	100.0000

Company and registered seat	% share of capital
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne[3]	100.0000
DKV Luxembourg S.A., Luxembourg	75.0000
DKV Pflegedienste & Residenzen GmbH, Cologne	100.0000
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	100.0000
EIG, Co., Wilmington, Delaware	100.0000
ERGO ASIGURARI DE VIATA SA, Bucharest	100.0000
ERGO Assicurazioni S.p.A., Milan	100.0000
ERGO Austria International AG, Vienna	100.0000
ERGO Beratung und Vertrieb AG, Düsseldorf	100.0000
ERGO DIREKT Krankenversicherung AG, Fürth[3]	100.0000
ERGO DIREKT Lebensversicherung AG, Fürth[3]	100.0000
ERGO DIREKT Versicherung AG, Fürth[3]	100.0000
ERGO Életbiztosító Zrt., Budapest	100.0000
ERGO Elfte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO Emeklilik ve Hayat A.S., Istanbul	100.0000
ERGO Funds AS, Tallinn	100.0000
ERGO General Insurance Company S.A., Athens	100.0000
ERGO Generales Seguros y Reaseguros, S.A., Madrid	100.0000
ERGO Grubu Holding A.Ş., Istanbul	100.0000
ERGO Grundstücksverwaltung GbR, Düsseldorf	100.0000
ERGO Immobilien-GmbH 14. Victoria & Co. KG, Kreien[2]	100.0000
ERGO Immobilien-GmbH 5. Hamburg-Mannheimer & Co. KG, Kreien[2]	100.0000
ERGO Insurance N.V., Brussels	99.9999
ERGO Insurance Pte. Ltd., Singapore	100.0000
ERGO Insurance SE, Tallinn	100.0000
ERGO International Aktiengesellschaft, Düsseldorf[3]	100.0000
ERGO International Services GmbH, Düsseldorf	100.0000
ERGO Invest SIA, Riga	100.0000
ERGO Italia Business Solutions S.c.r.l., Milan	100.0000
ERGO Italia Direct Network s.r.l., Milan	100.0000
ERGO Italia S.p.A., Milan	100.0000
ERGO Lebensversicherung Aktiengesellschaft, Hamburg[3]	100.0000
ERGO Life Insurance Company S.A., Thessaloniki	100.0000
ERGO Life Insurance SE, Vilnius	100.0000
ERGO Neunte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO osiguranje d.d., Zagreb	100.0000
ERGO Partners N.V., Brussels	100.0000
ERGO Pensionsfonds Aktiengesellschaft, Düsseldorf[3]	100.0000
ERGO Pensionskasse AG, Düsseldorf	100.0000
ERGO Poist´ovna, a. s., Bratislava	100.0000
ERGO pojišt´ovna, a.s., Prague	100.0000
ERGO Previdenza S.p.A., Milan	100.0000
ERGO Private Capital Dritte GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Gesundheit GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Komposit GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Leben GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Vierte GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Zweite GmbH & Co. KG, Düsseldorf	100.0000
ERGO RUSS Versicherung AG, St. Petersburg	100.0000
ERGO Shisn, Moscow	100.0000
ERGO SIGORTA A.S., Istanbul	100.0000
ERGO Versicherung Aktiengesellschaft, Düsseldorf[3]	100.0000
ERGO Versicherung Aktiengesellschaft, Vienna	93.4536
ERGO Versicherungsgruppe AG, Düsseldorf	100.0000
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	100.0000
ERGO Zivljenjska zavarovalnica d.d., Ljubljana	100.0000
ERGO Zivotno osiguranje d.d., Zagreb	100.0000
ERGO Zweite Beteiligungsgesellschaft mbH, Düsseldorf	99.9999
ERV Evropská pojišťovna, a. s., Prague	90.0000
ERV Försäkringsaktiebolag (publ), Stockholm	100.0000
Europaeiske Rejseforsikring A/S, Copenhagen	100.0000
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich[3]	100.0000
Everything Legal Ltd., Bristol	100.0000
FAIRANCE GmbH, Düsseldorf	100.0000
Flexitel Telefonservice GmbH, Berlin	100.0000
FOTOUNO S.r.l., Turin	100.0000
FOTOWATIO ITALIA GALATINA S.r.l., Turin	100.0000
GF 65, Vienna[4]	100.0000
Global Standards, LLC, Dover, Delaware	100.0000
Globality S.A., Luxembourg	100.0000
Great Lakes Reinsurance (UK) Plc., London	100.0000
Group Risk Services Limited, London	100.0000
Groves, John & Westrup Limited, London	100.0000
Habiriscos - Investimentos Imobiliarios e Turisticos, S.A., Lisbon	100.0000
Hartford Steam Boiler (M) Sdn. Bhd., Kuala Lumpur	100.0000
Hartford Steam Boiler (Singapore) PTE Ltd, Singapore	100.0000
Hartford Steam Boiler International-GmbH, Rheine	100.0000
HMV GFKL Beteiligungs GmbH, Düsseldorf	100.0000
HSB Brasil Servicos de Engenharia e Inspecao, Ltda., São Paulo	100.0000
HSB Engineering Finance Corporation, Dover, Delaware	100.0000
HSB Engineering Insurance Limited, London	100.0000
HSB Engineering Insurance Services Limited, London	100.0000
HSB Group, Inc., Dover, Delaware	100.0000
HSB International (India) Private Limited, Kolkata	100.0000
HSB Japan KK, Minato-KU, Tokyo	100.0000
HSB Solomon Associates Canada Ltd., Saint John, Providence of New Brunswick	100.0000
HSB Solomon Associates LLC, Dover, Delaware	100.0000
HSB Specialty Insurance Company, Hartford, Connecticut	100.0000
HSB Technical Consulting & Service (Shanghai) Company, Ltd, Shanghai	100.0000
Ibero Property Portugal - Investimentos Imobiliarios S.A., Lisbon	100.0000
Ibero Property Trust S.A., Madrid	100.0000
IDEENKAPITAL Financial Engineering GmbH, Düsseldorf	100.0000
IDEENKAPITAL Financial Service GmbH, Düsseldorf	100.0000
IDEENKAPITAL GmbH, Düsseldorf	100.0000
IDEENKAPITAL Media Finance GmbH, Düsseldorf	50.1000
IDEENKAPITAL Metropolen Europa GmbH & Co. KG, Düsseldorf	72.3477
iii, Munich[4]	100.0000
IK Einkauf Objekt Eins gmbH & Co. KG, Düsseldorf	100.0000
IK Einkauf Objektmanagement GmbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
IK Einkaufsmärkte Deutschland GmbH & Co. KG, Düsseldorf	52.0387
IK Premium Fonds GmbH & Co. KG, Düsseldorf	100.0000
IK Premium Fonds zwei GmbH & Co. KG, Düsseldorf	100.0000
IKFE Properties I AG, Zurich	63.5708
Imofloresmira - Investimentos Imobiliarios S.A., Lisbon	100.0000
InterAssistance GmbH, Munich[3]	100.0000
IRIS Capital Fund II German Investors GmbH & Co. KG, Düsseldorf	85.7143
ITERGO Informationstechnologie GmbH, Düsseldorf[3]	100.0000
Joint Stock Insurance Company ERGO, Minsk	92.3114
Jordan Health Cost Management Services W.L.L., Amman	100.0000
K & P Pflegezentrum Uelzen IMMAC Renditefonds GmbH & Co. KG, Düsseldorf	84.8445
KA Köln Assekuranz.Agentur GmbH, Cologne	100.0000
Kapdom-Invest GmbH, Moscow	100.0000
Kuik & Partners Gerechtsdeurwaarders & Incassobureau B.V., Eindhoven	100.0000
Landelijke Associatie van Gerechtsdeurwaarders B.V., Groningen[4]	89.7640
LAVG Associatie van Gerechtsdeurwaarders Zuid Holding B.V., Breda[4]	100.0000
LAVG Zuid B.V., Breda	100.0000
LEGIAL AG, Munich	100.0000
LifePlans Inc., Waltham, Massachusetts	100.0000
LifePlans LTC Services, Inc., Toronto, Ontario	100.0000
Lloyds Modern Corporation, Dallas, Texas	100.0000
Longial GmbH, Düsseldorf	100.0000
m:editerran POWER GmbH & Co. KG, Nuremberg	100.0000
MAGAZ FOTOVOLTAICA, S.L.U., Alcobendas	100.0000
Mandaat B.V., Druten	100.0000
Marina Salud S.A., Alicante	65.0000
Marina Sp.z.o.o., Sopot	100.0000
MEAG ANGLO CELTIC Fund, Munich[4]	100.0000
MEAG ATLAS, Munich[4]	100.0000
MEAG Benedict, Munich[4]	100.0000
MEAG BLN 2, Munich[4]	100.0000
MEAG Cash Management GmbH, Munich	100.0000
MEAG EDL CurryGov, Munich[4]	100.0000
MEAG EDL EuroValue, Munich[4]	100.0000
MEAG EDS AGIL, Munich[4]	100.0000
MEAG ERGO Belgium Equities, Munich[4]	100.0000
MEAG ESUS 1, Munich[4]	100.0000
MEAG EUR Global 1, Munich[4]	100.0000
MEAG Euro 1, Munich[4]	100.0000
MEAG Euro 2, Munich[4]	100.0000
MEAG EURO-FONDS, Munich[4]	100.0000
Meag Eurostar (Spezialfonds), Munich[4]	100.0000
MEAG EURO-Yield, Munich[4]	100.0000
MEAG GBP-Global-STAR, Munich[4]	100.0000
MEAG German Prime Opportunities (GPO), Munich[4]	100.0000
MEAG Gilagrent, Munich[4]	100.0000
MEAG Golf 1, Munich[4]	100.0000
MEAG HBG 1, Munich[4]	100.0000
MEAG HM Sach 1, Munich[4]	100.0000
MEAG HM Sach Rent 1, Munich[4]	100.0000
MEAG HM2000, Munich[4]	100.0000

