Half-Year Financial Report
Munich Re

2/2018

WE DRIVE BUSINESS AS ONE

Munich RE

Key figures (IFRS)

Munich Re at a glance

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Consolidated result	€m	1,555	1,290	20.5	728	733	–0.6
Thereof attributable to non-controlling interests	€m	5	7	–21.7	5	3	36.2
Earnings per share	€	10.34	8.26	25.2	4.84	4.71	2.8
Return on risk-adjusted capital (RORAC)	%	12.4	9.7		11.6	11.0	
Return on investment (RoI)	%	3.1	3.4		3.1	3.2	
Return on equity (RoE)	%	11.3	8.2		10.8	9.4	

		30.6.2018	31.12.2017	Change
				%
Carrying amount per share	€	179.28	185.19	–3.2
Munich Reinsurance Company's market capitalisation	€bn	27.1	28.0	–3.4
Share price	€	181.05	180.75	0.2
Equity	€m	26,899	28,198	–4.6
Investments	€m	217,546	217,562	0.0
Insurance-related investments	€m	9,372	9,664	–3.0
Net technical provisions	€m	208,249	205,754	1.2
Balance sheet total	€m	268,847	265,722	1.2
Number of staff		41,939	42,410	–1.1

Reinsurance

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Gross premiums written	€m	15,115	15,705	–3.8	6,932	7,659	–9.5
Combined ratio property-casualty	%	95.5	95.5		102.0	93.9	
Investment result	€m	1,410	1,410	0.1	798	718	11.2
Consolidated result	€m	1,370	1,095	25.1	620	629	–1.4
Thereof: Reinsurance – Life and health	€m	444	237	87.3	285	112	155.6
Thereof: Reinsurance – Property-casualty	€m	925	858	7.9	335	517	–35.3

ERGO

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Gross premiums written	€m	9,199	9,020	2.0	4,256	4,141	2.8
Combined ratio Property-casualty Germany	%	95.6	95.8		90.3	92.7	
Combined ratio International	%	95.4	97.5		95.6	98.7	
Investment result	€m	2,144	2,630	–18.5	960	1,171	–18.0
Consolidated result	€m	185	195	–4.9	108	104	4.2
Thereof: Life and Health Germany	€m	21	113	–81.1	–15	50	–
Thereof: Property-casualty Germany	€m	57	61	–5.7	57	48	17.9
Thereof: International	€m	107	22	392.6	66	5	>1,000.0

Contents

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Interim management report

Business environment

The US Federal Reserve continued with its slow monetary tightening by raising the policy rate twice in the first six months of 2018. At the end of June, the target corridor for the US policy rate was 1.75–2.0%. In addition, the Fed was no longer fully reinvesting maturing securities purchased previously. By contrast, the European Central Bank pursued its expansive monetary policy. It left its policy rate at 0%, and continued its bond-buying programme. However, in January the ECB reduced the monthly volume of its asset purchases. In June, it announced that the volume of purchases would be cut by half in September, and that the programme would end in December 2018.

Yields on ten-year government bonds in the USA rose significantly at the start of the year, but then stagnated at a historically moderate level – despite strong economic growth, higher inflation and monetary tightening. In Europe, however, the low-interest-rate environment continued to pose great challenges for investors. Yields on ten-year government bonds in Germany rose noticeably in January, but then fell back to a very low level in the further course of the first half-year. One reason for the drop in yields was concern about the financial policies of the new government in Italy, which led to increased demand for German government bonds perceived as safe. The yield difference between Italian and German government bonds widened appreciably. ↗

Yields on ten-year government bonds

%	30.6.2018	31.12.2017
USA	2.9	2.4
Germany	0.3	0.4

Volatility increased significantly in international equity markets at the start of the year. Important equity indices, such as the US Dow Jones, the DJ EuroStoxx 50, the German DAX and the Japanese Nikkei, saw heavy price losses in February. After a recovery, share prices fell further in Q2. The drawn-out process of building a government in Italy and escalation of the conflict between the USA and its trading partners spawned further uncertainty. At the end of June, the indices were somewhat lower than at the end of 2017.

Equity markets

	30.6.2018	31.12.2017
DJ EuroStoxx 50	3,396	3,504
Dow Jones Index	24,271	24,719

In the first six months of 2018, there were strong fluctuations in the euro-US dollar exchange rate. It rose to US$ 1.25 at the start of the year, and then fell significantly in Q2. At the end of June, euro exchange rates against the US dollar, the Japanese yen and the pound sterling were lower than at year-end 2017, but higher against the Australian dollar and the Canadian dollar. In Q2, the average value of the euro against all important currencies was much higher year on year.

Currency translation rates

Rate for €1	30.6.2018	31.12.2017	Q2 2018	Q2 2017
Australian dollar	1.580	1.535	1.575	1.466
Canadian dollar	1.536	1.505	1.539	1.480
Pound sterling	0.884	0.888	0.876	0.860
US dollar	1.168	1.201	1.192	1.101
Yen	129.324	135.270	130.046	122.321

Business performance of the Group and overview of investment performance

Key figures[1]

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Gross premiums written	€m	24,313	24,725	–1.7	11,188	11,800	–5.2
Technical result	€m	1,589	1,402	13.4	569	740	–23.0
Investment result	€m	3,554	4,040	–12.0	1,759	1,889	–6.9
Insurance-related investment result	€m	–152	168	–	85	12	596.1
Operating result	€m	2,281	2,108	8.2	997	1,156	–13.7
Taxes on income	€m	–280	–295	5.3	–68	–108	37.0
Return on risk-adjusted capital (RORAC)[2]	%	12.4	9.7		11.6	11.0	
Return on equity (RoE)[3]	%	11.3	8.2		10.8	9.4	
Consolidated result	€m	1,555	1,290	20.5	728	733	–0.6
					30.6.2018	31.12.2017	Change
					€bn	€bn	%
Equity					26.9	28.2	–4.6

1 Previous year's figures adjusted owing to IAS 8.
2 RORAC is a mixture of accounting ratios and economic indicators. A conversion to IFRS figures is therefore not possible. Further information on RORAC is provided on page 51 of our Annual Report 2017.
3 The RoE is calculated on the basis of the consolidated result, including the result attributable to non-controlling interests. To calculate average equity capital for the first six months of 2018, we take the values as at 31 December 2017 (€28.2bn), 31 March 2018 (€27.2bn) and 30 June 2018 (€26.9bn).

Munich Re's consolidated result for the first half of 2018 was gratifying, mainly owing to especially low major-loss expenditure in Q1. By contrast, expenditure for major losses was slightly above average in Q2.

In the first six months of 2018, our premium income decreased by 1.7% year on year owing to currency translation effects – despite strong organic growth, especially in property-casualty reinsurance. In Q2, a large-volume treaty in the life and health reinsurance segment was given a new reinsurance structure that took retroactive effect as at the beginning of the year. The impact on premium in the first half of the year was approximately –€0.9bn. The treaty's contribution to the result remained largely unaffected by the new structure.

The remeasurement of balance-sheet items in foreign currencies at period-end exchange rates led to a currency result of –€28m (–219m) in the first half-year, which is recognised in the other non-operating result.

The effective tax rate of 15.2% (18.6%) for the first half-year and 8.5% (12.8%) for Q2 was unusually low. This was due to a positive contribution from prior-year taxes.

At the reporting date, Group equity was below the level at the beginning of the year – despite the high consolidated profit – mainly owing to the decrease in valuation reserves on our shares and fixed-interest securities and the dividend payout in April. In June, we bought back a subordinated bond with a total volume of £300m. This resulted in a reduction in our debt leverage[1] to 9.4% (10.0%), which is relatively low compared with that of our competitors. Moreover, in the first half of the year we repurchased a total of 2.3 million Munich Re shares with a volume of €0.4bn as part of our share buy-back programme.

The share buy-back programme announced in March 2017 with a volume of €1bn was concluded as planned on 6 April 2018. In March 2018, the Board of Management launched another share buy-back programme. On the basis of the authorisation granted by the Annual General Meeting on 25 April 2018, we will again buy back own shares for a maximum purchase price of €1bn in the period between 26 April 2018 and, at the latest, the Annual General Meeting on 30 April 2019.

1 Information on debt leverage is provided on p. 64 of our 2017 Annual Report.

Investment mix

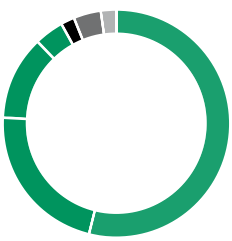
	Carrying amounts		Unrealised gains/losses[1]		Fair values	
€m	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
Land and buildings, including buildings on third-party land	5,486	5,121	2,809	2,744	8,295	7,865
Investments in affiliated companies, associates and joint ventures	2,413	2,216	951	959	3,197	3,008
Loans	54,720	54,702	10,011	10,788	64,732	65,490
Other securities available for sale	141,753	143,845	8,586	10,883	141,753	143,845
Thereof: Fixed-interest	124,959	126,486	5,955	7,622	124,959	126,486
Thereof: Non-fixed-interest	16,795	17,359	2,632	3,261	16,795	17,359
Other securities at fair value through profit or loss	2,353	1,979	0	0	2,353	1,979
Thereof: Derivatives	1,903	1,538	0	0	1,903	1,538
Deposits retained on assumed reinsurance	6,203	5,690	0	0	6,203	5,690
Other investments	4,616	4,009	0	0	4,616	4,009
Total	**217,546**	**217,562**	**22,357**	**25,374**	**231,150**	**231,885**

1 Including on- and off-balance-sheet unrealised gains and losses.

In the first half of the year, the carrying amount of our investment portfolio was nearly unchanged. Increased risk spreads and US interest rates were offset by the development of exchange rates and the increase in deposits retained on assumed reinsurance and bank deposits. Our portfolio continues to be dominated by fixed-interest securities and loans.

Fixed-interest portfolio by economic category[1]

Total: €198bn (199bn)



Government bonds[2]	54% (54%)
Thereof: Inflation-linked bonds	7% (8%)
Pfandbriefs/Covered bonds	22% (23%)
Corporate bonds	12% (11%)
Cash positions/other	4% (4%)
Bank bonds	2% (2%)
Policy and mortgage loans	4% (3%)
Structured products (credit structures)	2% (2%)

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

We increased our investments in corporate bonds, but reduced our portfolio of government bonds. At the reporting date, 54% of our fixed-interest portfolio was invested in government bonds. In the first half of 2018, new investments were mainly made in Portuguese government bonds. Reductions focused on our holdings of bonds from US, UK and German issuers. The vast majority of our government bonds continue to come from countries with a particularly high credit rating. Our investment in bank bonds is limited and at the reporting date amounted to 2% (2%) of our portfolio of fixed-interest securities. Corporate bonds from other sectors amounted to 12% (11%). Our credit exposure was increased by a further percentage point through derivatives.

