



Munich Re Tax Transparency Report 2020

NOT IF, BUT HOW

1 Purpose of the Tax Transparency Report

The tax paid by companies operating internationally has increasingly attracted public attention in recent years. Munich Re's policy is to be a responsible company and taxpayer.

Due to the nature of our business, we are subject to a great many taxes, which arise in every country in which we operate. Munich Re is complying with the spirit as well as the letter of the tax laws and regulations at both national and international level.

We consider declaring profits earned in our business for tax in accordance with the law to be a fundamental legal and social duty. A country needs tax revenues to enable it to meet its basic responsibilities to the community, and we wish to contribute to that by paying taxes.

Our intention in producing this report is to contribute voluntarily to creating more transparency in tax compliance, tax risk management, our attitude to tax planning and structuring, and our tax payments worldwide.

2 Munich Re – Group portrait

Reinsurance

Munich Re is one of the world's leading reinsurers. We offer a full range of products, from traditional reinsurance to innovative solutions for risk assumption. In reinsurance, we operate in life, health and property-casualty business. Under reinsurance, we also include specialised primary insurance activities that are handled by the reinsurance organisation and business from managing general agencies (MGAs). Organisationally, we have pooled worldwide activities covering the Internet of Things into the new divisional unit Global IoT.

ERGO

Munich Re's primary insurance operations are concentrated mainly in ERGO. Via ERGO, we offer products in all the main classes of insurance: life insurance, health insurance, and in nearly all lines of property-casualty insurance, including travel insurance and legal protection insurance. With these products – in combination with the provision of assistance, other services and individual consultancy – we cover the needs of private and corporate clients. ERGO serves around 35 million clients, most of them private, in more than 30 countries, with the focus on Europe and Asia.

Asset Management

The Group's worldwide investments are managed by MEAG. MEAG also offers its expertise to private and institutional clients.

3 Tax Governance and policies for dealing with our tax obligations

Compliance Statement

Compliance with applicable laws and internal rules and principles is binding for all employees of Munich Re.

Compliance in general and tax compliance in particular are key components in all of our processes.

We have laid down the Group's key principles and convictions as "core principles" in our Code of Conduct, a mandatory set of rules for all of our activities.

Munich Re aims to be a lawabiding, transparent and responsible taxpayer. For that reason, we give absolute priority to meeting all of the tax obligations to which Munich Re is subject nationally and internationally. Munich Re is complying with the spirit as well as the letter of the tax laws and regulations at both national and international level.

Munich Re Group Tax Compliance and Tax Governance Policy

The Board of Munich Reinsurance Company has approved a policy on tax compliance that lays down minimum tax compliance standards and describes the fundamental components of the tax compliance management system we have in place. In addition, there is a guideline on tax governance adopted by the Board of Management, which sets out clear rules of conduct for responsible tax management within the Munich Re Group for employees working in tax matters worldwide. Among other things, these rules stipulate that no aggressive tax planning is carried out and that no tax havens (countries classified by the EU as non-cooperative for tax purposes - EU black list) are used.

These Policies apply directly to Munich Reinsurance Company and its foreign branches. All companies in the Group are obliged to apply a policy locally that has the same, or similar, content. Compliance with this requirement is checked annually.

Tax compliance management system as part of the internal control system

Munich Re has based its tax compliance management system on the seven fundamental components of IDW PS 980 and the practical information published by the IDW (German Institute of Certified Accountants).

The system covers the measures taken and structures and processes established to systematically identify, assess and monitor the tax compliance risks.

The tax risks identified, together with an assessment, a description of their implications for the areas of "financial loss", "financial statements" and "reputation", and the action taken to minimise the risk, have been entered in a risk control matrix. The risk control matrix is reviewed every year and amended as necessary.

The tax compliance management system is part of our general internal control system.

Attitude to planning and structuring taxation

As a group, Munich Re aims to maximise profits from its business activities after all taxes and duties. The Group's organisation and structures supporting it are designed in such a way as to contribute to the success of the Group generally, and also from a tax perspective.

Locations outside Germany are chosen primarily on the basis of business considerations. We are represented through subsidiaries or branches in all of the world's main insurance hubs – for example in the USA, Canada, the UK, Switzerland and Singapore. Tax rates at the foreign insurance locations are mostly lower than in Germany. Regardless of this, we do not use tax havens (countries that the EU has classified as fiscally non-cooperative – EU black list) to reduce taxes.

Structures which we create have adequate economic substance. We do not enter into any transactions with the sole purpose to obtain a tax advantage.

In any event, there is full transparency both locally and in Germany vis-à-vis regulators and tax authorities, and we always act in conformity with all applicable laws.