Company and registered seat	% share of capital
MEAG HMR1, Munich[4]	100.0000
MEAG HMR2, Munich[4]	100.0000
MEAG IREN, Munich[4]	100.0000
MEAG Janus[4]	100.0000
MEAG Kapital 2, Munich[4]	100.0000
MEAG Kapital 5, Munich[4]	100.0000
MEAG Lambda EUR 2, Grünwald[4]	100.0000
MEAG Lambda EUR EM Local, Munich[4]	100.0000
MEAG Lambda EUR, Grünwald[4]	100.0000
MEAG Lambda GBP, Grünwald[4]	100.0000
MEAG Lambda USD, Grünwald[4]	100.0000
MEAG Lambda USD-COP, Grünwald[4]	100.0000
MEAG Multi Sach 1, Munich[4]	100.0000
MEAG MUNICH ERGO AssetManagement GmbH, Munich	100.0000
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich	100.0000
MEAG Munich Re Placement, Grünwald[4]	100.0000
MEAG New York Corporation, Wilmington, Delaware	100.0000
MEAG NOK-Fonds, Munich[4]	100.0000
MEAG OptiMAX, Munich[4]	100.0000
MEAG PK-NORD, Munich[4]	100.0000
MEAG PK-WEST, Munich[4]	100.0000
MEAG Premium, Munich[4]	100.0000
MEAG Property Fund I, Munich[4]	100.0000
MEAG RenditePlus, Munich[4]	100.0000
MEAG REVO, Munich[4]	100.0000
MEAG SAG 1, Munich[4]	100.0000
MEAG Sustainability, Munich[4]	100.0000
Meag Tandem (Spezialfonds), Munich[4]	100.0000
MEAG US Real Estate Management Holdings, Inc., Wilmington, Delaware	100.0000
MEAG US Reserve Fund II, Munich[4]	100.0000
MEAG Valentin, Munich[4]	100.0000
MEAG Venus, Munich[4]	100.0000
MEAG Vidas 4, Munich[4]	100.0000
MEAG Vidas Rent 3, Munich[4]	100.0000
MEAG Vigifonds, Munich[4]	100.0000
MEAG VLA, Munich[4]	100.0000
MedNet Bahrain W.L.L., Manama	100.0000
MedNet Greece S.A., Athens	78.1419
MedNet Holding GmbH, Munich	100.0000
MedNet International Ltd., Nicosia	100.0000
MedNet Saudi Arabia LLC, Riyadh	100.0000
MedNet UAE FZ L.L.C., Dubai	100.0000
MedWell Gesundheits-AG, Cologne	100.0000
Merkur Grundstücks- und Beteiligungs-Gesellschaft mit beschränkter Haftung, Düsseldorf	100.0000
MFI Munich Finance and Investment Holding Ltd., Ta´ Xbiex	100.0000
MFI Munich Finance and Investment Ltd., Ta´ Xbiex	100.0000
Midland-Guardian Co., Amelia, Ohio	100.0000
Midwest Enterprises, Inc., Miami, Florida	100.0000
MR Beteiligungen 1. GmbH, Munich[3]	100.0000
MR Beteiligungen 18. GmbH & Co. Immobilien KG, Grünwald[2]	100.0000

Company and registered seat	% share of capital
MR Beteiligungen 19. GmbH, Munich	100.0000
MR Beteiligungen 2. EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen 3. EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen GBP AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen USD AG & Co. KG, Grünwald[2]	100.0000
MR ERGO Beteiligungen GmbH, Grünwald	100.0000
MR Infrastructure Investment GmbH, Grünwald	100.0000
MR RENT UK Investment Limited, London	100.0000
MR RENT-Investment GmbH, Munich	100.0000
MR Solar GmbH & Co. KG, Nuremberg	100.0000
MR SOLAR SAS DER WELIVIT SOLAR ITALIA SRL, Bolzano	100.0000
MSP Underwriting Ltd., London	100.0000
MU068 MR Placem (FCP), Munich[4]	100.0000
Munich American Holding Corporation, Wilmington, Delaware	100.0000
Munich American Life Reinsurance Company, Atlanta, Georgia	100.0000
Munich American Reassurance Company, Atlanta, Georgia	100.0000
Munich Atlanta Financial Corporation, Atlanta, Georgia	100.0000
Munich Health Alpha GmbH, Munich[3]	100.0000
Munich Health Daman Holding Ltd., Abu Dhabi	51.0000
Munich Health Holding AG, Munich[3]	100.0000
Munich Health North America, Inc., Wilmington, Delaware	100.0000
Munich Holdings Ltd., Toronto, Ontario	100.0000
Munich Holdings of Australasia Pty. Ltd., Sydney	100.0000
Munich Life Management Corporation Ltd., Toronto, Ontario	100.0000
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.0000
Munich Re America Corporation, Wilmington, Delaware	100.0000
Munich Re America Services Inc., Wilmington, Delaware	100.0000
Munich Re Automation Solutions Limited, Dublin	100.0000
Munich Re Capital Limited, London	100.0000
Munich Re do Brasil Resseguradora S.A., São Paulo	100.0000
Munich Re Holding Company (UK) Ltd., London	100.0000
Munich Re of Malta Holding Limited, Ta´ Xbiex	99.9999
Munich Re of Malta p.l.c., Ta´ Xbiex	99.9999
Munich Re Stop Loss, Inc., Wilmington, Delaware	100.0000
Munich Re Trading LLC, Wilmington, Delaware	100.0000
Munich Re UK Services Limited, London	100.0000
Munich Re Underwriting Limited, London	100.0000
Munich Re Weather & Commodity Risk Advisors LLC, Wilmington, Delaware	100.0000
Munich Re Weather & Commodity Risk Holding, Inc., Wilmington, Delaware	100.0000
Munich Reinsurance America, Inc., Wilmington, Delaware	100.0000
Munich Reinsurance Company of Africa Ltd, Johannesburg	100.0000
Munich Reinsurance Company of Australasia Ltd, Sydney	100.0000
Munich Reinsurance Company of Canada, Toronto, Ontario	100.0000
MunichFinancialGroup GmbH, Munich	100.0000
Munichre General Services Limited i.L., London	100.0000
Munichre New Zealand Service Ltd., Auckland	100.0000
N.M.U. (Holdings) Limited, Leeds	100.0000
Neckermann Versicherung AG, Nuremberg	100.0000
New Reinsurance Company Ltd., Zurich	100.0000
Nightingale Legal Services Ltd., Bristol	100.0000

Company and registered seat	% share of capital
NMU Group Limited, London	100.0000
Northern Marine Underwriters Limited, Leeds	100.0000
OIK Mediclin, Wiesbaden[4]	66.6672
P.A.N. GmbH & Co. KG, Grünwald[2]	99.0000
Princeton Eagle Holding (Bermuda) Limited, Hamilton, Bermuda	100.0000
Princeton Eagle Insurance Company Limited, Hamilton, Bermuda	100.0000
Princeton Eagle West (Holding) Inc., Wilmington, Delaware	100.0000
Princeton Eagle West Insurance Company Ltd., Hamilton, Bermuda	100.0000
Private Aktiengesellschaft "Europäische Reiseversicherung", Kiev	99.9999
Queensley Holdings Limited, Singapore[4]	100.0000
Renaissance Hotel Realbesitz GmbH, Vienna	60.0000
Roanoke Group Inc., Schaumburg, Illinois	100.0000
Roanoke Insurance Group Inc., Schaumburg, Illinois	100.0000
Roanoke International Brokers Limited, London	100.0000
Scout Moor Group Limited, Manchester	100.0000
Scout Moor Holdings (No. 1) Limited., Manchester	100.0000
Scout Moor Holdings (No. 2) Limited, Manchester	100.0000
Scout Moor Wind Farm (No. 2) Limited, Manchester	100.0000
Scout Moor Wind Farm Limited, Manchester	100.0000
Seminaris Hotel- und Kongreßstätten-Betriebsgesellschaft mbH, Lüneburg	100.0000
Silvanus Vermögensverwaltungsges. mbH, Munich	100.0000
Solomon Associates Limited, London	100.0000
Sopocki Instytut Ubezpieczeń S.A., Sopot	100.0000
Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot	100.0000
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot	100.0000
Specialty Insurance Services Corp., Amelia, Ohio	100.0000
SunEnergy & Partners S.r.l., Brindisi	100.0000
Temple Insurance Company, Toronto, Ontario	100.0000
The Atlas Insurance Agency, Inc., Amelia, Ohio	100.0000
The Boiler Inspection and Insurance Company of Canada, Toronto, Ontario	100.0000
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut	100.0000
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut	100.0000
The Midland Company, Cincinnati, Ohio	100.0000
The Polytechnic Club, Inc., Hartford, Connecticut	100.0000
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware	100.0000
Tir Mostyn and Foel Goch Limited, London	100.0000
UK Wind Holdings Ltd, London	100.0000
Union Beteiligungsholding GmbH, Vienna	100.0000
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa	100.0000
US PROPERTIES VA GmbH & Co. KG, Düsseldorf[4]	46.0939
Van Arkel Gerechtsdeurwaarders B.V., Leiden[4]	100.0000
VHDK Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
VICTERG Zrt., Budapest	100.0000