The carrying amount of our equity portfolio saw a decrease. The proportion of investments in equities declined to 7.1% (7.3%). Including derivatives, the proportion of investments in equities was 6.2% (6.7%). To protect ourselves against accelerating inflation, we held inflation-linked bonds in the amount (at fair value) of €7.6bn (8.5bn). Real assets like shares, property, commodities, and investments in infrastructure and renewable energies also serve as protection against inflation. Additionally, our investments in real assets have a positive diversification effect on the overall portfolio. In the first half of the year, we invested in real estate in Munich and Washington, D.C.

Investment result[1]

	Q1-2 2018	Return[2]	Q1-2 2017	Return[2]	Q2 2018	Q2 2017
	€m	%	€m	%	€m	€m
Regular income	3,329	2.9	3,354	2.8	1,836	1,720
Write-ups/write-downs of non-derivative investments	–256	–0.2	–76	–0.1	–140	–49
Gains/losses on the disposal of non-derivative investments	866	0.7	1,480	1.3	282	432
Net balance of derivatives	–70	–0.1	–449	–0.4	–53	–87
Other income/expenses	–314	–0.3	–270	–0.2	–165	–127
Total	**3,554**	**3.1**	**4,040**	**3.4**	**1,759**	**1,889**

1 The investment result by type of investment can be found on page 41 of the notes to the consolidated financial statements.
2 Annualised return in % p.a. on the average fair value of the investment portfolio at the quarterly reporting dates. The investment portfolio used to determine the annualised return (3.1%) for the first six months is calculated as the mean value of the investment portfolios (carrying amounts) as at 31 December 2017 (€217,562m), 31 March 2018 (€216,201m) and 30 June 2018 (€217,546m), and the off-balance-sheet unrealised gains and losses (excluding owner-occupied property and insurance-based loans) as at 31 December 2017 (€14,323m), 31 March 2018 (€13,580m) and 30 June 2018 (€13,604m).

Regular income in the first half of 2018 was nearly at the same level as in the first six months of 2017. In Q2, we achieved higher regular income year on year, mainly on account of higher dividend income in reinsurance. For the period from April to June, the reinvestment yield on our fixed-interest investments averaged 2.3% (1.8%).

Munich Re posted significantly higher net write-downs on non-derivative investments in the first half of the year and in Q2 compared with the same period last year; these mainly concerned our equity portfolio. In Q2, the write-downs necessary on our portfolio of fixed-interest securities were not material.

In the first half of the year and in Q2, the result from the disposal of non-derivative investments was lower than in the same period last year. This was attributable to the significant decline in the ERGO Life and Health segment, where higher gains on disposals had been achieved in the previous year to finance the additional interest reserve. In Q2, our net gains on the disposal of non-derivative investments were also lower than in the same period last year, declining by €151m. The decrease was mainly attributable to lower gains from non-fixed-interest securities.

At –€70m, the net balance of derivatives for the first half-year improved significantly. A favourable effect on the result derived mainly from the positive result from equity and commodity derivatives. In Q2, the net balance of derivatives was also somewhat better than in the same period last year.

Business performance

Reinsurance – Life and health

Key figures

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Gross premiums written	€m	5,174	6,924	–25.3	2,309	3,436	–32.8
Share of gross premiums written in reinsurance	%	34.2	44.1		33.3	44.9	
Technical result, including the result from reinsurance treaties without significant risk transfer	€m	331	234	41.4	176	77	129.7
Investment result	€m	510	453	12.7	302	231	30.8
Operating result	€m	545	368	48.0	323	176	83.7
Consolidated result	€m	444	237	87.3	285	112	155.6

Premium

We write the majority of our business in non-euro currencies (around 85%). Exchange-rate fluctuations therefore have a significant impact on premium development. If exchange rates had remained unchanged, our gross premiums written would have shown a year-on-year decrease of 19.2% for the first six months and 28.8% for the second quarter. The decrease was chiefly attributable to the expected termination of a large-volume treaty at the end of last year. In addition, there was a change to the reinsurance structure of another large-volume treaty during the first six months that retroactively took effect as of the beginning of the year. The treaty's contribution to the result remained largely unaffected by this change.

Result

At €296m (209m), the technical result for the first six months was at a very good level, with an almost equal split between the two quarters. The good result was mainly attributable to overall positive loss experience in most of our key markets, especially in the USA. Moreover, there was a positive one-off effect in the first quarter from the recapture of a treaty in Europe.

The result from the part of the business that is not posted in the technical result as a consequence of non-significant risk transfer continued to develop in a very satisfying manner in the first six months of 2018, and at €36m (26m) surpassed the level of the same period last year due to business growth.

The investment result for the first half-year and second quarter of 2018 was higher overall than the previous year's figures. This is attributable in particular to higher gains on the disposal of fixed-interest securities.

Reinsurance – Property-casualty

Key figures

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Gross premiums written	€m	9,940	8,781	13.2	4,623	4,223	9.5
Share of gross premiums written in reinsurance	%	65.8	55.9		66.7	55.1	
Loss ratio	%	62.0	62.5		69.0	60.4	
Thereof: Major losses	Percentage points	7.5	7.8		13.3	6.0	
Expense ratio	%	33.5	33.0		33.0	33.5	
Combined ratio	%	95.5	95.5		102.0	93.9	
Technical result	€m	933	925	0.9	184	537	–65.8
Investment result	€m	900	957	–5.9	496	487	1.9
Operating result	€m	1,215	1,211	0.4	378	720	–47.5
Consolidated result	€m	925	858	7.9	335	517	–35.3

Premium

In this segment, gross premiums written largely benefited from the conclusion of new large-volume treaties. Negative exchange-rate effects had an adverse impact. If exchange rates had remained unchanged, premium income would have seen a year-on-year increase of 22.7% for the first six months and 16.8% for the second quarter.

Reinsurance prices increased in the renewals as at 1 January 2018, particularly in the markets affected by natural catastrophes. Other markets and branches were also freed from the pricing pressures of previous years, and price development was stable or slightly positive. Despite the high losses from natural catastrophes in 2017, the supply of reinsurance capital remained high during the January 2018 renewals. Price increases were therefore only moderate overall, also against the background of slightly rising market interest rates. With a premium volume of about €8.3bn, about half of our non-life reinsurance business was up for renewal. The price level, which is an indicator of business profitability, increased by about 0.8%. As a result of the slightly positive price development and new business written, premium volume saw a 19% increase to around €9.9bn.

The renewals at 1 April 2018 involved a relatively small volume of business totalling around €1.4bn, or some 8% of the overall portfolio in the property-casualty reinsurance segment. Approximately 12% of this business was attributable to North America, a further 15% to the Japanese market, and about 40% to Europe. Natural catastrophe business accounted for a significant share – around a quarter – of the business up for renewal. The trend that had begun to be observed in January continued, with prices increasing in the markets affected by natural catastrophes, but otherwise remaining stable given the still-high capacity levels in the markets. Overall, prices increased by 0.8% in the April renewals. Premium volume rose by 8.1% to around €1.6bn. Select opportunities were taken advantage of in some markets – for instance, in India and Japan.

Result

The technical result in the property-casualty reinsurance segment remained largely stable year on year.

In the period from January to June, we posted overall major-loss expenditure of €667m (656m), of which €605m (253m) was attributable to the second quarter, in each case after retrocessions and before tax. This amount includes run-off profits and losses for major claims from previous years, and is equivalent to 7.5% (first half-year) and 13.3% (second quarter) of net earned premium. As was the case in the previous year, the half-year figure thus remained below our major-loss expectation of 12% of net earned premium.

Claims costs from natural catastrophes amounted to €55m (221m) for the first half of the year and €104m (66m) for the second quarter. The largest loss in Q2 was a severe thunderstorm in the USA in June, for which we anticipate expenditure of around €55m.

Man-made losses amounted to €613m (434m) for the first six months and €501m (187m) for the second quarter, including a loss for a hydroelectric power station in Colombia.

In addition to the comprehensive reassessment of provisions for basic losses that we carry out primarily towards the end of the year, we also perform detailed analyses of the claims notifications we receive every quarter. As claims notifications continued to remain appreciably below the expected level, we made reserve releases (after adjustments for commissions) of around €200m in the second quarter, which is equivalent to 4.4% of net earned premiums. We still aim to set the amount of provisions for newly emerging claims at the top end of the estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

The combined ratio amounted to 95.5% (95.5%) of net earned premiums for the first six months of the year and 102.0% (93.9%) for the second quarter. Thus the figure for the first half-year is at a good level, and well on track to meet our target of around 97% for the full year 2018. ↗

As a result of higher write-downs on our equity portfolio and on our portfolio of physical gold – where we had posted write-ups just the previous year – the investment result in the first half-year diminished somewhat. At €496m, the investment result in Q2 is at the previous-year level.

ERGO Life and Health Germany

Key figures

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Total premium income[1]	€m	4,985	4,957	0.5	2,523	2,482	1.7
Gross premiums written	€m	4,633	4,568	1.4	2,312	2,244	3.0
Share of gross premiums written by ERGO	%	50.4	50.6		54.3	54.2	
Technical result	€m	158	155	2.0	67	85	–20.8
Investment result	€m	1,857	2,356	–21.2	807	1,020	–20.9
Operating result	€m	218	329	–33.8	67	156	–57.2
Consolidated result	€m	21	113	–81.1	–15	50	–

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

The slight increase in overall premium income and gross premiums written was due to the Health Germany segment and German direct business, whereas premium income in German life business fell in the first half-year.

In the Life Germany segment, total premium income saw a decline of 2.4% to €1,700m (1,743m) for the first six months, of which €891m (881m) related to Q2 (+1.1%). Gross premiums written were down by 0.7% to €1,362m (1,371m) for the first six months, and amounted to €686m (650m) in Q2. The slight decrease in the first half-year was attributable in particular to lower regular premium income owing to the planned portfolio reduction. This decline could not be compensated for by new business, which has been affected by the discontinuation of bancassurance. Regular-premium new business fell by 5.9% to €82m (87m), and single-premium new business declined by 1.0% to €234m (236m).