Transactions with Group companies are at arm's length in accordance with OECD requirements. We do not use transfer pricing to deliberately shift value created to low tax jurisdictions.

Furthermore, the Munich Re Group does not support its clients in any way in evading their tax obligations.

Tax Reporting

Munich Re is subject to numerous obligations to publish or report tax information.

We calculate and publish information for the Group, including tax on earnings for German GAAP, IFRS and SII together with all tax information in the notes to the financial statements.

We meet all obligations to tax authorities worldwide in respect of tax returns and the country-by-country reporting for OECD purposes. We are committed to an open, transparent and respectful relationship with tax authorities to enable the taxation process to be smooth and efficient. If a tax situation is not clear, we actively seek contact with the tax authorities and voluntarily disclose relevant information.

We comply with the disclosure requirement for cross border tax arrangements (DAC 6), which has been in force in the EU since 1 July 2020, and have established governance processes in the Munich Re Group in this regard, trained employees and acquired a webbased tool for the electronic transmission of notifiable facts.

For our tax reporting, we set high standards for state-of-the-art IT support, the selection of qualified staff and advisers, and the quality of our processes. Tax items are continuously analysed and subjected to quality control to ensure that appropriate importance is attached to our tax obligations and risks in our published reports.

COVID-19

As a result of Covid - 19, a variety of tax relief measures were adopted in Germany in order to relieve the tax burden on companies affected by Covid - 19. We have not taken advantage of any of these tax relief measures in Germany.

4 International business relationships with Group companies

Munich Re's integrated business model and its global presence in all important insurance markets mean that many types of close service relationship are necessary, especially between Munich Reinsurance Company in Munich and the local subsidiaries and branches outside Germany. Munich Re ensures compliance both with the international guidelines and standards (in particular the OECD transfer pricing principles) and with the provisions of national tax law applicable to the business units concerned.

The structure of intra-Group business relationships is based primarily on business and regulatory necessity. We always ensure that all parties to a contract have both sufficient entrepreneurial substance and adequate human resources.

In all such transactions, appropriate and proper transfer prices are used, i.e. based on internationally recognised arm's length principles. Munich Re thereby meets the requirement under actions 8-10 of the BEPS project of OECD and the G20 to align taxation of company profits with entrepreneurial value creation. We do not use transfer pricing to deliberately shift value created to low tax jurisdictions.

The practical application of the principles mentioned is also supported in particular by internal transferpricing guidelines, which lay down binding rules for all significant business relationships.

Munich Re addresses the legal uncertainties inherent in the transfer pricing by fulfilling all documentation requirements comprehensively and promptly. This does not just relate to the individual obligations at the subsidiaries and branches concerned ("local files"). The legal obligation applying to the Group as a whole to produce a country-by-country report and documentation of basic data ("master file") is also fulfilled centrally by the Group's tax department.

Munich Re proactively contacts the tax authorities without delay if it is apparent that there could be considerable scope for interpretation of the application of the arm's length principle to particularly large or very unusual business relationships. In individual cases, unilateral or bilateral advance pricing agreements are sought in order to resolve as far as possible anticipated disputes between countries on the distribution of the taxation substrata. The duties to cooperate are largely fulfilled centrally.

5 Our worldwide contribution to tax revenues

The following overview shows the IFRS pretax results, income taxes, effective tax rates, country-specific income tax rates and taxes paid as well as the number of employees at our most important insurance locations and in the Munich Re Group for 2020. The total amount of the pre-tax result and income taxes can be reconciled with our IFRS consolidated financial statements.

Country	Profit before taxes* (Mio.€)"	Income taxes (current and deferred) (Mio.€)"	Effective tax**	Corporate income tax rate	Income taxes paid (Mio.€)"	Number of employees
Germany	1,286	-314	24.4%	30.0%	-371	18,636
United Kingdom	-175	46	26.2%	19.0%	18	2,106
Switzerland	61	-36	58.5%	21.2%	-18	119
Europe (other)***	483	-96	19.8%	N/A	-127	11,894
North America	-321	110	34.4%	N/A	53	5,411
Asia	120	26	-21.6%	N/A	-5	1,062
Other***	26	-6	24.0%	N/A	-3	284
Total	1,480	-269	18.2%	N/A	-453	39,512

Sign convention: - Loss/Tax expense; + Profit/Tax income

* IFRS Profit before income taxes based on consolidated figures (after intercompany benefit/expense elimination)