Company and registered seat	% share of capital
VICTORIA Asien Immobilienbeteiligungs GmbH & Co. KG, Munich	100.0000
Victoria Investment Properties Two L.P., Atlanta, Georgia	100.0000
VICTORIA Italy Property GmbH, Düsseldorf	100.0000
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf[3]	100.0000
Victoria US Holdings, Inc., Wilmington, Delaware	100.0000
VICTORIA US Property Investment GmbH, Düsseldorf	100.0000
VICTORIA US Property Zwei GmbH, Munich	100.0000
VICTORIA Vierte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
Victoria Vierter Bauabschnitt GmbH & Co. KG, Düsseldorf	100.0000
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf[3]	100.0000
VORSORGE Luxemburg Lebensversicherung S.A., Grevenmacher	100.0000
Watkins Syndicate Hong Kong Limited, Hong Kong	67.0000
Watkins Syndicate Labuan Limited (WSLAB), Labuan	100.0000
Watkins Syndicate Middle East Limited, Dubai	100.0000
Watkins Syndicate Singapore Pte. Limited, Singapore	100.0000
welivit GmbH, Nuremberg	100.0000
welivit Solarfonds GmbH & Co. KG, Nuremberg	100.0000
welivit Solarfonds S.a.s. di welivit Solar Italia S.r.l., Bolzano	100.0000
WFB Stockholm Management AB, Stockholm[4]	50.0000
Wind Farms Götaland Svealand AB, Hässleholm	100.0000
Windpark MR-B GmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-D GmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-N gmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-S GmbH & Co. KG, Bremen[2]	100.0000
Windpark MR-T GmbH & Co.KG, Bremen[2]	100.0000
wse Solarpark Spanien 1 GmbH & Co. KG, Nuremberg	75.1243
X-Pact B.V., The Hague	62.5000
Non-consolidated subsidiaries	
"PORT ELISABETH" GmbH & Co. KG, Bramstedt[4]	31.9660
"PORT LOUIS" GmbH & Co. KG, Bramstedt[4]	26.0495
80e LIMITED, Bristol	100.0000
Aleama 150015 S.L., Valencia	100.0000
Amicus Ltd., Bristol	100.0000
ANOVA GmbH, Rostock	100.0000
Arridabra 130013 S.L., Valencia	100.0000
ARTES Assekuranzservice GmbH, Düsseldorf	100.0000
B&D Acquisition B.V., Amsterdam	100.0000
B&D Business Solutions B.V., Utrecht	100.0000
Badozoc 1001 S.L., Valencia	100.0000
Bank Austria Creditanstalt Versicherungsdienst GmbH, Vienna	100.0000
Baqueda 7007 S.L., Valencia	100.0000
Beaufort Dedicated No.3 Ltd, London	100.0000
Beaufort Dedicated No.4 Ltd, London	100.0000
Beaufort Dedicated No.6 Ltd, London	100.0000
Beaufort Underwriting Services Limited, London	100.0000
Blitz 01-807 GmbH, Munich	100.0000
Bobasbe 6006 S.L., Valencia	100.0000
Botedazo 8008 S.L., Valencia	100.0000

Company and registered seat	% share of capital
Callopio 5005 S.L., Valencia	100.0000
Camcichu 9009 S.L., Valencia	100.0000
Cannock Chase Incasso II B.V., The Hague	100.0000
CAPITAL PLAZA Holding GmbH, Düsseldorf	100.0000
Caracuel Solar Catorce S.L., Valencia	100.0000
Caracuel Solar Cinco S.L., Valencia	100.0000
Caracuel Solar Cuatro S.L., Valencia	100.0000
Caracuel Solar Dieciocho S.L., Valencia	100.0000
Caracuel Solar Dieciseis S.L., Valencia	100.0000
Caracuel Solar Diecisiete S.L., Valencia	100.0000
Caracuel Solar Diez S.L., Valencia	100.0000
Caracuel Solar Doce S.L., Valencia	100.0000
Caracuel Solar Dos S.L., Valencia	100.0000
Caracuel Solar Nueve S.L., Valencia	100.0000
Caracuel Solar Ocho S.L., Valencia	100.0000
Caracuel Solar Once S.L., Valencia	100.0000
Caracuel Solar Quince S.L., Valencia	100.0000
Caracuel Solar Seis S.L., Valencia	100.0000
Caracuel Solar Siete S.L., Valencia	100.0000
Caracuel Solar Trece S.L., Valencia	100.0000
Caracuel Solar Tres S.L., Valencia	100.0000
Caracuel Solar Uno S.L., Valencia	100.0000
CarePlus Gesellschaft für Versorgungsmanagement mbH, Cologne	100.0000
Ciborum GmbH, Munich	100.0000
Copper Leaf Research, Bingham Farms, Michigan	100.0000
Cotatrillo 100010 S.L., Valencia	100.0000
D.A.S. Prawo i Finanse Sp. z o.o., Warsaw	100.0000
D.A.S. Rechtsschutz Leistungs-GmbH, Munich	100.0000
D.A.S., Tomasz Niedzinski Kancelaria Prawna Spolka komandytowa, Warsaw	95.0000
DAS Financial Services B.V., Amsterdam	51.0000
DAS Incasso Arnhem B.V., Arnhem	100.0000
DAS Incasso Eindhoven B.V., ´s-Hertogenbosch	100.0000
DAS Incasso Rotterdam B.V., Rotterdam	80.0000
DAS Legal Protection Ireland Limited, Dublin	100.0000
DAS Legal Protection Limited, Christchurch, New Zealand	100.0000
DAS Legal Protection Limited, Vancouver	100.0000
DAS Legal Protection Pty. Ltd., Sydney	100.0000
DAS Lex Assistance, S.L., L´Hospitalet de Llobregat	100.0000
De Wit Vissers Incasso Holding B.V., Breda	100.0000
Diana Vermögensverwaltungs AG, Munich	100.0000
DKV - Beta Vermögensverwaltungs GmbH, Cologne	100.0000
DKV Gesundheits Service GmbH, Cologne	100.0000
DKV Immobilienverwaltungs GmbH, Cologne	100.0000
DKV Residenz am Tibusplatz gGmbH, Münster	100.0000
DKV Servicios, S.A. , Saragossa	100.0000
DKV-Residenz in der Contrescarpe GmbH, Bremen	100.0000
DRA Debt Recovery Agency B.V., The Hague	100.0000
Dutch Debt Recoveries S.a.r.l., Luxembourg	100.0000
E&S Claims Management Inc., Reston, Virginia[4]	0.0000
Economic Data Research B.V., Leidschendam	100.0000
Economic Data Resources B.V., Leidschendam	100.0000
EDR Acquisition B.V., Amsterdam	100.0000
EDR Credit Services B.V., The Hague	100.0000
ERGO Alpha GmbH, Düsseldorf	100.0000
ERGO Asia Management Pte. Ltd., Singapore	100.0000