Gross premiums written in the Health Germany segment totalled €2,736m (2,681m) in the first half of 2018 (+2.1%) and €1,361m (1,342m) in Q2 (+1.5%). Premium income in supplementary health insurance saw growth of 2.9%, whilst in comprehensive health insurance it remained roughly at the same level (–0.6%) year on year. The development in comprehensive health business was partly attributable to a reduced portfolio. Growth in supplementary insurance benefited from the performance of business not similar to life insurance. Travel insurance, which we write in Germany and abroad, also contributed to the increase in premium volume.

Total premium income for direct business in Germany rose by 2.7% year on year to €549m (534m) for the period from January to June, with Q2 accounting for an increase of 4.6% to €271m (259m). Gross premiums written moved up 3.7% to €535m (516m) in the first half-year and 4.6% to €265m (253m) in Q2. In the first half-year, this increase was due in particular to growth in health insurance (+9.6%) – primarily in supplementary dental insurance. Premium income in property-casualty business was also up (+4.8%). By contrast, overall premium income in life insurance business was down 6.2% year on year and, in terms of annual premium equivalent (regular premium income plus one-tenth of single-premium volume), new business volume was down 3.9% year on year at €14m (15m).

Result

The technical result generated by the ERGO Life and Health Germany segment was slightly up in the first half-year and down in Q2 of 2018 compared with the same periods last year. Improvements in the Life Germany and Health Germany segments more than offset the decline in the Direct Germany segment in the first half-year.

The investment result fell year on year both for the first half-year and second quarter, chiefly owing to much lower gains from disposals. To finance the additional interest reserve (ZZR – to be built up only in single-entity financial statements under German GAAP), we realised lower gains on the disposal of investments compared with the first half-year 2017.

ERGO Property-casualty Germany

Key figures

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Gross premiums written	€m	1,947	1,897	2.6	681	657	3.7
Share of gross premiums written by ERGO	%	21.2	21.0		16.0	15.9	
Loss ratio	%	62.3	61.7		59.3	60.2	
Expense ratio	%	33.3	34.1		31.0	32.5	
Combined ratio	%	95.6	95.8		90.3	92.7	
Technical result	€m	92	90	2.0	98	74	31.9
Investment result	€m	77	98	–21.8	40	50	–18.8
Operating result	€m	139	143	–3.1	125	99	26.1
Consolidated result	€m	57	61	–5.7	57	48	17.9

Premium

Gross premiums written developed positively year on year compared with the first half-year and second quarter of 2017. The increase in the first six months of 2018 benefited in particular from growth in fire and property insurance (+6.6%) and in liability insurance (+3.4%). We also posted growth in gross premiums written in other classes of business (+4.2%), including UK title insurance and engineering insurance, legal protection insurance (+2.3%) and motor business (+1.4%). By contrast, in personal accident insurance, we recorded lower premiums written (–1.6%) compared with the same period last year.

Result

Year on year, the technical result generated by the ERGO Property-casualty Germany segment was higher in the first half-year and in Q2. In Q1 2018, natural catastrophe losses, particularly those from Winter Storm Friederike, had exceeded expectations. By contrast, expenditure for major natural catastrophe losses in Q2 was unremarkable. Beyond this, claims experience was positive in our core business.

In part owing to lower major-loss expenditure, in Q2 the combined ratio was 2.4 percentage points under the previous year's figure. The combined ratio for the first half-year 2018 was almost unchanged compared with the previous year's figure.

The investment result was down on that of the first half of 2017, chiefly on account of lower gains from the disposal of equities, a decline in regular income and an increase in write-downs. The investment result for Q2 was also down.

ERGO International

Key figures

		Q1–2 2018	Q1–2 2017	Change	Q2 2018	Q2 2017	Change
				%			%
Total premium income[1]	€m	2,759	2,707	1.9	1,330	1,308	1.7
Gross premiums written	€m	2,619	2,555	2.5	1,262	1,240	1.8
Share of gross premiums written by ERGO	%	28.5	28.3		29.7	29.9	
Loss ratio	%	64.5	66.4		63.9	67.5	
Expense ratio	%	30.9	31.1		31.7	31.2	
Combined ratio	%	95.4	97.5		95.6	98.7	
Technical result	€m	111	23	379.6	63	–22	–
Investment result	€m	211	176	20.0	113	102	10.6
Operating result	€m	164	57	187.3	105	5	>1,000.0
Consolidated result	€m	107	22	392.6	66	5	>1,000.0

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

Compared with the same periods last year, for the first six months and the second quarter alike we posted an overall increase in total premium income and gross premiums written, mainly owing to property-casualty business, and to life insurance for the second quarter. Adjusted to eliminate negative currency translation effects, gross premiums written in the ERGO International segment would have increased by 3.6% compared with the previous year.

In terms of gross premiums written, life insurance makes up around 17%, health business approximately 27% and property-casualty insurance around 56%. Our biggest markets include Poland, accounting for approximately 29%, Belgium (approx. 17%) and Spain (approx. 16%).

At €575m (584m), overall premium income from international life insurance business in the first half-year was down slightly (–1.5%) compared with the same period last year. This was due in particular to developments in Belgium, where we deliberately stopped taking out new business in the middle of 2017. By contrast, we posted growth of 4.4% to €289m (277m) in Q2, largely thanks to increased premium volume in Austria. Premiums shrank in health business, falling 3.5% to €707m (732m) from January to June, with Q2 accounting for €320m (322m). International property-casualty business saw a rise in premium income of 6.2% to €1,477m (1,391m) in the first six months and expanded to €721m (709m) in Q2. This significant increase was mainly attributable to Poland (+15.8%), our largest market.

Result

The technical result in the ERGO International segment improved significantly year on year both for the first half of 2018 and for the second quarter. The favourable development for the first half-year was partly attributable to price adjustments and quantitative growth in Polish property-casualty business, along with improvements in Belgian life insurance business.

The improved combined ratio for January to June was chiefly due to developments in Poland – on account of price adjustments – and in international legal protection business (–2.1 percentage points). The combined ratio also improved in international health business (–2.2 percentage points). In Q2 the combined ratio also improved compared with the same period last year.

The investment result for the period January to June and April to June was up on the same periods last year. The increase is mainly due to gains on the sale of D.A.S. Switzerland and a higher net balance of derivatives.

Prospects

Our predictions for the further development of our Group are based on planning figures, forecasts and expectations. Consequently, this 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. 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.

Outlook Munich Re (Group) 2018

		As at 30.6.2018	From Q1 2018	From Annual Report 2017
Gross premiums written	€bn	46–49	46–49	46–49
Technical result – Life and health reinsurance[1]	€m	at least 475	at least 475	at least 475
Combined ratio – Property-casualty reinsurance	%	97	97	99
Combined ratio – ERGO Property-casualty Germany	%	96	96	96
Combined ratio – ERGO Property-casualty International	%	96	97	97
Return on investment[2]	%	around 3	around 3	around 3
Consolidated result	€bn	2.1–2.5	2.1–2.5	2.1–2.5

1 Including the result from business with non-significant risk transfer.
2 Excluding insurance-related investments.

Compared with our forecasts made in the 2017 Annual Report and in the Quarterly Statement for Q1 2018, we anticipate the following developments after the first half-year 2018 with regard to these key figures relevant for Munich Re:

In the ERGO International segment, we can reduce our forecast for the combined ratio by one percentage point to 96% thanks to good performance in the first six months of 2018.

At 1 July 2018, a volume of around €2.3bn – or about 13% of the overall portfolio – was up for renewal in the property-casualty reinsurance segment. About 27% of this volume was from North America, 15% from Latin America, and another 14% from Australia. These renewals comprised a significant percentage of natural catastrophe business – around 21% of premium worldwide. The trend of the January and April renewals continued in this renewal round. Prices for reinsurance cover rose for loss-affected portfolios, particularly in Latin America (Caribbean). However, in the US market persistent supply pressure was responsible for prices not increasing to the extent originally expected. The other markets saw a continued stabilisation of reinsurance prices. Overall, prices were up by around 0.9%, without taking into account the positive effects of the rise in interest rates, especially in US dollars. In the previous year, there was price erosion of 0.4%. Premium volume climbed by 42% to around €3.3bn. The strong increase was chiefly attributable to an attractive large-volume treaty in Australia, and the profitable expansion of business with reinsurance quota share treaties in the USA.

We are still expecting Munich Re to generate a consolidated result in the order of €2.1–2.5bn.

Our good capitalisation enables us to continue taking selective advantage of opportunities for profitable growth in individual regions and classes of business. We will carry on returning excess capital to equity holders in future as well. We therefore intend to buy back own shares for a maximum purchase price of €1bn by the Annual General Meeting in April 2019.

In private health insurance, there are a number of ongoing legal disputes (some are already being appealed) that concern premium adjustments in recent years, including at the ERGO company DKV. As we are convinced that these premium adjustments are lawful, and as there have been no final-instance judgments thus far, we have not yet posted any provisions for this, but we cannot rule out that there will be expenditure in this regard in future. Beyond this, the statements relating to opportunities and risks as presented in the Munich Re Group Annual Report 2017 apply unchanged.

