

Munich Re Tax Transparency Report 2018

English

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 adheres to applicable tax 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. We have some 12,000 staff working in reinsurance, who possess unique global and local knowledge.

ERGO

Munich Re's primary insurance operations are concentrated mainly in ERGO. World-wide, the Group is represented in over 30 countries with a focus on Europe and Asia. ERGO provides a comprehensive range of insurances, pension products and services. ERGO Versicherung AG is one of Germany's largest providers of property and legal protection insurance. Around 40,000 people work for the Group, either as salaried employees or as full-time self-employed sales representatives.

Asset management

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

3. Tax strategy 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 law-abiding, 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 (Group) Tax Compliance 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.

Those components include requirements for

1. Tax compliance culture
2. Tax compliance objectives
3. Tax compliance organisation
4. Tax compliance risks
5. Tax compliance programme
6. Tax compliance communication
7. Tax compliance monitoring

The Policy applies 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.

The policy on tax compliance sets out clear rules and responsibilities for tax management throughout the Group.

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 mentioned in the policy 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, the UK, Switzerland and Singapore. Tax rates at the foreign insurance locations are mostly lower than in Germany.

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.

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.

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.

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 transferpricing 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.

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

Taxes payable on earnings in the MR Group for 2018 are presented in our Group Annual Report. Worldwide, a total of €576m was payable on our pretax profit of €2,851m, corresponding to a Group tax rate of 20.2%.

Taxes on income in the amount of 576 Mio. € are distributed among individual countries as follows:

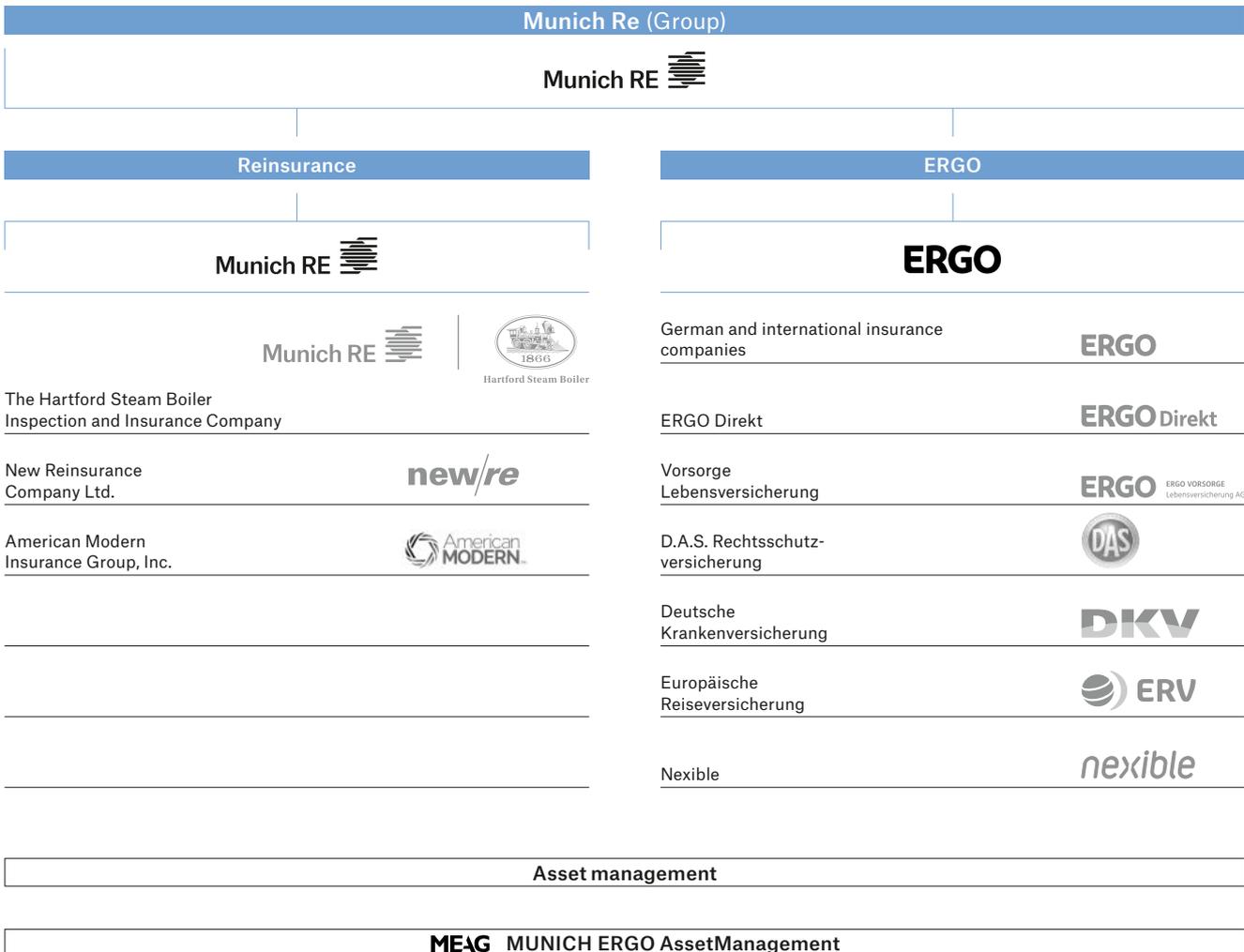
Tax Expenses/income per country

€m	2018
Germany	-213
United Kingdom	-53
Europe (rest)	-122
USA	-114
Canada	-47
Asia	-20
Other	-7
Taxes on Income	-576

In addition to income taxes, we pay indirect taxes in a significant scale, e.g. wage tax and insurance premium tax.

5. Munich Re (Group) overview

Our brands



The overview does not show all companies of the Group or give a precise representation. In the ERGO field of business, brands are shown as at 31 December 2018. In the course of 2019, ERGO will bring ERGO Direkt, ERGO Vorsorge and ERV under the ERGO brand.

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