Company and registered seat	% share of capital
ERGO GmbH, Herisau	100.0000
ERGO Gourmet GmbH, Düsseldorf	100.0000
ERGO Immobilien-GmbH 15. Victoria & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 4. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 7. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
ERGO Immobilien-Verwaltungs-GmbH, Kreien	100.0000
ERGO Leben Asien Verwaltungs GmbH, Munich	100.0000
ERGO PORTFÖY YÖNETIMI A.S., Istanbul	100.0000
ERGO Private Capital GmbH, Düsseldorf	100.0000
ERGO PRO S.r.l., Verona	100.0000
ERGO Pro Sp. z o.o., Warsaw	100.0000
ERGO Pro, spol. s r.o., Prague	100.0000
ERGO Specialty GmbH, Hamburg	100.0000
ERGO Versicherungs- und Finanzierungs-Vermittlung GmbH, Hamburg	100.0000
ERGO Zehnte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO Zwölfte Beteiligungsgesellschaft mbH, Munich	100.0000
ERIN Sigorta Aracilik Hizmetleri Limited Sirketi, Istanbul	99.9950
ERV (China) Travel Service and Consulting Ltd., Beijing	100.0000
ERV (India) Travel Service and Consulting Private Limited, Mumbai	99.9999
ERV Seyahat Sigorta Aracilik Hizmetleri ve Danismanlik Ltd.Sti., Istanbul	99.0000
Etics, s.r.o., Prague	100.0000
Etoblete 160016 S.L., Valencia	100.0000
EUREKA GmbH, Düsseldorf	99.9999
Euro-Center (Cyprus) Ltd., Larnaca	100.0000
Euro-Center (Thailand) Co. Ltd., Bangkok	100.0000
Euro-Center Cape Town (Pty.) Ltd., Cape Town	100.0000
Euro-Center China (HK) Co., Ltd., Beijing	100.0000
Euro-Center Holding North Asia (HK) Pte. Ltd., Hong Kong	100.0000
Euro-Center Holding SE, Prague	83.3330
Euro-Center Ltda., São Paulo	100.0000
Euro-Center North Asia Consulting Services (Beijing) Co., Ltd., Beijing	100.0000
Euro-Center Prague, s.r.o., Prague	100.0000
Euro-Center USA, Inc., New York City, New York	100.0000
Euro-Center Yerel Yardim, Istanbul	100.0000
Euro-Center, S.A. (Spain), Palma de Mallorca	100.0000
Europäische (UK) Ltd., London	100.0000
European Assistance Holding GmbH, Munich	100.0000
Evaluación Médica TUW, S.L., Barcelona	100.0000
EVV Logistik Management GmbH, Düsseldorf	100.0000
Exolvo GmbH, Hamburg	100.0000
First Legal Protection Limited, Bristol	100.0000
First Marine Financial Services, Amelia, Ohio	100.0000
Flexkonzept - Basis, Luxembourg[4]	100.0000
Flexkonzept - Wachstum, Luxembourg[4]	100.0000
FlexKonzept 1, Publikumsfonds, Munich[4]	100.0000
FlexKonzept 2, Publikumsfonds, Munich[4]	100.0000
FlexKonzept 3, Publikumsfonds, Munich[4]	100.0000
Forst Ebnath AG, Ebnath	96.7315
Gamaponti 140014 S.L., Valencia	100.0000
GBG Vogelsanger Straße GmbH, Cologne	94.7826
Gebäude Service Gesellschaft Überseering 35 mbH, Hamburg	100.0000
GEMEDA Gesellschaft für medizinische Datenerfassung und Auswertung sowie Serviceleistungen für freie Berufe mbH, Cologne	100.0000
goDentis - Gesellschaft für Innovation in der Zahnheilkunde mbH, Cologne	100.0000
goMedus Gesellschaft für Qualität in der Medizin mbH, Cologne	100.0000
goMedus GmbH & Co. KG, Cologne	100.0000
GRANCAN Sun-Line S.L., Valencia	100.0000
Great Lakes Re Management Company (Belgium) S.A., Brussels	100.0000
Guanzu 2002 S.L., Valencia	100.0000
Hamburger Hof Management GmbH, Hamburg	100.0000
Hamburg-Mannheimer ForsikringService A/S, Copenhagen	100.0000
Hands On Arnhem B.V., Arnhem	100.0000
Hartford Steam Boiler Colombia Ltda, Bogotá	100.0000
Hartford Steam Boiler UK Limited, Chelmsford	100.0000
Hestia Advanced Risk Solutions Sp. z o.o., Sopot	100.0000
Hestia Loss Control Sp. z o.o., Sopot	100.0000
Horbach GmbH Versicherungsvermittlung und Finanzdienstleistungen, Düsseldorf	70.1000
HSB Associates, Inc., New York, New York	100.0000
HSB Ventures, Inc., Dover, Delaware	100.0000
Ibero Property Guadalix S.A., Madrid	100.0000
IDEENKAPITAL Anlagebetreuungs GmbH, Düsseldorf	100.0000
Ideenkapital Client Service GmbH, Düsseldorf	100.0000
Ideenkapital erste Investoren Service GmbH, Düsseldorf	100.0000
Ideenkapital Fonds Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Media Treuhand GmbH, Düsseldorf	100.0000
IDEENKAPITAL Metropolen Europa Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IDEENKAPITAL PRORENDITA EINS Treuhandgesellschaft mbH, Düsseldorf	100.0000
IDEENKAPITAL Schiffsfonds Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Treuhand US Real Estate eins GmbH, Düsseldorf	100.0000
IK Einkauf Objektverwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK Einkaufsmärkte Deutschland Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK FE Fonds Management GmbH, Düsseldorf	100.0000
IK Komp GmbH, Düsseldorf	100.0000
IK Objekt Bensheim GmbH, Düsseldorf	100.0000
IK Objekt Frankfurt Theodor-Heuss-Allee GmbH, Düsseldorf	100.0000
IK Pflegezentrum Uelzen Verwaltungs-GmbH, Düsseldorf	100.0000
IK Property Eins Verwaltungsgesellschaft mbH, Hamburg	100.0000
IK Property Treuhand GmbH, Düsseldorf	100.0000
IK US Portfolio Invest DREI Verwaltungs-GmbH, Düsseldorf	100.0000
IK US Portfolio Invest Verwaltungs-GmbH, Düsseldorf	100.0000
IK US Portfolio Invest ZWEI Verwaltungs-GmbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
Invesco MEAG US Immobilien Fonds IV B, Luxembourg[4]	37.1375
Janus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Juventus Vermögensverwaltungs AG, Hamburg	100.0000
K & P Objekt Hamburg Hamburger Straße GmbH, Düsseldorf	100.0000
K & P Objekt Hamburg Hamburger Straße Immobilienfonds GmbH & Co.KG, Düsseldorf[4]	36.6889
K & P Objekt München Hufelandstraße GmbH, Düsseldorf	100.0000
Koole & Sennef Gerechtsdeurwaarders kantoor B.V., The Hague	100.0000
KQV Solarpark Franken 1 GmbH & Co. KG, Fürth	100.0000
Kuik & Partners Credit Management BVBA, Brussels	98.9000
Larus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Law On The Web Limited, Bristol	100.0000
LawAssist Limited, Bristol	100.0000
Legal Net GmbH, Munich	100.0000
Lietuva Demetra GmbH, Munich	100.0000
m:editerran POWER FRANCE GmbH, Nuremberg	100.0000
m:editerran Power S.a.s. di welivit Solar Italia S.r.l., Bolzano	100.0000
MAM Munich Asset Management GmbH, Munich	100.0000
Marbury Agency, Inc., Amelia, Ohio	100.0000
MAYFAIR Financing GmbH, Munich	100.0000
MAYFAIR Holding GmbH, Düsseldorf	100.0000
MEAG EmergingMarkets Rent A-Anteile, Munich[4]	99.9000
MEAG EuroAktien Dynamic Floor, Munich[4]	93.2300
MEAG EuroRenten Dynamic Floor, Munich[4]	94.5000
MEAG GlobalRent A, Munich[4]	99.9700
MEAG Hong Kong Limited, Hong Kong	100.0000
MEAG Luxembourg S.à r.l., Luxembourg	100.0000
MEAG OptiErtrag FCP, Munich[4]	39.3900
MEAG Osteuropa A, Munich[4]	43.4600
MEAG Pension Rent, Munich[4]	29.1500
MEAG Pension Safe, Munich[4]	70.2400
MEAG Property Fund II, Munich[4]	100.0000
MEAG Property Fund III, Munich[4]	100.0000
MEAG Real Estate Erste Beteiligungsgesellschaft, Munich	100.0000
MEAG RealReturn Inhaber-Anteile A, Munich[4]	50.0500
Mediastream Consulting GmbH, Grünwald	100.0000
Mediastream Dritte Film GmbH, Grünwald	100.0000
Mediastream Film GmbH, Grünwald	100.0000
Mediastream Vierte Medien GmbH, Grünwald	100.0000
Mediastream Zweite Film GmbH, Grünwald	100.0000
MedNet Europa GmbH, Munich	100.0000
MedNet International Offshore SAL, Beirut	99.6700
MESA ASISTENCIA, S.A., Madrid	99.9000
miCura Pflegedienste Berlin GmbH, Berlin	100.0000
miCura Pflegedienste Bremen GmbH, Bremen	100.0000
miCura Pflegedienste Düsseldorf GmbH, Düsseldorf	100.0000
miCura Pflegedienste GmbH, Cologne	100.0000
miCura Pflegedienste Hamburg GmbH, Hamburg	100.0000
miCura Pflegedienste Krefeld GmbH, Krefeld	100.0000
miCura Pflegedienste München / Dachau GmbH, Dachau	51.0000
miCura Pflegedienste München GmbH, Munich	100.0000
miCura Pflegedienste München Ost GmbH, Munich	65.0000
miCura Pflegedienste Münster GmbH, Münster	100.0000
miCura Pflegedienste Nürnberg GmbH, Nuremberg	51.0000

Company and registered seat	% share of capital
MR Beteiligungen 15. GmbH, Munich	100.0000
MR Beteiligungen 16. GmbH, Munich	100.0000
MR Beteiligungen 18. GmbH, Grünwald	100.0000
MR Beteiligungen AG, Grünwald	100.0000
MR Financial Group GmbH, Munich	100.0000
MR Forest GmbH, Munich	100.0000
MR RENT-Management GmbH, Munich	100.0000
MR Solar Beneixama GmbH i.L., Nuremberg	100.0000
Münchener Consultora Internacional S.R.L., Santiago de Chile	100.0000
Münchener de Argentina Servicios Técnicos S. R. L., Buenos Aires	100.0000
Münchener de Colombia S.A. Corredores de Reaseguros i.L., Bogotá	100.0000
Münchener de Mexico S. A., Mexico City	100.0000
Münchener de Venezuela C.A. Intermediaria de Reaseguros, Caracas	100.0000
Münchener Finanzgruppe AG Beteiligungen, Munich	100.0000
Münchener Vermögensverwaltung GmbH, Munich	100.0000
Munich Canada Systems Corporation, Toronto, Ontario	100.0000
Munich Columbia Square Corp., Wilmington, Delaware	100.0000
Munich Management Pte. Ltd., Singapore	100.0000
Munich Re America Brokers, Inc., Wilmington, Delaware	100.0000
Munich Re America Management Ltd., London	100.0000
Munich Re Automation Solutions GmbH, Munich	100.0000
Munich Re Automation Solutions Inc., Wilmington, Delaware	100.0000
Munich Re Automation Solutions KK, Tokyo	100.0000
Munich Re Automation Solutions Pte. Ltd., Singapore	100.0000
Munich Re Automation Solutions Pty Limited, Sydney	100.0000
Munich Re Capital Markets GmbH, Munich	100.0000
Munich Re India Services Private Limited, Mumbai	100.0000
Munich Re Japan Services K. K., Tokyo	100.0000
Munich Re Underwriting Agents (DIFC) Limited, Dubai	100.0000
Munich American Reassurance Company PAC, Inc., Atlanta, Georgia[4]	0.0000
Munich-American Risk Partners GmbH, Munich	100.0000
Munich-Canada Management Corp. Ltd., Toronto, Ontario	100.0000
MunichFinancialGroup AG Holding, Munich	100.0000
MunichFinancialServices AG Holding, Munich	100.0000
Munichre Service Limited, Hong Kong	100.0000
Naretoblera 170017 S.L., Valencia	100.0000
Nerruze 120012 S.L., Valencia	100.0000
One State Street Intermediaries, Inc., Hartford, Connecticut	100.0000
Orrazipo 110011 S.L., Valencia	100.0000
P.A.N. Verwaltungs GmbH, Grünwald	99.0000
PLATINIA Verwaltungs-GmbH, Munich	100.0000
ProContact Sp. z o.o., Gdańsk	100.0000
PRORENDITA DREI Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA EINS Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA Fünf Verwaltungsgesellschaft mbH, Hamburg	100.0000