Condensed interim consolidated financial statements

Consolidated balance sheet
as at 30 June 2018

Assets

			30.6.2018	31.12.2017		Change
	€m	€m	€m	€m	€m	%
A. Intangible assets						
I. Goodwill		2,628		2,584	44	1.7
II. Other intangible assets		1,087		1,105	–18	–1.7
			3,715	**3,689**	**26**	**0.7**
B. Investments						
I. Land and buildings, including buildings on third-party land		5,486		5,121	365	7.1
II. Investments in affiliated companies, associates and joint ventures		2,413		2,216	197	8.9
Thereof: Associates and joint ventures accounted for using the equity method		2,194		2,010	184	9.1
III. Loans		54,720		54,702	19	0.0
IV. Other securities						
1. Available for sale	141,753			143,845	–2,091	–1.5
2. At fair value through profit or loss	2,353			1,979	374	18.9
		144,107		145,824	–1,717	–1.2
V. Deposits retained on assumed reinsurance		6,203		5,690	512	9.0
VI. Other investments		4,616		4,009	607	15.1
			217,546	**217,562**	**–16**	**0.0**
C. Insurance-related investments			**9,372**	**9,664**	**-291**	**-3.0**
D. Ceded share of technical provisions			**4,219**	**4,169**	**50**	**1.2**
E. Receivables						
I. Current tax receivables		460		440	20	4.6
II. Other receivables		16,453		13,385	3,068	22.9
			16,913	**13,825**	**3,089**	**22.3**
F. Cash at banks, cheques and cash in hand			**3,788**	**3,625**	**162**	**4.5**
G. Deferred acquisition costs						
Gross		9,668		9,563	104	1.1
Ceded share		–197		–135	–62	–46.0
Net			9,471	9,428	42	0.4
H. Deferred tax assets			**731**	**534**	**197**	**36.8**
I. Other assets			**2,972**	**3,107**	**-135**	**-4.4**
J. Assets held for sale			**120**	**118**	**3**	**2.2**
Total assets			**268,847**	**265,722**	**3,125**	**1.2**

Equity and liabilities

		30.6.2018	31.12.2017		Change
	€m	€m	€m	€m	%
A. Equity					
I. Issued capital and capital reserve	7,430		7,418	12	0.2
II. Retained earnings	13,706		15,036	–1,330	–8.8
III. Other reserves	4,025		5,183	–1,157	–22.3
IV. Consolidated result attributable to Munich Reinsurance Company equity holders	1,549		375	1,174	312.8
V. Non-controlling interests	188		186	2	1.0
		26,899	**28,198**	**–1,299**	**–4.6**
B. Subordinated liabilities		**2,458**	**2,790**	**–333**	**–11.9**
C. Gross technical provisions					
I. Unearned premiums	10,014		8,857	1,157	13.1
II. Provision for future policy benefits	110,368		108,956	1,412	1.3
III. Provision for outstanding claims	64,903		63,965	938	1.5
IV. Other technical provisions	18,408		19,174	–767	–4.0
		203,692	**200,952**	**2,740**	**1.4**
D. Gross technical provisions for unit-linked life insurance		**8,775**	**8,971**	**–196**	**–2.2**
E. Other provisions		**4,482**	**4,508**	**–26**	**–0.6**
F. Liabilities					
I. Bonds and notes issued	285		277	8	2.9
II. Deposits retained on ceded business	481		594	–113	–19.0
III. Current tax liabilities	2,315		2,439	–124	–5.1
IV. Other liabilities	17,973		15,471	2,502	16.2
		21,054	**18,781**	**2,273**	**12.1**
G. Deferred tax liabilities		**1,416**	**1,456**	**–40**	**–2.7**
H. Liabilities related to assets held for sale		**70**	**65**	**5**	**7.8**
Total equity and liabilities		**268,847**	**265,722**	**3,125**	**1.2**

Consolidated income statement[1]

1 January to 30 June 2018

Items

			Q1-2 2018	Q1-2 2017		Change
	€m	€m	€m	€m	€m	%
Gross premiums written	**24,313**			**24,725**	**-412**	**-1.7**
1. Earned premiums						
Gross	23,182			24,347	-1,165	-4.8
Ceded	-972			-734	-238	-32.5
Net		22,210		23,614	-1,403	-5.9
2. Income from technical interest		**2,652**		**3,411**	**-759**	**-22.2**
3. Expenses for claims and benefits						
Gross	-17,735			-20,094	2,359	11.7
Ceded	429			407	22	5.3
Net		-17,306		-19,686	2,380	12.1
4. Operating expenses						
Gross	-6,217			-6,097	-120	-2.0
Ceded	250			160	90	55.9
Net		-5,967		-5,937	-31	-0.5
5. Technical result (1–4)			**1,589**	**1,402**	**187**	**13.4**
6. Investment result		**3,554**		**4,040**	**-485**	**-12.0**
Thereof: Income from associates and joint ventures accounted for using the equity method		95		61	34	55.9
7. Insurance-related investment result		**-152**		**168**	**-320**	**–**
8. Other operating income		**350**		**357**	**-8**	**-2.1**
9. Other operating expenses		**-408**		**-448**	**39**	**8.8**
10. Deduction of income from technical interest		**-2,652**		**-3,411**	**759**	**22.2**
11. Non-technical result (6–10)			**692**	**707**	**-15**	**-2.2**
12. Operating result (5+11)			**2,281**	**2,108**	**172**	**8.2**
13. Other non-operating result			**-345**	**-417**	**72**	**17.3**
14. Impairment losses on goodwill			**0**	**0**	**0**	**–**
15. Net finance costs			**-101**	**-106**	**5**	**4.9**
16. Taxes on income			**-280**	**-295**	**16**	**5.3**
17. Consolidated result (12–16)			**1,555**	**1,290**	**265**	**20.5**
Thereof: Attributable to Munich Reinsurance Company equity holders			1,549	1,283	267	20.8
Attributable to non-controlling interests			5	7	-2	-21.7
			€	€	€	%
Earnings per share			**10.34**	**8.26**	**2.08**	**25.2**

1 Previous year's figures adjusted owing to IAS 8.

Consolidated income statement
1 April to 30 June 2018

Items

			Q2 2018	Q2 2017		Change
	€m	€m	€m	€m	€m	%
Gross premiums written	**11,188**			**11,800**	**-612**	**-5.2**
1. Earned premiums						
Gross	11,497			12,145	-649	-5.3
Ceded	-541			-374	-167	-44.5
Net		10,956		11,771	-815	-6.9
2. Income from technical interest		**1,410**		**1,442**	**-32**	**-2.2**
3. Expenses for claims and benefits						
Gross	-9,217			-9,796	580	5.9
Ceded	342			288	54	18.9
Net		-8,875		-9,509	634	6.7
4. Operating expenses						
Gross	-3,068			-3,056	-12	-0.4
Ceded	146			91	55	60.9
Net		-2,922		-2,965	43	1.4
5. Technical result (1–4)			**569**	**740**	**-170**	**-23.0**
6. Investment result		**1,759**		**1,889**	**-131**	**-6.9**
Thereof: Income from associates and joint ventures accounted for using the equity method		78		24	54	225.5
7. Insurance-related investment result		**85**		**12**	**73**	**596.1**
8. Other operating income		**187**		**171**	**16**	**9.6**
9. Other operating expenses		**-193**		**-213**	**21**	**9.8**
10. Deduction of income from technical interest		**-1,410**		**-1,442**	**32**	**2.2**
11. Non-technical result (6–10)			**428**	**417**	**12**	**2.8**
12. Operating result (5+11)			**997**	**1,156**	**-159**	**-13.7**
13. Other non-operating result			**-151**	**-264**	**113**	**42.7**
14. Impairment losses on goodwill			**0**	**0**	**0**	**-**
15. Net finance costs			**-50**	**-52**	**2**	**3.4**
16. Taxes on income			**-68**	**-108**	**40**	**37.0**
17. Consolidated result (12–16)			**728**	**733**	**-5**	**-0.6**
Thereof: Attributable to Munich Reinsurance Company equity holders			724	729	-6	-0.8
Attributable to non-controlling interests			5	3	1	36.2
			€	€	€	%
Earnings per share			**4.84**	**4.71**	**0.13**	**2.8**

Consolidated income statement
(quarterly breakdown)

Items

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
	€m	€m	€m	€m	€m	€m
Gross premiums written	**11,188**	**13,126**	**12,112**	**12,279**	**11,800**	**12,925**
1. Earned premiums						
Gross	11,497	11,685	12,229	12,115	12,145	12,202
Ceded	-541	-431	-377	-417	-374	-360
Net	10,956	11,254	11,852	11,698	11,771	11,842
2. Income from technical interest	**1,410**	**1,242**	**1,634**	**1,331**	**1,442**	**1,969**
3. Expenses for claims and benefits						
Gross	-9,217	-8,519	-9,989	-13,112	-9,796	-10,298
Ceded	342	87	242	899	288	120
Net	-8,875	-8,431	-9,746	-12,213	-9,509	-10,178
4. Operating expenses						
Gross	-3,068	-3,149	-3,445	-2,956	-3,056	-3,041
Ceded	146	104	70	82	91	70
Net	-2,922	-3,045	-3,375	-2,874	-2,965	-2,971
5. Technical result (1–4)	**569**	**1,020**	**364**	**-2,057**	**740**	**662**
6. Investment result	**1,759**	**1,796**	**1,982**	**1,589**	**1,889**	**2,151**
Thereof: Income from associates and joint ventures accounted for using the equity method	78	18	55	29	24	37
7. Insurance-related investment result	**85**	**-237**	**146**	**129**	**12**	**156**
8. Other operating income	**187**	**163**	**264**	**157**	**171**	**186**
9. Other operating expenses	**-193**	**-216**	**-258**	**-218**	**-213**	**-234**
10. Deduction of income from technical interest	**-1,410**	**-1,242**	**-1,634**	**-1,331**	**-1,442**	**-1,969**
11. Non-technical result (6–10)	**428**	**263**	**500**	**326**	**417**	**290**
12. Operating result (5+11)	**997**	**1,283**	**864**	**-1,732**	**1,156**	**952**
13. Other non-operating result	**-151**	**-194**	**-266**	**-243**	**-264**	**-153**
14. Impairment losses on goodwill	**0**	**0**	**-4**	**-6**	**0**	**0**
15. Net finance costs	**-50**	**-51**	**-52**	**-53**	**-52**	**-54**
16. Taxes on income	**-68**	**-212**	**-4**	**597**	**-108**	**-188**
17. Consolidated result (12–16)	**728**	**827**	**538**	**-1,436**	**733**	**557**
Thereof: Attributable to Munich Reinsurance Company equity holders	724	826	530	-1,438	729	554
Attributable to non-controlling interests	5	1	8	2	3	4
	€	€	€	€	€	€
Earnings per share	**4.84**	**5.49**	**3.49**	**-9.37**	**4.71**	**3.55**

Statement of recognised income and expense

1 January to 30 June 2018

€m		Q1–2 2018	Q1–2 2017
Consolidated result		**1,555**	**1,290**
Currency translation			
Gains (losses) recognised in equity	197		–1,069
Recognised in the consolidated income statement	0		0
Unrealised gains and losses on investments			
Gains (losses) recognised in equity	–916		311
Recognised in the consolidated income statement	–450		–309
Change resulting from equity method measurement			
Gains (losses) recognised in equity	12		19
Recognised in the consolidated income statement	0		0
Change resulting from cash flow hedges			
Gains (losses) recognised in equity	0		–1
Recognised in the consolidated income statement	0		0
Other changes	–1		3
I. Items where income and expenses recognised directly in equity are reallocated to the consolidated income statement	–1,159		–1,044
Remeasurements of defined benefit plans	9		8
Other changes	0		0
II. Items where income and expenses recognised directly in equity are not reallocated to the consolidated income statement	9		8
Income and expense recognised directly in equity (I + II)		**–1,150**	**–1,037**
Total recognised income and expense		**405**	**253**
Thereof:			
Attributable to Munich Reinsurance Company equity holders		402	249
Attributable to non-controlling interests		3	4