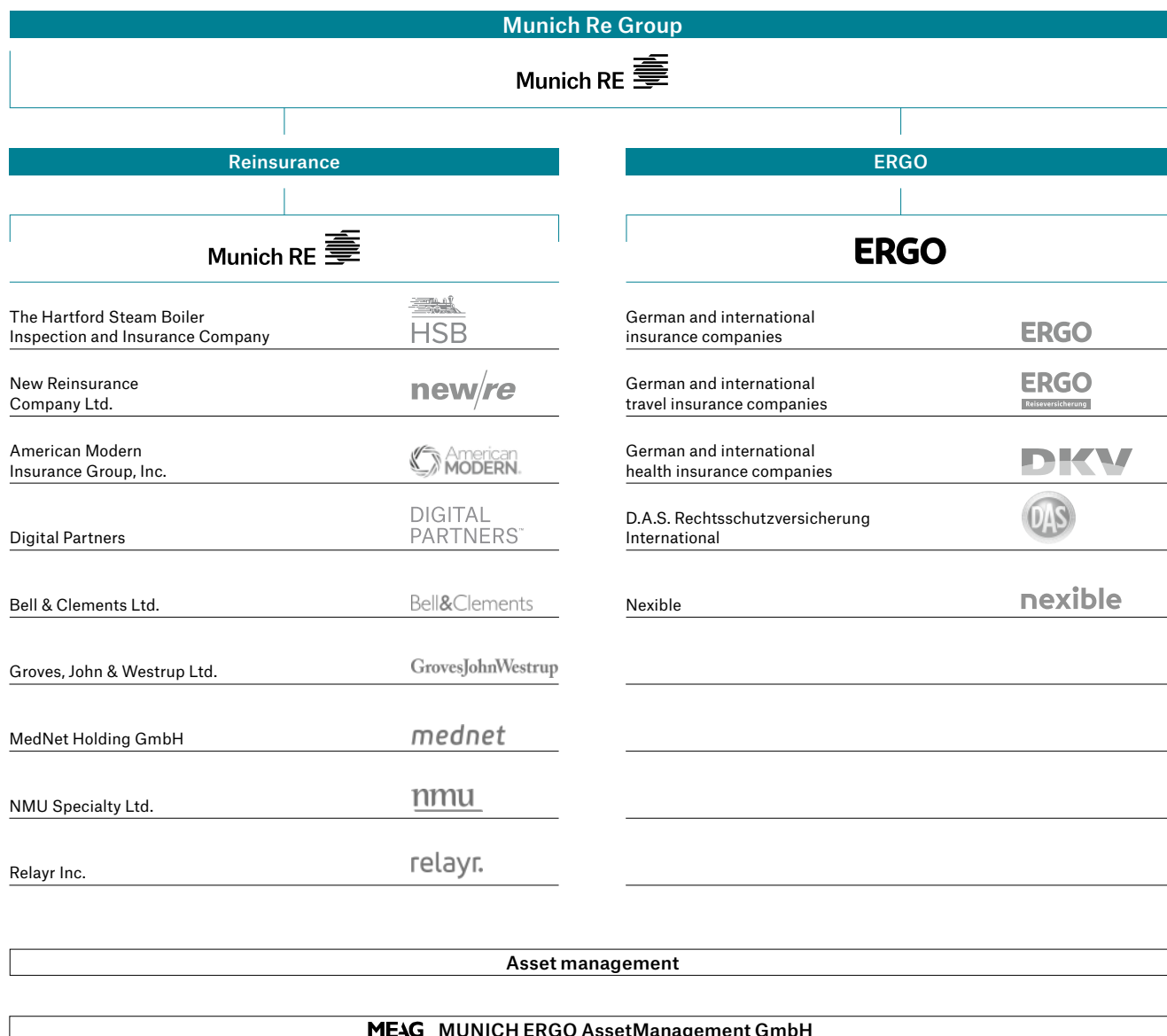
** The effective tax rate is calculated by dividing income taxes by the IFRS profit before taxes

*** Other does not include any country where either profit before tax, income taxes or income taxes paid amount to > 10% of the respective total sum

Worldwide, a total of €269m income taxes was incurred on our pretax profit of €1,480m, corresponding to a Group tax rate of 18.2%. Taxes paid worldwide amounted to € 453 million. The difference between the income taxes paid and those reported in the annual report is due to the accounting of deferred taxes and the provision for uncertain tax positions in accordance with IFRIC 23.

In addition to income taxes, we pay indirect taxes in a significant scale. The Munich Re Group companies based in Germany paid approximately €416 million in payroll taxes for their employees in 2020. The ERGO Group companies based in Germany paid domestic insurance premium tax of € 619 million and foreign insurance premium tax of € 24 million for their policyholders in 2020.

6 Munich Re Group overview





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Picture credits: Munich Re/Marcus Buck

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