Company and registered seat	% share of capital
PRORENDITA VIER Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA ZWEI Verwaltungsgesellschaft mbH, Hamburg	100.0000
ProVictor Immobilien GmbH i.L., Düsseldorf[4]	50.0000
Reaseguradora de las Américas S. A., La Habana	100.0000
Roanoke Trade Insurance Inc., Schaumburg, Illinois	100.0000
SAINT LEON ENERGIE S.A.R.L., Saargemünd	100.0000
Schloss Hohenkammer GmbH, Hohenkammer	100.0000
Schrömbgens & Stephan GmbH, Versicherungsmakler, Düsseldorf	100.0000
Sensus Group B.V., Stadskanaal	100.0000
Solarfonds Garmisch-Partenkirchen 2011 GmbH & Co. KG, Nuremberg	100.0000
Sopockie Towarzystwo Doradcze Sp. z o.o., Sopot	100.0000
Stichting Aandelen Beheer D.A.S. Holding, Amsterdam	100.0000
Sydney Euro-Center Pty. Ltd., Sydney	100.0000
Synkronos Italia SRL, Milan	60.1000
TAS Assekuranz Service GmbH, Frankfurt/Main	100.0000
TAS Touristik Assekuranz Service International GmbH, Frankfurt/Main	100.0000
TAS Touristik Assekuranzmakler und Service GmbH, Frankfurt/Main	100.0000
TGR Biztosítás Többesügynöki Zrt., Budapest	100.0000
Three Lions Underwriting Ltd., London	100.0000
Tillobesta 180018 S.L., Valencia	100.0000
Titus AG, Düsseldorf	100.0000
Trusted Documents GmbH, Nuremberg	100.0000
UAB VL Investment Vilnius 5, Vilnius	100.0000
UAB VL Investment Vilnius 6, Vilnius	100.0000
UAB VL Investment Vilnius 7, Vilnius	100.0000
UAB VL Investment Vilnius 8, Vilnius	100.0000
UAB VL Investment Vilnius 9, Vilnius	100.0000
UAB VL Investment Vilnius 1, Vilnius	100.0000
UAB VL Investment Vilnius 10, Vilnius	100.0000
UAB VL Investment Vilnius 2, Vilnius	100.0000
UAB VL Investment Vilnius 3, Vilnius	100.0000
UAB VL Investment Vilnius 4, Vilnius	100.0000
UAB VL Investment Vilnius, Vilnius	100.0000
US PROPERTIES VA Verwaltungs-GmbH, Düsseldorf[4]	100.0000
VB VICTORIA Zastupanje u Osiguranju d.o.o., Zagreb	74.9000
VFG Vorsorge-Finanzierungsconsulting GmbH, Vienna	100.0000
VICTORIA Erste Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
VICTORIA Immobilien Management GmbH, Munich	100.0000
VICTORIA Immobilien-Fonds GmbH, Düsseldorf	100.0000
Victoria Vierter Bauabschnitt Management GmbH, Düsseldorf	100.0000
Victoria VIP II, Inc., Wilmington, Delaware	100.0000
Viwis GmbH, Munich	100.0000
Vorsorge Service GmbH, Düsseldorf	100.0000
VV-Consulting Gesellschaft für Risikoanalyse, Vorsorgeberatung und Versicherungsvermittlung GmbH, Vienna	100.0000
VV-Consulting Többesügynöki Kft., Budapest	100.0000
welivit New Energy GmbH, Fürth	100.0000
welivit Solar España GmbH, Nuremberg	100.0000
Welivit Solar Italia s.r.l., Bolzano	100.0000
Windpark Langengrassau Infrastruktur GbR, Bremen	83.3300
Windpark Osterhausen-Mittelhausen Infrastruktur GbR, Bremen	58.9500
WNE Solarfonds Süddeutschland 2 GmbH & Co. KG, Nuremberg	100.0000
Wohnungsgesellschaft Brela mbH, Hamburg	100.0000
WP Kladrum/ Dargelütz GbR, Bremen	64.7000
Zacobu 110011 S.L., Valencia	100.0000
Zacuba 6006 S.L., Valencia	100.0000
Zacubacon 150015 S.L., Valencia	100.0000
Zafacesbe 120012 S.L., Valencia	100.0000
Zapacubi 8008 S.L., Valencia	100.0000
Zarzucolumbu 100010 S.L., Valencia	100.0000
Zetaza 4004 S.L., Valencia	100.0000
Zicobucar 140014 S.L., Valencia	100.0000
Zucaelo 130013 S.L., Valencia	100.0000
Zucampobi 3003 S.L., Valencia	100.0000
Zucarrobiso 2002 S.L., Valencia	100.0000
Zucobaco 7007 S.L., Valencia	100.0000
Zulazor 3003 S.L., Valencia	100.0000
Zumbicobi 5005 S.L., Valencia	100.0000
Zumcasba 1001 S.L., Valencia	100.0000
Zuncabu 4004 S.L., Valencia	100.0000
Zuncolubo 9009 S.L., Valencia	100.0000
Associates and joint ventures accounted for using the equity method	
13th & F associates Limited Partnership, Washington D.C.[9]	80.0000
Apollo Munich Health Insurance Co. Ltd. , Hyderabad	25.5000
Avantha ERGO Life Insurance Company, Mumbai	26.0000
BHS tabletop AG, Selb[1] (MC €36.3m)	28.9134
Bloemers Beheer B.V., Rotterdam	23.1824
Consorcio Internacional de Aseguradores de Crédito, S.A., Madrid[5]	15.3534
Consortia Versicherungs-Beteiligungsgesellschaft mbH, Nuremberg	33.7027
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	49.9920
DAMAN – National Health Insurance Company, Abu Dhabi	20.0000
EGM Wind SAS, Paris	40.0000
ERGO China Life Insurance Co., Ltd., Jinan, Shandong Province	50.0000
Europai Utazasi Biztosito Rt., Budapest	26.0000
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna	25.0100
Global Aerospace Underwriting Managers Ltd., London	40.0000
Global Insurance Company, Ho Chi Minh City	35.0000
HDFC ERGO General Insurance Company Ltd., Mumbai	25.8370
HighTech Beteiligungen GmbH und Co. KG, Düsseldorf	23.1000
KarstadtQuelle Finanz Service GmbH, Düsseldorf	50.0000
Marchwood Power Limited, Marchwood	50.0000
MAYFAIR Holding GmbH & Co. Singapur KG, Düsseldorf[9]	71.4285
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf	50.0000
MEAG Pacific Star Holdings Ltd., Hong Kong	50.0000
MEDICLIN Aktiengesellschaft, Offenburg[1] (MC €165m)	35.0042
MEGA 4 GbR, Berlin	34.2569
PICC Asset Management Company Ltd., Shanghai[5]	19.0000

Company and registered seat	% share of capital
Rendite Partner Gesellschaft für Vermögensverwaltung mbH, Frankfurt/Main	33.3333
RP Vilbeler Fondsgesellschaft mbH, Frankfurt/Main	40.0000
Sana Kliniken AG, Munich	21.7025
SAS Le Point du Jour, Paris	50.0000
Saudi National Insurance Company B.S.C.(c), Manama	22.5000
SEBA Beteiligungsgesellschaft mbH, Nuremberg	48.9966
Storebrand Helseforsikring AS, Oslo	50.0000
Suramericana S.A., Medellín[5]	18.8669
T-Solar Global Operating Assets S.L.U., Madrid	37.0000
U.S. Property Fund IV GmbH & Co. KG, Munich	21.7286
U.S. Property Management III L.P., Atlanta	20.0000
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna	47.5028
VICTORIA-VOLKSBANKEN Vorsorgekasse AG, Vienna	50.0000
Vier Gas Investments S.à r.l., Luxembourg	43.7516
VV Immobilien GmbH & Co. United States KG, Munich	28.9514
VV Immobilien GmbH & Co. US City KG, Munich	23.0999
VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, Munich	20.4082
WISMA ATRIA Holding GmbH & Co. Singapur KG, Düsseldorf[9]	65.0000
Associates and joint ventures accounted for at fair value	
"REISEGARANT" Gesellschaft für die Vermittlung von Insolvenzversicherungen mbH, Hamburg	24.0000
Agricultural Management Services S.r.l., Verona	33.3333
Allianz Pegasus Fonds, Frankfurt/Main	46.0000
Assistance Partner GmbH & Co. KG, Munich	21.6600
BF.direkt AG, Stuttgart	27.2000
carexpert Kfz-Sachverständigen GmbH, Walluf	25.0000
Fernkälte Geschäftsstadt Nord Gesellschaft bürgerlichen Rechts, Hamburg	39.3354
Finsure Investments (Private) Limited, Harare	24.5000
Grundeigentümer – Interessengemeinschaft City Nord GmbH, Hamburg	20.0000
Hannover Finanz-Umwelt Beteiligungsgesellschaft mbH, Hillerse	20.0000
Hartford Research, LLC, Lewes, Delaware	41.7500
IK Objektgesellschaft Frankfurt Theodor-Heuss-Allee GmbH & Co. KG, Düsseldorf	47.4000
LCM Logistic Center Management GmbH, Hamburg	50.0000
MCAF Management GmbH, Düsseldorf	50.0000
PERILS AG, Zurich[5]	10.0000
POOL Sp. z o.o., Warsaw	33.7500
RM 2264 Vermögensverwaltungs i.L, Lübeck	25.0000
Rumba GmbH & Co. KG i.L., Lübeck	25.0000
Rural Affinity Insurance Agency Pty Limited, Sydney	50.0000
Secundi CVBA, Brussels	33.0000
Teko - Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung, Düsseldorf	30.0000
Trend Capital GmbH & Co. Solarfonds 2 KG, Mainz	34.4234
Triple IP B.V., Amsterdam	50.0000
Verwaltungsgesellschaft "PORT ELISABETH" mbH, Bramstedt	50.0000