Statement of recognised income and expense
1 April to 30 June 2018

€m		Q2 2018	Q2 2017
Consolidated result		**728**	**733**
Currency translation			
Gains (losses) recognised in equity	510		-967
Recognised in the consolidated income statement	0		0
Unrealised gains and losses on investments			
Gains (losses) recognised in equity	-28		-68
Recognised in the consolidated income statement	-167		-151
Change resulting from equity method measurement			
Gains (losses) recognised in equity	-2		11
Recognised in the consolidated income statement	0		0
Change resulting from cash flow hedges			
Gains (losses) recognised in equity	0		0
Recognised in the consolidated income statement	0		0
Other changes	-1		1
I. Items where income and expenses recognised directly in equity are reallocated to the consolidated income statement	311		-1,174
Remeasurements of defined benefit plans	60		-6
Other changes	0		0
II. Items where income and expenses recognised directly in equity are not reallocated to the consolidated income statement	60		-6
Income and expense recognised directly in equity (I + II)		**372**	**-1,180**
Total recognised income and expense		**1,100**	**-447**
Thereof:			
Attributable to Munich Reinsurance Company equity holders		1,096	-447
Attributable to non-controlling interests		3	0

Group statement of changes in equity

€m	Issued capital	Capital reserve
Balance at 31.12.2016	**573**	**6,845**
Allocation to retained earnings	0	0
Consolidated result	0	0
Income and expense recognised directly in equity	0	0
Currency translation	0	0
Unrealised gains and losses on investments	0	0
Change resulting from equity measurement method	0	0
Change resulting from cash flow hedges	0	0
Remeasurements of defined benefit plans	0	0
Other changes	0	0
Total recognised income and expense	0	0
Change in shareholdings in subsidiaries	0	0
Change in consolidated group	0	0
Dividend	0	0
Purchase/sale of own shares	–10	0
Retirement of own shares	22	0
Balance at 30.6.2017	**585**	**6,845**
Balance at 31.12.2017	**573**	**6,845**
Allocation to retained earnings	0	0
Consolidated result	0	0
Income and expense recognised directly in equity	0	0
Currency translation	0	0
Unrealised gains and losses on investments	0	0
Change resulting from equity measurement method	0	0
Change resulting from cash flow hedges	0	0
Remeasurements of defined benefit plans	0	0
Other changes	0	0
Total recognised income and expense	0	0
Change in shareholdings in subsidiaries	0	0
Change in consolidated group	0	0
Dividend	0	0
Purchase/sale of own shares	–9	0
Retirement of own shares	21	0
Balance at 30.6.2018	**586**	**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	Treasury shares	Unrealised gains and losses	Currency translation reserve	Remeasurement gains/losses from cash flow hedges			
15,544	**–654**	**4,441**	**2,195**	**–8**	**2,580**	**269**	**31,785**
1,247	0	0	0	0	–1,247	0	0
0	0	0	0	0	1,283	7	1,290
–9	0	29	–1,065	11	0	–3	–1,037
0	0	0	–1,065	0	0	–4	–1,069
0	0	3	0	0	0	0	3
–19	0	26	0	12	0	0	19
0	0	0	0	–1	0	0	–1
7	0	0	0	0	0	1	8
3	0	0	0	0	0	0	3
–9	0	29	–1,065	11	1,283	4	253
–13	0	0	0	0	0	–81	–95
0	0	0	0	0	0	0	0
0	0	0	0	0	–1,333	0	–1,334
0	–461	0	0	0	0	0	–471
–1,002	980	0	0	0	0	0	0
15,767	**–135**	**4,470**	**1,130**	**3**	**1,283**	**192**	**30,139**
15,703	**–668**	**4,811**	**365**	**7**	**375**	**186**	**28,198**
–911	0	0	0	0	911	0	0
0	0	0	0	0	1,549	5	1,555
10	0	–1,360	197	6	0	–3	–1,150
0	0	0	197	0	0	–1	197
0	0	–1,363	0	0	0	–3	–1,366
3	0	3	0	6	0	0	12
0	0	0	0	0	0	0	0
8	0	0	0	0	0	1	9
–1	0	0	0	0	0	0	–1
10	0	–1,360	197	6	1,549	3	405
0	0	0	0	0	0	0	–1
0	0	0	0	0	0	0	0
0	0	0	0	0	–1,286	–1	–1,287
0	–408	0	0	0	0	0	–417
–1,000	979	0	0	0	0	0	0
13,803	**–97**	**3,450**	**562**	**13**	**1,549**	**188**	**26,899**

Condensed consolidated cash flow statement

1 January to 30 June 2018

€m	Q1–2 2018	Q1–2 2017
Consolidated result	**1,555**	**1,290**
Net change in technical provisions	2,739	2,488
Change in deferred acquisition costs	–60	192
Change in deposits retained and accounts receivable and payable	–1,103	–1,099
Change in other receivables and liabilities	–138	–509
Gains and losses on the disposal of investments	–845	–1,127
Change in securities at fair value through profit or loss	–429	123
Change in other balance sheet items	57	–58
Other non-cash income and expenses	454	288
I. Cash flows from operating activities	2,230	1,588
Change from losing control of consolidated subsidiaries	16	0
Change from obtaining control of consolidated subsidiaries	–4	–84
Change from the acquisition, sale and maturity of investments and insurance-related investments	–260	2,115
Change from the acquisition and sale of investments for unit-linked life insurance contracts	165	58
Other	32	81
II. Cash flows from investing activities	–51	2,170
Inflows from increases in capital and from non-controlling interests	0	0
Outflows to ownership interests and non-controlling interests	–418	–565
Dividend payments	–1,287	–1,334
Change from other financing activities	–335	–1,405
III. Cash flows from financing activities	–2,040	–3,304
Cash flows for the financial year (I + II + III)[1]	**139**	**454**
Effect of exchange-rate changes on cash and cash equivalents	39	–74
Cash at the beginning of the financial year	3,628	3,353
Cash at 30 June of the financial year	3,807	3,733
Thereof:		
Cash not attributable to disposal group	3,788	3,733
Cash attributable to disposal group	19	0

1 Cash mainly comprises cash at banks.

Selected notes to the consolidated financial statements

Recognition and measurement

This quarterly report as at 30 June 2018 has been prepared in accordance with International Financial Reporting Standards (IFRSs) as applicable in the European Union. The condensed interim consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting. We have complied with all new and amended IFRSs and IFRIC interpretations whose application is compulsory for Munich Re for the first time for periods beginning on 1 January 2018. For existing or unchanged IFRSs, the same principles of recognition, measurement, consolidation and disclosure have been applied as in our consolidated financial statements as at 31 December 2017 with the exception of the changes mentioned below. In accordance with the rules of IFRS 4, underwriting items are recognised and measured on the basis of US GAAP (United States Generally Accepted Accounting Principles) at first-time adoption of IFRS 4 on 1 January 2005.

As of the 2018 financial year, the following new or amended IFRSs have to be applied for the first time:

- IFRS 15 (5/2014), Revenue from Contracts with Customers
- Amendments to IFRS 2 (rev. 6/2016), Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 (rev. 9/2016), application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40 (rev. 12/2016), Transfers of Investment Property
- Amendments published as part of the "Annual Improvements to IFRSs 2014–2016 Cycle", (12/2016) Amendments to IFRS 1, First-time Adoption of IFRS, and IAS 28, Investments in Associates and Joint Ventures
- IFRIC 22 (12/2016), Foreign Currency Transactions and Advance Consideration

With the exception of the amendments to IFRS 4, these have little or no material effects on Munich Re.

The amendment to IFRS 4 gives insurance companies the possibility of postponing the first-time application of IFRS 9 until 2021, but requires evidence on the basis of the financial statements as at 31 December 2015 that most of the Group's activity is in insurance. Insurance business is considered "predominant" if at the time of measurement more than 90% of total liabilities were related to insurance business. As Munich Re has provided this evidence, we are making use of the option to postpone first-time application of IFRS 9.

In the segment balance sheet, the previous-year figures for intangible assets in the property-casualty reinsurance and life and health reinsurance segments were adjusted by €235m. This figure relates to an acquired portfolio that was transferred in 2016 to a Group company disclosed in the property-casualty reinsurance segment. As responsibility for managing the business affected rested and continues to rest with the life and health resinsurance segment, the portfolio is now disclosed in this segment and the previous year's figures have been adjusted accordingly.

Apollo Munich Health Insurance has been allocated to the ERGO Life and Health Germany segment in accordance with management responsibility. No adjustment to the previous-year figures pursuant to IFRS 8.29 has been made due to materiality reasons.

Changes in the consolidated group

In December 2017, ERGO Group AG reached an agreement with Allianz Group about the sale of its legal protection subsidiary, D.A.S. Switzerland. The transaction was concluded in Q2 and D.A.S Switzerland was deconsolidated.

Foreign currency translation

Munich Re's presentation currency is the euro (€). The exchange rates of the most important currencies for our business are shown in the "Business environment" section of the interim management report.

Segment reporting

In accordance with the management approach, the segmentation of our business operations is based on the way in which Munich Re is managed internally.

We have identified five segments to be reported:

- Life and health reinsurance (global life and health reinsurance business)
- Property-casualty reinsurance (global property-casualty reinsurance business)
- ERGO Life and Health Germany (German life and health primary insurance business, German direct property-casualty primary insurance business, and global travel insurance business)
- ERGO Property-casualty Germany (German property-casualty primary insurance business, excluding direct business)
- ERGO International (ERGO 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 segments.

The IFRS result contributions are the basis of planning and strategy in all segments, hence the IFRS segment result is the uniform assessment basis for internal control.

Income and expenses from intra-Group loans are shown unconsolidated under “Other non-operating result, impairment losses of goodwill and net finance costs” for the segments concerned. These are otherwise shown after elimination of intra-Group transactions and shareholdings.

Segment assets

	Reinsurance			
	Life and health		Property-casualty	
€m	30.6.2018	31.12.2017	30.6.2018	31.12.2017
A. Intangible assets[1]	**340**	**361**	**2,032**	**1,984**
B. Investments				
I. Land and buildings, including buildings on third-party land	334	309	1,909	1,532
II. Investments in affiliated companies, associates and joint ventures	44	44	1,413	1,225
Thereof: Associates and joint ventures accounted for using the equity method	27	28	1,334	1,164
III. Loans	172	176	667	745
IV. Other securities				
1. Available for sale	20,013	20,675	50,360	51,883
2. At fair value through profit or loss	128	75	597	378
	20,141	20,751	50,957	52,261
V. Deposits retained on assumed reinsurance	4,269	3,759	1,870	1,870
VI. Other investments	554	559	2,113	1,715
	25,514	**25,597**	**58,928**	**59,349**
C. Insurance-related investments	**743**	**754**	**144**	**104**
D. Ceded share of technical provisions	**692**	**735**	**2,772**	**2,727**
E. Assets held for sale	**74**	**0**	**0**	**0**
F. Other segment assets	**11,462**	**9,208**	**10,461**	**9,520**
Total segment assets	**38,825**	**36,655**	**74,338**	**73,684**

1 Previous year's figures adjusted owing to IAS 8; see "Recognition and measurement".

Segment equity and liabilities

	Reinsurance			
	Life and health		Property-casualty	
€m	30.6.2018	31.12.2017	30.6.2018	31.12.2017
A. Subordinated liabilities	**646**	**785**	**1,799**	**1,993**
B. Gross technical provisions				
I. Unearned premiums	289	295	6,764	6,034
II. Provision for future policy benefits	11,440	10,825	26	26
III. Provision for outstanding claims	8,925	8,694	45,720	45,004
IV. Other technical provisions	272	320	190	373
	20,927	**20,134**	**52,701**	**51,437**
C. Gross technical provisions for unit-linked life insurance contracts	**0**	**0**	**0**	**0**
D. Other provisions	**209**	**231**	**608**	**607**
E. Liabilities related to assets held for sale	**0**	**0**	**0**	**0**
F. Other segment liabilities	**8,259**	**6,842**	**7,667**	**7,480**
Total segment liabilities	**30,041**	**27,991**	**62,775**	**61,517**

						ERGO		Total
		Life and Health Germany		Property-casualty Germany		International		
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
	169	**168**	**978**	**961**	**197**	**215**	**3,715**	**3,689**
	2,926	2,961	199	200	117	119	5,486	5,121
	417	331	70	72	470	544	2,413	2,216
	370	282	24	24	439	513	2,194	2,010
	52,014	51,952	1,621	1,593	247	236	54,720	54,702
	51,469	51,727	4,660	4,409	15,251	15,151	141,753	143,845
	1,142	1,024	33	14	454	488	2,353	1,979
	52,611	52,751	4,693	4,423	15,705	15,638	144,107	145,824
	42	40	21	21	0	1	6,203	5,690
	1,486	1,093	292	435	171	207	4,616	4,009
	109,497	**109,129**	**6,896**	**6,743**	**16,710**	**16,745**	**217,546**	**217,562**
	5,241	**5,317**	**0**	**0**	**3,244**	**3,488**	**9,372**	**9,664**
	16	**15**	**79**	**78**	**659**	**615**	**4,219**	**4,169**
	14	**26**	**0**	**0**	**31**	**92**	**120**	**118**
	7,058	**7,124**	**1,563**	**1,429**	**3,331**	**3,239**	**33,875**	**30,520**
	121,995	**121,779**	**9,516**	**9,210**	**24,172**	**24,394**	**268,847**	**265,722**

						ERGO		Total
		Life and Health Germany		Property-casualty Germany		International		
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
	0	**0**	**0**	**0**	**13**	**13**	**2,458**	**2,790**
	263	214	785	468	1,912	1,846	10,014	8,857
	88,658	87,774	431	433	9,813	9,897	110,368	108,956
	2,824	2,935	4,526	4,483	2,907	2,849	64,903	63,965
	17,344	17,846	92	91	509	544	18,408	19,174
	109,089	**108,770**	**5,835**	**5,475**	**15,141**	**15,137**	**203,692**	**200,952**
	5,706	**5,809**	**0**	**0**	**3,069**	**3,162**	**8,775**	**8,971**
	1,705	**1,711**	**973**	**935**	**987**	**1,023**	**4,482**	**4,508**
	50	**3**	**0**	**0**	**20**	**63**	**70**	**65**
	4,502	**3,873**	**631**	**664**	**1,412**	**1,378**	**22,470**	**20,237**
	121,052	**120,166**	**7,439**	**7,074**	**20,641**	**20,776**	**241,948**	**237,524**
					Equity		**26,899**	**28,198**
					Total equity and liabilities		**268,847**	**265,722**

Segment income statement 1.1.–30.6.2018

	Reinsurance			
	Life and health		Property-casualty	
€m	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
Gross premiums written	**5,174**	**6,924**	**9,940**	**8,781**
1. Net earned premiums	4,816	6,833	8,860	8,411
2. Income from technical interest	285	313	539	533
3. Net expenses for claims and benefits	–3,786	–5,678	–5,502	–5,246
4. Net operating expenses	–1,019	–1,260	–2,965	–2,773
5. Technical result (1–4)	**296**	**209**	**933**	**925**
6. Investment result	510	453	900	957
7. Insurance-related investment result	8	12	–36	–93
8. Other operating result	15	8	–42	–45
9. Deduction of income from technical interest	–285	–313	–539	–533
10. Non-technical result (6–9)	**249**	**159**	**283**	**286**
11. Operating result (5+10)	**545**	**368**	**1,215**	**1,211**
12. Other non-operating result, net finance costs and impairment losses of goodwill	–28	–42	–97	–176
13. Taxes on income	–73	–89	–192	–177
14. Consolidated result (11–13)	**444**	**237**	**925**	**858**

Segment income statement 1.4.–30.6.2018

	Reinsurance			
	Life and health		Property-casualty	
€m	Q2 2018	Q2 2017	Q2 2018	Q2 2017
Gross premiums written	**2,309**	**3,436**	**4,623**	**4,223**
1. Net earned premiums	2,058	3,351	4,544	4,206
2. Income from technical interest	146	151	278	268
3. Net expenses for claims and benefits	–1,631	–2,847	–3,139	–2,525
4. Net operating expenses	–416	–590	–1,499	–1,411
5. Technical result (1–4)	**156**	**64**	**184**	**537**
6. Investment result	302	231	496	487
7. Insurance-related investment result	–2	24	–18	–28
8. Other operating result	13	8	–6	–9
9. Deduction of income from technical interest	–146	–151	–278	–268
10. Non-technical result (6–9)	**167**	**112**	**194**	**182**
11. Operating result (5+10)	**323**	**176**	**378**	**720**
12. Other non-operating result, net finance costs and impairment losses of goodwill	–11	–26	–39	–148
13. Taxes on income	–27	–39	–4	–55
14. Consolidated result (11–13)	**285**	**112**	**335**	**517**

					ERGO		Total	
	Life and Health Germany		Property-casualty Germany		International			
	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
	4,633	**4,568**	**1,947**	**1,897**	**2,619**	**2,555**	**24,313**	**24,725**
	4,583	4,529	1,597	1,571	2,353	2,270	22,210	23,614
	1,682	2,297	38	38	108	231	2,652	3,411
	–5,346	–5,987	–1,012	–984	–1,660	–1,792	–17,306	–19,686
	–761	–683	–532	–535	–691	–686	–5,967	–5,937
	158	**155**	**92**	**90**	**111**	**23**	**1,589**	**1,402**
	1,857	2,356	77	98	211	176	3,554	4,040
	–88	140	0	0	–36	109	–152	168
	–27	–26	9	–7	–14	–20	–59	–90
	–1,682	–2,297	–38	–38	–108	–231	–2,652	–3,411
	59	**174**	**47**	**53**	**54**	**34**	**692**	**707**
	218	**329**	**139**	**143**	**164**	**57**	**2,281**	**2,108**
	–183	–174	–94	–74	–44	–58	–446	–523
	–14	–43	12	–9	–13	22	–280	–295
	21	**113**	**57**	**61**	**107**	**22**	**1,555**	**1,290**

					ERGO		Total	
	Life and Health Germany		Property-casualty Germany		International			
	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017
	2,312	**2,244**	**681**	**657**	**1,262**	**1,240**	**11,188**	**11,800**
	2,318	2,253	854	818	1,182	1,143	10,956	11,771
	884	918	19	19	82	87	1,410	1,442
	–2,745	–2,738	–511	–497	–849	–901	–8,875	–9,509
	–390	–348	–265	–266	–352	–351	–2,922	–2,965
	67	**85**	**98**	**74**	**63**	**–22**	**569**	**740**
	807	1,020	40	50	113	102	1,759	1,889
	90	–10	0	0	14	26	85	12
	–14	–22	6	–6	–4	–14	–5	–43
	–884	–918	–19	–19	–82	–87	–1,410	–1,442
	–1	**71**	**27**	**25**	**41**	**27**	**428**	**417**
	67	**156**	**125**	**99**	**105**	**5**	**997**	**1,156**
	–82	–85	–49	–33	–20	–25	–201	–316
	1	–21	–19	–18	–19	25	–68	–108
	–15	**50**	**57**	**48**	**66**	**5**	**728**	**733**

Notes on determining the combined ratio[1]

		Reinsurance		ERGO		
		Property-casualty		Property-casualty Germany		Property-casualty International[2]
€m	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
Net earned premiums	8,860	8,411	1,597	1,571	1,642	1,579
Net expenses for claims and benefits	–5,502	–5,246	–1,012	–984	–1,066	–1,048
Net operating expenses	–2,965	–2,773	–532	–535	–508	–492
Loss-ratio calculation adjustments	5	–13	16	14	8	–1
Fire brigade tax and other expenses	8	9	8	8	13	13
Expenses for premium refunds[3]	0	0	10	9	0	2
Other underwriting income	–3	–21	–2	–3	–10	–11
Change in remaining technical provisions and other underwriting expenses[3]	0	0	–1	–1	4	–5
Adjusted net expenses for claims and benefits	**–5,497**	**–5,258**	**–995**	**–969**	**–1,059**	**–1,049**
Loss ratio in %	62.0	62.5	62.3	61.7	64.5	66.4
Combined ratio in %	95.5	95.5	95.6	95.8	95.4	97.5

1 Information on the combined ratio is provided in the 2017 Annual Report under "Important tools of corporate management".
2 Excluding life insurance business and health insurance conducted like life insurance.
3 Adjustment only for ERGO Property-casualty Germany and Property-casualty International.