Company and registered seat	% share of capital
Verwaltungsgesellschaft "PORT KELANG" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT LOUIS" GmbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT MAUBERT" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT MELBOURNE" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT MENIER" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT MOODY" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT MORESBY" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT MOUTON" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT NELSON" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT RUSSEL" GmbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT SAID" GmbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT STANLEY" GmbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT STEWART" mbH, Bramstedt	50.0000
Verwaltungsgesellschaft "PORT UNION" mbH, Bramstedt	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
Companies included on a pro-rata basis (joint operation pursuant to IFRS 11)	
"Pensionsfonds" of MetallRente pension system, Allianz Pensionsfonds AG, Stuttgart	17.5000
Other shareholdings of 20% or more	
Capital Dynamics Champion Ventures VI, L.P., Woodside, California[11] (equity: €119,530k; result for year: €33,826k)	27.3400
FIA Timber Partners II L.P., Wilmington, Delaware[6] (equity: €130,631k; result for year: –€1,034k)	39.0800
Green Acre LLC, Wilmington[8] (equity: € ---k; result for year: € ---k)	31.9400
HRJ Capital Global Buy-Out III (U.S.), L.P., Woodside, California[11] (equity: €91,191k; result for year: €15,832k)	44.8788
Invenergy Miami Wind I Holdings #2 LLC, Wilmington[11] (equity: €---k; result for year: €---k)	49.0000

Company and registered seat	% share of capital
ORM Timber Fund III (Foreign) LLC, Wilmington, Delaware[8] (equity: €58,212k; result for year: –€639k)	39.1000
RMS Forest Growth International, L.P., Grand Cayman, Cayman Islands[8] (equity: €29,623k; result for year: –€2,324k)	43.4700
Other shareholdings exceeding 5% of the voting rights in large companies as defined in the German Commercial Code (HGB)	
Admiral Group plc, Cardiff	10.2621
Best Doctors, Health Resources and Technology, Inc., Boston, Massachusetts	5.6100
Credit Guarantee Insurance Corporation, Johannesburg	7.1037
Extremus Versicherungs-Aktiengesellschaft, Cologne	16.0000
Jordan Insurance Co. p.l.c., Amman	10.0000
New National Assurance Company Ltd., Durban, South Africa	16.0000
Protektor Lebensversicherungs-AG, Berlin	10.7597
Saudi Enaya Cooperative Insurance Company, Jeddah	15.0000
Swaziland Royal Insurance Corporation, Mbabane	16.0000
Wataniya Cooperative Insurance Company, Jeddah	10.0000

1 The market capitalisation (MC) of this company as at 31 December 2014 is €XXm.
2 This fully consolidated German subsidiary with the legal form of a partnership, as defined in Section 264a of the German Commercial Code (HGB), intends to fulfil the conditions required in Section 264b of the Commercial Code and, in the financial year 2014, to avail itself of the relevant provision exempting it from preparing annual financial statements.
3 This fully consolidated German subsidiary intends to fulfil the conditions required in Section 264 (3) of the Commercial Code and, in the financial year 2014, to avail itself of the relevant provision exempting it from preparing annual financial statements.
4 Control pursuant to IFRS 10.
5 Significant influence owing to representation of Munich Re on the board of directors and/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 28.6.
7 Not currently utilised.
8 No significant influence, as this is a purely financial investment managed by an external asset manager.
9 Significant influence owing to reduced voting power.
10 Not currently utilised.
11 No significant influence because, under the articles of association, statutes or other agreement, all key decisions regarding the company's financial and operating policy are subject to a quorum which cannot be attained by the majority shareholder without the non-controlling shareholders.
12 Not currently utilised.

Drawn up and released for publication,
Munich, 2 March 2015.

The Board of Management

Auditor's report

We have audited the consolidated financial statements prepared by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the consolidated balance sheet, the consolidated income statement, the statement of recognised income and expense, the Group statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2014. 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 (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 (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, 3 March 2015

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Frank Ellenbürger
Wirtschaftsprüfer
(Certified Public Accountant)

Roland Hansen
Wirtschaftsprüfer
(Certified Public Accountant)

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group."

Munich, 10 March 2015

General information

Glossary

Aa

Accumulation Situation where a number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Actuary Qualified expert concerned with the modelling, evaluating and managing of risks using mathematical statistical methods. Actuaries work primarily in the areas of insurance and finance, pensions and home loans, developing long-term solutions for financial protection against future contingencies.

Asset-liability management Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, it is the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

Available financial resources IFRS equity adjusted for various economically appropriate factors, plus hybrid capital (subordinated bonds and, in German life insurance, funds available for preliminary financing of new business by business in force).

Bb

Biometric actuarial assumptions Parameters that describe insured risks such as mortality, morbidity and disability. Presented in tables (e.g. mortality tables), they usually depend on age attained and gender.

Bornhuetter-Ferguson method Standard actuarial method used to estimate the reserves needed for future claims expenditure resulting from losses that have already occurred but are not yet sufficiently specific. With this method, the overall loss expected is determined on the basis of historical data on the run-off of losses in the portfolio and an independent assessment by the insurer. These parameters are given different weightings, depending on the information available on the status of the losses.

Cc

Capital Asset Pricing Model (CAPM) Capital market model used to evaluate securities, based on the portfolio theory. The CAPM expands the portfolio theory to include the question of which part of a security's overall risk cannot be eliminated by means of risk diversification, and explains how investment opportunities entailing risk are assessed in the capital markets. Accordingly, in efficient markets where prices already incorporate all the information available, a greater return can only be achieved by assuming more risk.

Catastrophe bond Capital market instrument for transferring (natural) catastrophe risks to the capital markets. The buyers of such bonds profit from a comparatively high coupon rate, but assume the (re)insurer's risk if the (natural) catastrophe occurs. If a predefined parametric trigger is activated by the catastrophe, the buyers' capital is only partially repaid or not repaid at all, and the interest payments to the buyers are reduced or stopped. The capital made available serves to compensate the financial loss incurred by the (re)insurer as a result of the (natural) catastrophe.

Cedant Client of a reinsurance company (primary insurer).

Chain ladder method Standard (multiplicative) actuarial method used to estimate the reserves needed for future claims expenditure. It assumes that the cumulative loss rises by the same factor in all accident years. With this method, the overall loss expected is determined exclusively on the basis of historical data on the run-off of losses in the insurer's portfolio.

Combined ratio Percentage ratio of the sum of net claims expenses plus net operating expenses to net earned premiums. It corresponds to the sum of the loss ratio and the expense ratio.

Compliance Acting in accordance with applicable laws and internal company rules. Internal company rules also include the principles and values set forth in Munich Re's Code of Conduct. Compliance requires that a company has the necessary organisational and control measures in place – including appropriate information and documentation systems – to prevent violations of laws and regulations.

Composite insurer Insurer that writes both life and non-life business.

Convexity Volatility measure to describe how a bond's price will change as interest rates rise or fall. As with duration, the concept of convexity is based on an estimate of the bond's present value. A customary bond with regular coupon payments and complete repayment of the principal on maturity will rise in price more strongly if interest rates decline than it will fall in price if interest rates rise. This phenomenon of convexity is caused by an alteration in the bond's duration when interest rates change. Falling interest rates result in an increase in the bond's duration and thus in its interest-rate sensitivity, so that if interest rates continue to fall, the price rise accelerates. In the case of rising interest rates, the opposite occurs.

Corporate citizenship A company's social involvement, i.e. its active involvement as a "good citizen" in local civil society, and in ecological or cultural issues, above and beyond the defines of its business activities.

Corporate responsibility Concept whereby organisations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

Credit Equivalent Exposure (CEE) Reference figure used to combine and compare the credit exposure from various product types involving credit risk under a common counterparty limit. The CEE is calculated regardless of the likelihood of a counterparty's default and reflects the estimated loss amount in the event of a default.

Cycle management Continuously analysing and managing the course of a cycle. Insurance, reinsurance and retrocession markets are subject to global and regional cycles that may have external (interest-rate development, economic development, major losses, etc.) and internal causes (price competition, premium calculation methods, etc.). Managing the cycle means using an analysis to take proactive strategic measures and ensure risk-commensurate terms (prices, scope of cover, and conditions) in every phase.

Dd

Deferred acquisition costs Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised over the term of the contracts.

Delta Measure of the change in the option price relative to a change in the value of an underlying asset by one unit. If, for example, an option has a delta of 2, the option price rises by 2% if the value of the underlying asset increases by 1%.

Deposits retained on assumed reinsurance and ceded business Receivables which reinsurers have vis-à-vis their cedants for collateral (cash deposits) that has been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.

Duration Average term of an interest-sensitive investment (or portfolio) in years.

Ee

Economic capital buffer Amount by which the available financial resources exceed the economic risk capital.

Economic risk capital (ERC) Amount of economic equity that Munich Re needs, with a given risk appetite, to cover unexpected losses in the following year. In Munich Re's risk model, economic risk capital is calculated as 1.75 times value at risk for a 12-month time horizon with a confidence level of 99.5%.

Economic solvency ratio Ratio calculated by dividing the available financial resources (after dividend and share buy-backs) by the economic risk capital. It is an expression of Munich Re's capital strength.

Expense ratio Percentage ratio of net operating expenses to net earned premiums.

Ff

Facultative reinsurance Reinsurance of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. obligatory reinsurance).

Fair value 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 (definition in accordance with IFRS 13 "Fair value measurement").

Gg

Gross/net In insurance terminology, designation for before/after deduction of the portion attributable to business ceded in reinsurance.

Guaranteed interest Interest rate to be paid out by the insurer on the savings component of the insurance premium under an endowment insurance policy. This minimum interest rate is contractually guaranteed.