Non-current assets by country[1]

€m	30.6.2018	31.12.2017
Germany	6,959	6,838
USA	2,701	2,424
UK	580	594
France	402	402
Sweden	249	268
Malta	217	235
Italy	190	196
Austria	185	195
Poland	179	190
Netherlands	175	177
Spain	148	150
Belgium	131	129
Switzerland	89	89
Portugal	70	70
Lithuania	54	38
Others	247	256
Total	**12,576**	**12,251**

1 The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property, as well as investments in renewable energies.

Investments in non-current assets per segment[1]

€m	Q1–2 2018	Q1–2 2017
Reinsurance – Life and health	49	27
Reinsurance – Property-casualty	416	77
ERGO Life and Health Germany	21	672
ERGO Property-casualty Germany	42	61
ERGO International	27	26
Total	**555**	**862**

1 The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property, as well as investments in renewable energies.

Other segment disclosures

	Reinsurance			
	Life and health		Property-casualty	
€m	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
Interest income	341	369	520	572
Interest expenses	–6	–7	–12	–6
Depreciation and amortisation	–31	–19	–54	–70
Other operating income	59	60	140	140
Other operating expenses	–43	–52	–182	–185
Income from associates and joint ventures accounted for using the equity method	0	0	60	27

Gross premiums written

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Europe	13,909	6,504	13,160	6,098
North America	6,366	2,817	7,826	3,811
Asia and Australasia	2,565	1,165	2,243	1,150
Africa, Middle East	880	434	855	419
Latin America	593	267	641	322
Total	**24,313**	**11,188**	**24,725**	**11,800**

						ERGO		Total
		Life and Health Germany		Property-casualty Germany		International		
	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
	1,454	1,495	44	43	173	177	2,532	2,657
	–18	–18	–5	–4	–9	–7	–49	–41
	–25	–29	–20	–26	–34	–40	–164	–185
	43	45	40	37	68	75	350	357
	–70	–71	–32	–44	–81	–95	–408	–448
	32	25	1	2	3	7	95	61

Notes to the consolidated balance sheet

The main items of the consolidated balance sheet are made up as follows:

Intangible assets

Development of intangible assets

		Goodwill		Other intangible assets		Total
€m	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
Gross carrying amount at 31 Dec. previous year	4,134	4,358	4,243	4,277	8,377	8,635
Accumulated amortisation and impairment losses at 31 Dec. previous year	–1,550	–1,541	–3,137	–2,974	–4,687	–4,515
Carrying amount at 31 Dec. previous year	2,584	2,817	1,105	1,303	3,689	4,120
Currency translation differences	44	–135	–2	–38	42	–173
Additions	0	1	79	48	79	49
Disposals	0	0	–4	–4	–4	–4
Reclassifications	0	0	–4	0	–4	0
Impairment losses reversed	0	0	0	0	0	0
Impairment losses	0	0	–88	–104	–88	–104
Carrying amount at 30 June financial year	**2,628**	**2,683**	**1,087**	**1,206**	**3,715**	**3,889**
Accumulated amortisation and impairment losses at 30 June financial year	–1,550	–1,541	–3,227	–3,037	–4,777	–4,578
Gross carrying amount at 30 June financial year	4,178	4,224	4,313	4,242	8,491	8,466

Investments

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 recognised at fair value are allocated to one of the valuation hierarchy levels of IFRS 13, which provides for three levels. The allocation reflects which of the fair values derive from transactions in the market or where valuation is based on models because market transactions are lacking.

Regularly, at each reporting date, we assess whether the allocation of our investments to the levels of the valuation 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 assets when market prices are not available.

Valuation techniques for assets

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	CSA/swap curve	Present-value method
Swaptions/interest-rate guarantee	Theoretical price	At-the-money volatility matrix and skew OIS/swap curve	Bachelier/ Normal Black
Interest-rate currency swaps	Theoretical price	Swap curve Currency spot rates Money-market interest-rate curve	Present-value method
Inflation swaps	Theoretical price	Zero-coupon inflation swap rates OIS curve	Present-value method
Bond forwards (forward transactions)	Theoretical price	Listing of underlying Swap curve	Present-value method
Currency risks			
Currency options	Theoretical price	Volatility skew Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen (European)
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve, CCY spreads	Present-value method
Other transactions			
Insurance derivatives (excluding variable annuities)	Theoretical price	Fair 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
Catastrophe swaps	Theoretical price	Fair values of catastrophe bonds Interest-rate curve	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 Effective volatilities Money-market interest rate	Black-Scholes (European) Cox, Ross and Rubinstein (American)

Bonds with embedded derivatives	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
CMS floaters with variable cap	Theoretical price	OIS/swap interest-rate curve Issuer-specific spreads Volatility skew	Replication model (Hagan)
Inverse CMS floaters	Theoretical price	OIS/swap interest-rate curve Issuer-specific spreads Volatility skew	Replication model (Hagan)
CMS steepeners	Theoretical price	OIS/swap interest-rate curve Issuer-specific spreads Volatility skew Correlation matrix	Replication model (Hagan) Stochastic volatility model
Convergence bonds	Theoretical price	Money-market/swap interest-rate curves Issuer-specific spreads Volatility matrix Correlation matrix	Replication model (Hagan) Stochastic volatility model
Multi-tranches	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve Sector-, rating- or issuer-specific yield curve	Bachelier/ Normal Black, Present-value method
FIS loans against borrower's note	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve Sector-, rating- or issuer-specific yield curve	Bachelier/ Normal Black, Present-value method
Swaption notes	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve Sector-, rating- or issuer-specific yield rate curve	Bachelier/ Normal Black, Present-value method

Funds	Pricing method	Parameters	Pricing model
Real estate funds	–	–	Net asset value
Alternative investment funds (e.g. private equity, infrastructure, forestry)	–	–	Net asset value

Other	Pricing method	Parameters	Pricing model
Real estate	Theoretical market price	Interest-rate curve Market rents	Present-value method or valuation
Alternative direct investments (e.g. infrastructure, forestry)	Theoretical market price	Interest-rate curve (among others) Electricity price forecast and inflation forecast	Present-value method or valuation
Bank borrowing	Theoretical market price	Interest-rate curve	Present-value method

Insurance-linked derivatives (excluding variable annuities) are allocated to Level 3 of the fair value hierarchy. The derivative components of catastrophe bonds are measured 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, the present-value method on the basis of current interest-rate curves and historical event data is used. Due to the low volume involved, the effects of alternative inputs and assumptions are immaterial.

The inputs requiring consideration in measuring variable annuities are derived either directly from market data, in particular volatilities, interest-rate curves and currency spot rates, or from actuarial data, especially biometric and lapse rates. The lapse rates used are modelled dynamically and range between 0.5% and 50%, 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 ↗ parameters is modelled by correlation matrices. 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, real estate and funds that invest in a variety of assets that are subject to theoretical valuation) as well as relatively illiquid credit structures (especially commercial mortgage-backed securities and collateralised loan obligations). In the case of external fund units, market quotes are not available on a regular basis; rather, net asset values (NAVs) are provided by the asset managers. With regard to the NAVs, the quality of the market quotes available from market data providers is insufficient, so we use broker valuations. With these investments, we thus do not perform our own valuations using inputs that are not based on observable market data. We regularly subject the valuations supplied to plausibility tests on the basis of comparable investments.

At 30 June 2018, around 12% of the investments measured at fair value were allocated to Level 1 of the fair value hierarchy, 83% to Level 2 and 4% to Level 3.

As part of the review process in the second quarter, we examined the level allocation of our investments. No changes to level allocation were made.

Allocation of investments measured at fair value to levels of the fair value hierarchy

				30.6.2018
€m	Level 1	Level 2	Level 3	Total
Investments in affiliated companies measured at fair value	0	0	167	167
Investments in associates and joint ventures measured at fair value	0	0	52	52
Other securities available for sale				
Fixed-interest	312	121,648	2,998	124,959
Non-fixed-interest	12,610	1,125	3,060	16,795
Other securities at fair value through profit or loss				
Held for trading, and hedging derivatives[1]	411	1,634	8	2,052
Designated as at fair value through profit or loss	176	146	2	324
Other investments	0	10	36	46
Insurance-related investments	5,458	3,565	308	9,331
Total	**18,967**	**128,127**	**6,631**	**153,726**

→				31.12.2017
€m	Level 1	Level 2	Level 3	Total
Investments in affiliated companies measured at fair value	0	0	171	171
Investments in associates and joint ventures measured at fair value	0	0	34	34
Other securities available for sale				
Fixed-interest	290	123,521	2,675	126,486
Non-fixed-interest	13,540	959	2,860	17,359
Other securities at fair value through profit or loss				
Held for trading, and hedging derivatives[1]	224	1,424	2	1,649
Designated as at fair value through profit or loss	187	169	0	357
Other investments	0	10	36	46
Insurance-related investments	5,622	3,738	304	9,664
Total	**19,862**	**129,822**	**6,082**	**155,766**

1 Including hedging derivatives of €23m (27m) accounted for under “other assets”.

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	Q1–2 2018	Q1–2 2017	Q1–2 2018	Q1–2 2017
Carrying amount at 31 Dec. previous year	171	138	34	8
Gains and losses	–2	–9	8	0
Gains (losses) recognised in the income statement	4	–7	0	0
Gains (losses) recognised in equity	–6	–3	8	0
Acquisitions	7	68	10	8
Disposals	–9	–2	0	0
Transfer to Level 3	0	1	0	0
Transfer out of Level 3	0	–6	0	0
Change in the fair value of derivatives	0	0	0	0
Carrying amount at 30 June financial year	**167**	**190**	**52**	**16**
Gains (losses) recognised in the income statement that are attributable to investments shown at 30 June financial year	0	–7	0	0

Continued on next page

€m	Fixed-interest Q1-2 2018	Fixed-interest Q1-2 2017	Other securities available for sale Non-fixed-interest Q1-2 2018	Other securities available for sale Non-fixed-interest Q1-2 2017
Carrying amount at 31 Dec. previous year	2,675	2,683	2,860	2,814
Gains and losses	-12	-80	41	-15
Gains (losses) recognised in the income statement	-8	57	-18	2
Gains (losses) recognised in equity	-3	-138	59	-17
Acquisitions	715	933	330	223
Disposals	-380	-1,027	-171	-457
Transfer to Level 3	0	0	1	27
Transfer out of Level 3	0	0	0	0
Change in the fair value of derivatives	0	0	0	0
Carrying amount at 30 June financial year	**2,998**	**2,509**	**3,060**	**2,591**
Gains (losses) recognised in the income statement that are attributable to investments shown at 30 June financial year	-8	58	-8	-5

€m	Designated as at fair value through profit or loss Q1-2 2018	Designated as at fair value through profit or loss Q1-2 2017	Other investments Q1-2 2018	Other investments Q1-2 2017
Carrying amount at 31 Dec. previous year	0	2	36	37
Gains and losses	0	0	0	0
Gains (losses) recognised in the income statement	0	0	0	0
Gains (losses) recognised in equity	0	0	0	0
Acquisitions	2	0	0	0
Disposals	0	0	0	0
Transfer to Level 3	0	0	0	0
Transfer out of Level 3	0	0	0	0
Change in the fair value of derivatives	0	0	0	0
Carrying amount at 30 June financial year	**2**	**2**	**36**	**37**
Gains (losses) recognised in the income statement that are attributable to investments shown at 30 June financial year	0	0	0	0

€m	Insurance-related investments Q1-2 2018	Insurance-related investments Q1-2 2017	Total Q1-2 2018	Total Q1-2 2017
Carrying amount at 31 Dec. previous year	304	277	6,082	5,959
Gains and losses	45	-42	79	-147
Gains (losses) recognised in the income statement	43	-34	20	18
Gains (losses) recognised in equity	2	-7	60	-166
Acquisitions	21	47	1,084	1,278
Disposals	-59	-32	-613	-1,518
Transfer to Level 3	0	0	1	29
Transfer out of Level 3	0	0	0	-6
Change in the fair value of derivatives	-2	9	-2	9
Carrying amount at 30 June financial year	**308**	**258**	**6,631**	**5,603**
Gains (losses) recognised in the income statement that are attributable to investments shown at 30 June financial year	43	-14	26	32

Further explanatory information on investments can be found in the section of the interim management report "Business performance of the Group and overview of investment performance".