Ii

IBNR reserve Provision for claims that are not yet known to the insurer (IBNYR = incurred but not yet reported) but also for claims whose case reserves are not sufficient (IBNER = incurred but not enough reserved).

Income from technical interest Amount earned by assumed insurance business from the mainly risk-free investment of assets covering the technical provisions. The deposits retained on ceded business are also taken into account. Thus the portion of investment income that corresponds to the deposit interest expense is included in the calculation of the technical interest.

Insurance pool Risk community in which legally and economically independent insurers and reinsurers combine (or in some cases are required by the government) to create cover for particularly large or unbalanced risks. The participants undertake to write the risks defined in the pool contract only within the framework of the insurance pool and to transfer such risks to it in return for a commission. Every pool member participates in the pool's profit or loss in accordance with its predefined quota share. To spread the risk further, reinsurance covers are often ceded or taken out. Types of pool include coinsurance pools, where all members act as primary insurers, and reinsurance pools, where primary insurers write the risks and then divide these between the participating insurers via reinsurance.

Interest-rate curve Curve that models the relationship between interest rates and the term of an investment (e.g. fixed-interest securities). As a rule, the interest rate increases the longer the term. This type of interest-rate curve is therefore referred to as rising (or normal). An interest-rate curve is defined as flat if the interest rate is independent of the term. Inverse (or declining) interest-rate curves are rare. They are produced when less interest is paid on long-term securities (bonds) than on short-term securities. The interest-rate curve is plotted on a graph.

Ll

Liability adequacy test Regular check of the technical provisions, including the related deferred acquisition costs, on the basis of the current estimates for future cash flows. The test provides an assessment of whether the technical reserves or deferred acquisition costs need to be adjusted.

Longevity Insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio Percentage ratio of net expenses for claims and benefits to net earned premiums.

Mm

Major loss Loss which is of particular significance to insurers or reinsurers because its amount or other criteria are exceptional in relation to historical loss experience. A distinction is typically made between man-made major losses and those caused by natural catastrophes.

Managing general agency business Insurance business where the insurer transfers the underwriting authority for a specific portfolio to a managing general agent or managing general agency (MGA) that acts on its behalf. Depending on the arrangement involved, the agent/agency may be assigned additional responsibilities such as claims handling or administrative tasks.

Market Consistent Embedded Value (MCEV) Valuation measure for long-term insurance business. Embedded value is the total of a company's equity (at market price) and the value of its in-force covered business. The latter is the present value of future profits (where profits are post-taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities) calculated using actuarial methods. The value of in-force covered business additionally takes into consideration the time value of the financial options and guarantees, the explicitly determined cost of holding capital for the whole term of the portfolio, and the costs for non-hedgeable risks. Munich Re calculates embedded value in accordance with the MCEV Principles.

Modified duration Sensitivity measure indicating (in per cent) how much a bond's overall yield rises or falls when there is a change in interest rate in the market.

Morbidity Probability that an individual in a given group will develop a certain disease or disorder.

Mortality Ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates, and set out in mortality tables.

Mortality table Table developed using methods of probability theory for estimating the expected mortality of policyholders in a portfolio of life or health insurance contracts. It shows the probability of future mortality on a differentiated basis according to age and other factors, often taking into account demographic trends. Mortality tables with provision for adverse deviation are generally used for measuring technical provisions.

Nn

Net asset value Value of all tangible and intangible assets of a company or fund minus its liabilities. It reflects a company's or fund's fundamental value.

Net expenses for claims and benefits Expenses for claims, such as claims payments and the change in the provision for outstanding claims. They also include expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Net operating expenses Commission plus personnel and non-personnel expenses for the acquisition and ongoing administration of insurance contracts, less commission reimbursed by reinsurers (including profit commission), plus expenses from amortisation of the present value of future profits (PVFP).

Non-proportional reinsurance Form of reinsurance under which the reinsurer assumes payment of the primary insurer's losses above a certain amount. Calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Oo

Obligatory reinsurance Type of reinsurance in which the primary insurer is obliged to cede all risks specified in the contract to the reinsurer within a certain scope. The reinsurer accepts these risks without assessing them on a case-by-case basis. Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods (cf. facultative reinsurance).

Pp

Pandemic Spread of a disease or – in the narrower sense – infectious disease across national borders and continents. Unlike an epidemic, which is a disease occurring in a limited area and time, a pandemic is not restricted to a certain geographical area.

Policyholders' bonuses Appropriate share of the surplus earned by insurers in life and health insurance to which policyholders are entitled contractually and by law. The amount of this bonus is newly determined each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

Premium Amount that has to be paid for insurance cover. It may be paid as a regular or single premium. Premiums written means all premium income that has become payable in the financial year. The portion of this premium income that constitutes payment for insurance cover in the financial year is referred to as earned premiums. In the case of products that are largely of an investment nature (e.g. capitalisation products and unit-linked life insurance), it only includes – under IFRSs – the amount serving to cover the risk and costs. However, under applicable statutory accounting rules, premium income may also include the policyholders' savings premiums from unit-linked life insurance and capitalisation products.

Present value of future profits (PVFP) Present value, capitalised in the balance sheet, of the expected earnings from the business acquired when insurance companies or individual insurance portfolios are taken over. This intangible asset arises in particular when life or health insurance companies are acquired.

Proportional reinsurance Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer. The reinsurer is allocated a corresponding share of the premiums and claims.

Provision for future policy benefits Technical provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance. It amounts to the balance of the present value of future obligations less the present value of future premiums.

Provision for outstanding claims Provision for claims that have already been incurred at the balance sheet date, but have either not yet been reported or not yet fully settled.

Provision for premium refund Provision made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. It also includes the policyholders' share of accumulated valuation differences between IFRSs and German GAAP accounting (provision for deferred premium refunds).

Public-private partnership (PPP) Long-term arrangement between private companies and public bodies with the aim of providing public services in a more efficient manner.

Rr

Reinsurance capacity Amount of cover that a reinsurance company or the market as a whole can make available.

Renewals Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

Retrocessionaire Company that reinsures reinsurance business assumed by other insurance companies. Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Risk exposure Extent of a risk in terms of its potential deviation from the expected value under certain probability assumptions. In connection with accounting, the term is also used to quantify the potential loss resulting for a company from certain assets.

Run-off triangle Also known as „loss triangle". A tabular representation of claims-related parameters (such as payment, claims reserve, ultimate loss) in two, time-related dimensions. One of these is the calendar year, while the other is usually the accident year (year of the loss occurrence). Run-off triangles – as the basis for measuring claims reserves – make clear how the claims reserve changes over the course of time due to payments made and new estimates of the expected ultimate loss at the respective balance sheet date.

Ss

Scenario analysis Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

Shadow accounting Non-binding practice wherein an insurer changes its accounting policies so that a recognised but unrealised gain or loss on an asset affects the measurement of technical provisions, related deferred acquisition costs and related intangible assets in the same way that a realised gain or loss does.

Solvency II Project of the European Commission to fundamentally reform and harmonise European insurance supervisory regulations. Solvency II follows the three-pillar approach: minimum capital requirements (quantitative), supervisory review processes (qualitative) and market discipline (disclosure).

Spread Risk premium in the form of an interest-rate margin that an issuer of a fixed-interest security pays to investors above a risk-free benchmark interest rate such as the yield on German government bonds. This premium covers the risk run by investors that the issuer may become insolvent. A high spread indicates a high default probability and thus low creditworthiness, and vice versa.

Stress test Special form of scenario analysis. It allows a quantitative statement to be made on the loss potential of portfolios in the event of extreme market fluctuations.

Structured entities Entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant business activities are directed by means of contractual arrangements.

Tt

Tail dependencies The result of risk drivers interacting in exceptional situations, i.e. different lines of business, geographies and risk types being affected by extreme events at the same time. Compared with a situation where the risks are assumed to be independent, this results in a lesser diversification effect, which is reflected in a higher capital requirement.

Technical provisions Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Technical result Balance of income and expenses apportionable to (re)insurance business. The technical result includes an interest component, the income from technical interest, which is reallocated from the non-technical result.

Uu

Ultimate loss Estimated aggregate claims expenditure for the accident year of a claim until final settlement, as calculated at the end of the calendar year. It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.

Underwriter Member of an insurance or reinsurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a (re)insurance contract. Underwriters are responsible for ensuring the quality and reliability of risk-transfer solutions offered. Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

Unearned premium Portion of premium income in the financial year that is attributable to periods after the balance sheet date. It is accounted for in the item „unearned premiums" within the technical provisions on the liabilities side of the balance sheet.

Unit-linked life insurance Type of life insurance with a savings component, where the premium is invested in a fund and the benefits payable depend on fund performance. The investment risk is borne by the policyholder.

Universal life Contracts in life primary insurance where the amount of the premiums and benefits is flexible, the policyholder being able to vary the premium payments within certain limits.

Vv

Value at risk Method of quantifying risk which measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

Value in use Present value of the future cash flows expected to be derived from a cash-generating unit or group of cash-generating units. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows of other assets or groups of assets.

Variable annuities Special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

Index of key terms

Important addresses

Germany
Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München
Königinstrasse 107
80802 München
Tel.: +49 89 3891-0
www.munichre.com

Reinsurance

Australia
Munich Holdings of Australasia PTY Limited
Munich Re House
143 Macquarie Street
Sydney, NSW 2000
Tel.: +61 2 92 72 80 00

UK
Great Lakes Reinsurance (UK) PLC
Plantation Place
30 Fenchurch Street
London EC 3M 3AJ
Tel.: +44 20 30 03 70 00
www.greatlakes.co.uk

Canada
Munich Reinsurance Company of Canada
Munich Re Centre
390 Bay Street, Suite 2200
Toronto, Ontario
M5H 2Y2
Tel.: +1 416 3 66-92 06
www.mroc.com

Temple Insurance Company
Munich Re Centre
390 Bay Street, 21st Floor
Toronto, Ontario
M5H 2Y2
Tel.: +1 416 3 64-28 51
www.templeinsurance.ca

Switzerland
New Reinsurance Company Ltd.
Zollikerstrasse 226
8008 Zürich
Tel.: +41 (0) 58 226 65 00
www.newre.com

South Africa
Munich Reinsurance Company of Africa Limited
Munich Re Centre
47 Empire Road, Parktown
Johannesburg 2193
Tel.: +27 11 242-20 00

USA
Munich Reinsurance America, Inc.
555 College Road East
P.O. Box 5241
Princeton, NJ 08543
Tel.: +1 609 243-4200
www.munichreamerica.com

Munich American Reassurance Company
56 Perimeter Center East, N.E. Suite 500
Atlanta, GA 30346-2290
Tel.: +1 770 350-3200
www.marclife.com

Further addresses may be obtained at
www.munichre.com

ERGO

ERGO Versicherungsgruppe AG
Victoriaplatz 2
40198 Düsseldorf
Germany
Tel.: 0800 3746-000
Tel.: +49 211 477-7100 (from outside Germany)
www.ergo.com

Germany

D.A.S. Deutscher Automobil Schutz
Allgemeine Rechtsschutz-Versicherungs AG
Thomas-Dehler-Strasse 2
81728 München
Tel.: 0800 3746-555
Tel.: +49 89 6275-7101 (from outside Germany)
kundenservice@das.de
www.das.de

DKV Deutsche Krankenversicherung AG
Aachener Strasse 300
50933 Köln
Tel.: 0800 3746-444
Tel.: +49 221 578-94005 (from outside Germany)

ERGO Direkt Versicherungen
Karl-Martell-Strasse 60
90344 Nürnberg
Tel.: 0800 666-9000
Fax: 0800 701-1111
www.ergodirekt.de

ERGO Lebensversicherung AG
Überseering 45
22297 Hamburg
Tel.: 0800 3746-222
Tel.: +49 211 477-7100 (from outside Germany)
www.ergo.de

ERGO Versicherung AG
Victoriaplatz 1
40198 Düsseldorf
Tel.: 0800 3746-333
Tel.: +49 211 477-7100 (from outside Germany)
www.ergo.de

ERV Europäische Reiseversicherung AG
Rosenheimer Strasse 116
81669 München
Tel.: +49 89 4166-00
contact@erv.de
www.reiseversicherung.de

Further addresses may be obtained at
www.ergo.com

Munich Health

Munich Health Holding AG
Königinstrasse 107
80802 München
Germany

Munich Health Europe/Latin America
Munich Health Northern/Eastern/Central Europe
Königinstrasse 107
80802 München
Germany

North America
Munich Health North America, Inc.
555 College Road East
Princeton, NJ 08543
USA
www.munichhealthna.com

Middle East and Africa
Munich Health Middle East and Africa
Munich Re Underwriting Agents (DIFC) Ltd.
Level 4, Unit 4, Currency House (Al Fatan)
Dubai International Financial Center
P.O.Box 506512
United Arab Emirates

Asia Pacific
Munich Health Asia Pacific
Munich Reinsurance Singapore Branch
20 Collyer Quay
#13-01 Tung Centre
Singapore 049319
Republic of Singapore

Further addresses may be obtained at
www.munichhealth.com

Imprint/Service

Münchener Rückversicherungs-Gesellschaft
Königinstrasse 107
80802 München
Germany
www.munichre.com

www.twitter.com/munichre
www.munichre.com/facebook

Münchener Rückversicherungs-Gesellschaft (Munich Reinsurance Company) is a reinsurance company organised under the laws of Germany. In some countries, including in the United States, Munich Reinsurance Company holds the status of an unauthorised reinsurer. Policies are underwritten by Munich Reinsurance Company or its affiliated insurance and reinsurance subsidiaries. Certain coverages are not available in all jurisdictions.

Any description in this document is for general information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any product.

Responsible for content
Group Reporting
Group Communications

Editorial deadline:
25 February 2015
Online publication date:
11 March 2015
Print publication date:
26 March 2015

Picture credits
pp. 3, 9 top, 10, 11, 21: Andreas Pohlmann
p. 9 bottom: Stephan Obermeier

Printed by
Gotteswinter und Aumaier GmbH
Joseph-Dollinger-Bogen 22
80807 München
Germany

The official German original of this report is also available from the Company. In addition, you can find our annual report and interim reports, along with further information about Munich Re, on the internet at www.munichre.com.

Service for private investors
Alexander Rappl
Tel.: +49 89 38 91-22 55
Fax: +49 89 38 91-45 15
shareholder@munichre.com

Service for investors and analysts
Christian Becker-Hussong
Tel.: +49 89 38 91-39 10
Fax: +49 89 38 91-98 88
ir@munichre.com

Service for media
Johanna Weber
Tel.: +49 89 38 91-26 95
Fax: +49 89 38 91-35 99
presse@munichre.com

www.munichre.com/geschaeftsbericht2014

www.munichre.com/annualreport2014

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C018312

Greenhouse gas emissions from paper production for this annual report are offset through Munich Re's carbon-neutral strategy.

Quarterly figures

		31.12.2014	30.9.2014	30.6.2014	31.3.2014
Balance sheet					
Investments (incl. insurance-related investments)	€m	227,388	223,268	217,274	213,438
Equity	€m	30,304	29,259	27,643	27,372
Net technical provisions	€m	198,364	196,962	192,980	189,821
Balance sheet total	€m	272,979	269,813	262,784	258,880
Shares					
Share price	€	165.75	156.55	161.90	158.60
Munich Reinsurance Company's market capitalisation	€bn	28.7	27.1	28.0	28.4
Other					
Combined ratio					
Reinsurance property-casualty	%	91.2	91.3	101.4	86.9
ERGO property-casualty Germany	%	97.1	93.5	95.3	95.4
ERGO International	%	96.8	100.0	97.5	94.9
Munich Health	%	99.8	96.7	98.8	99.7
Number of staff		**43,316**	**43,815**	**43,637**	**44,247**

€m	Total	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Gross premiums written	**48,848**	**12,015**	**12,053**	**11,856**	**12,924**
1. Earned premiums					
Gross	48,987	12,558	12,100	12,056	12,273
Ceded	–1,603	–483	–391	–351	–378
Net	47,384	12,075	11,709	11,705	11,895
2. Income from technical interest	7,503	1,923	1,776	1,882	1,922
3. Expenses for claims and benefits					
Gross	–40,415	–10,106	–9,872	–10,340	–10,097
Ceded share	722	197	200	197	128
Net	–39,693	–9,909	–9,672	–10,143	–9,969
4. Operating expenses					
Gross	–12,264	–3,556	–2,950	–3,064	–2,694
Ceded share	313	77	95	76	65
Net	–11,951	–3,479	–2,855	–2,988	–2,629
5. Technical result (1–4)	**3,243**	**610**	**958**	**456**	**1,219**
6. Investment result	**8,002**	**1,972**	**1,670**	**2,368**	**1,992**
Thereof:					
Income from associates accounted for using the equity method	77	24	17	31	5
7. Insurance-related investment result	414	52	85	199	78
8. Other operating income	747	218	170	182	177
9. Other operating expenses	–875	–277	–197	–186	–215
10. Deduction of income from technical interest	–7,503	–1,923	–1,776	–1,882	–1,922
11. Non-technical result (6–10)	**785**	**42**	**–48**	**681**	**110**
12. Operating result	**4,028**	**652**	**910**	**1,137**	**1,329**
13. Other non-operating result	–496	–30	–126	–225	–115
14. Impairment losses of goodwill	–445	–445	–	–	–
15. Net finance costs	–228	–58	–56	–58	–56
16. Taxes on income	312	610	10	–92	–216
17. Consolidated result	**3,171**	**729**	**738**	**762**	**942**
Thereof:					
Attributable to Munich Reinsurance Company equity holders	3,153	723	735	758	937
Attributable to non-controlling interests	18	6	3	4	5

€	Total	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Earnings per share	**18.31**	**4.27**	**4.29**	**4.39**	**5.34**

Our brands

Munich Re (Group)

Reinsurance	Munich Health	ERGO
Munich RE	MUNICH HEALTH	ERGO
	Munich Re	Versicherungsgesell-schaften Deutschland & International
The Hartford Steam Boiler Inspection and Insurance Company	DKV Seguros	ERGO Direkt
New Reinsurance Company Ltd.	DKV Belgium	ERGO Hestia
American Modern Insurance Group, Inc.	DKV Luxembourg	Vorsorge Lebensversicherung
	Globality Health	D.A.S. Rechtsschutz-versicherung
	Daman National Health Insurance	Deutsche Krankenversicherung
	Apollo Munich Health Insurance	Europäische Reiseversicherung
	MedNet	
	Storebrand	

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 292 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.
- ERGO: Our primary insurers offer security mainly for private clients and for small and medium-sized businesses.
- Our subsidiary MEAG manages our assets and offers investment products for private clients and institutional investors.

Important dates 2015

11 March 2015
Balance sheet press conference
for 2014 consolidated financial statements

23 April 2015
Annual General Meeting

7 May 2015
Interim report as at 31 March 2015

6 August 2015
Interim report as at 30 June 2015

6 August 2015
Half-year press conference

5 November 2015
Interim report as at 30 September 2015

Important dates 2016

16 March 2016
Balance sheet press conference
for 2015 consolidated financial statements

27 April 2016
Annual General Meeting

10 May 2016
Interim report as at 31 March 2016

9 August 2016
Interim report as at 30 June 2016

9 August 2016
Half-year press conference

9 November 2016
Interim report as at 30 September 2016

Königinstrasse 107, 80802 München, Germany

Order number 302-08572