Equity

Number of shares in circulation and number of treasury shares

	30.6.2018	31.12.2017
Number of shares in circulation	148,989,114	151,259,431
Number of treasury shares	549,363	3,768,477
Total	**149,538,477**	**155,027,908**

Subordinated liabilities

Breakdown of subordinated liabilities

€m	A.M. Best	Fitch	Moody's	S&P	30.6.2018	31.12.2017
Munich Reinsurance Company, Munich, 6.25% until 2022, thereafter floating, €900m, Bonds 2012/2042	a+	A	–	A	897	896
Munich Reinsurance Company, Munich, 6.625% until 2022, thereafter floating, £450m, Bonds 2012/2042	a+	A	–	A	508	506
Munich Reinsurance Company, Munich, 6.00% until 2021, thereafter floating, €1,000m, Bonds 2011/2041	a+	A	–	A	996	995
Munich Reinsurance Company, Munich, 7.625% until 2018, thereafter floating, £300m[1], Bonds 2003/2028	–	–	–	–	0	338
ERGO Versicherung Aktiengesellschaft, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €12m, Registered bonds 2001/perpetual	–	–	–	–	6	6
ERGO Versicherung Aktiengesellschaft, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m, Registered bonds 1998/perpetual	–	–	–	–	7	7
HSB Group Inc., Delaware, LIBOR +91 BP, US$ 76m, Bonds 1997/2027	–	–	–	–	44	42
Total					**2,458**	**2,790**

1 In the second quarter of 2018, the issuer redeemed the whole bond.

The fair value of the subordinated liabilities at the balance sheet date amounted to €2,857m (3,309m). 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 present-value methods with observable market inputs.

Liabilities

Breakdown of bonds and notes issued

€m	A.M. Best	Fitch	Moody's	S&P	30.6.2018	31.12.2017
Munich Re America Corporation, Wilmington, 7.45%, US$ 334m, Senior Notes 1996/2026	a-	A+	A2	A-	285	277
Total					**285**	**277**

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 €351m (354m). ↗

The following table shows the allocation of the financial liabilities to levels of the fair value hierarchy.

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy

				30.6.2018				31.12.2017
€m	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Other liabilities								
Derivatives	95	852	538	1,484	32	881	471	1,385

Only derivatives with a negative fair value are currently recognised at fair value. Of these, we allocate the insurance derivatives to Level 3 of the fair value hierarchy. As regards the valuation models used, please refer to the notes on investments. ↗

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	Q1–2 2018	Q1–2 2017
Carrying amount at 31 Dec. previous year	471	545
Gains and losses	-13	73
Gains (losses) recognised in the consolidated income statement	-7	56
Gains (losses) recognised in equity	-6	18
Acquisitions	124	70
Disposals	-70	-85
Transfer to Level 3	0	0
Transfer out of Level 3	0	0
Change in the fair value of derivatives	-2	9
Carrying amount at 30 June financial year	**538**	**465**
Gains (losses) recognised in the consolidated income statement that are attributable to liabilities shown at 30 June financial year	6	80

Notes to the consolidated income statement

The main items of the consolidated income statement are made up as follows:

Premiums

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Gross premiums written	24,313	11,188	24,725	11,800
Change in gross unearned premiums	–1,131	309	–378	345
Gross earned premiums	**23,182**	**11,497**	**24,347**	**12,145**
Ceded premiums written	–1,092	–556	–802	–381
Change in unearned premiums – Ceded share	120	16	68	7
Earned premiums ceded	**–972**	**–541**	**–734**	**–374**
Net earned premiums	**22,210**	**10,956**	**23,614**	**11,771**

Expenses for claims and benefits

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Gross				
Claims and benefits paid	–16,205	–7,932	–15,659	–7,619
Changes in technical provisions				
Provision for future policy benefits	–247	–440	–548	–174
Provision for outstanding claims	–496	–608	–2,664	–1,435
Provision for premium refunds	–731	–203	–1,114	–490
Other technical result	–55	–33	–108	–77
Gross expenses for claims and benefits	**–17,735**	**–9,217**	**–20,094**	**–9,796**
Ceded share				
Claims and benefits paid	211	103	469	237
Changes in technical provisions				
Provision for future policy benefits	158	146	–16	6
Provision for outstanding claims	52	81	–38	49
Provision for premium refunds	1	0	1	–1
Other technical result	7	11	–9	–4
Expenses for claims and benefits – Ceded share	**429**	**342**	**407**	**288**
Net				
Claims and benefits paid	–15,994	–7,829	–15,189	–7,383
Changes in technical provisions				
Provision for future policy benefits	–89	–294	–563	–168
Provision for outstanding claims	–445	–527	–2,702	–1,386
Provision for premium refunds	–730	–203	–1,114	–491
Other technical result	–48	–22	–118	–81
Net expenses for claims and benefits	**–17,306**	**–8,875**	**–19,686**	**–9,509**

Operating expenses

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Acquisition costs, profit commission and reinsurance commission paid	–4,972	–2,296	–4,496	–2,023
Administrative expenses	–1,509	–750	–1,489	–728
Change in deferred acquisition costs and contingent commissions, amortisation and impairment losses on acquired insurance portfolios	264	–23	–111	–305
Gross operating expenses	**–6,217**	**–3,068**	**–6,097**	**–3,056**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	310	184	108	53
Ceded share of change in deferred acquisition costs and contingent commissions	–60	–38	52	38
Operating expenses – Ceded share	**250**	**146**	**160**	**91**
Net operating expenses	**–5,967**	**–2,922**	**–5,937**	**–2,965**

Investment result by type of investment (before deduction of income from technical interest)

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Land and buildings, including buildings on third-party land	**240**	**101**	**155**	**81**
Investments in affiliated companies	**23**	**22**	**–3**	**7**
Investments in associates and joint ventures	**95**	**78**	**61**	**24**
Loans	**1,133**	**461**	**1,688**	**520**
Other securities available for sale				
Fixed-interest	1,655	831	1,686	888
Non-fixed-interest	599	379	933	497
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	0	0	0	0
Non-fixed-interest	–4	–5	4	1
Derivatives	–5	–13	–393	–62
Designated as at fair value through profit or loss				
Fixed-interest	2	1	–4	0
Non-fixed-interest	–1	9	20	7
Deposits retained on assumed reinsurance, and other investments	**100**	**43**	**143**	**50**
Expenses for the management of investments, other expenses	**–284**	**–148**	**–250**	**–125**
Total	**3,554**	**1,759**	**4,040**	**1,889**

Result from insurance-related investments

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Investments for unit-linked life insurance contracts	–120	106	246	15
Other insurance-related investments	–32	–21	–78	–3
Total	**–152**	**85**	**168**	**12**

Other operating result

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Other operating income	350	187	357	171
Thereof:				
Interest and similar income	51	24	51	17
Write-ups of other operating assets	14	11	5	3
Other operating expenses	–408	–193	–448	–213
Thereof:				
Interest and similar charges	–45	–23	–36	–12
Write-downs of other operating assets	–13	–7	–16	–3

Other operating income for the first six months mainly comprises income of €227m (257m) from services rendered, interest income of €12m (30m), income of €41m (18m) from the release/reduction of miscellaneous provisions and provisions for bad and doubtful debts, and income of €12m (13m) from owner-occupied property, some of which is also leased out.

In addition to expenses of €197m (208m) for services rendered, other operating expenses chiefly include interest charges of €42m (42m) and other tax of €57m (76m). They also contain expenses of €6m (6m) for owner-occupied property, some of which is also leased out.

The other operating result includes the result from reinsurance treaties with non-significant risk transfer totalling €35m (27m), of which €36m (26m) derives from the life and health reinsurance segment.

Other non-operating result, impairment losses on goodwill and net finance costs

€m	Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Other non-operating result	–345	–151	–417	–264
Impairment losses on goodwill	0	0	0	0
Net finance costs	–101	–50	–106	–52

The other non-operating result is unrelated to the conclusion, administration or settlement of insurance contracts or the administration of investments. In the first half-year, it essentially comprises a foreign-currency result of –€28m (–219m) and restructuring expenses of €56m (10m).

Other information

Non-current assets and disposal groups held for sale and sold in the reporting period

In Q2 2018, American International Group, Inc. (AIG) and Munich Re agreed the sale of the UK group life specialist Ellipse, a deal serving to help us focus on our core business. The disposal group recognised as at 30 June 2018 comprises the technical provisions from group life business written by ERGO Lebensversicherung AG, the investments transferred to Munich Reinsurance Company via a reinsurance treaty, and other assets of Munich Reinsurance Company and ERGO Lebensversicherung AG. Also included are the assets and liabilities of the fully consolidated subsidiary Group Risk Service Ltd, which served as a sales organisation for Ellipse.

The transaction is subject to approval by the supervisory authorities. In the segment reporting, we disclose how the disposal group is allocated between the segments.

The sale of Ellipse will be concluded across a number of agreements and is scheduled for completion in Q1 2019 at the latest. The purchase price will be paid in two tranches: one for active business, and one for the sales organisation. Overall, we expect the transaction to bolster our result by a low two-digit million euro sum before tax.

The two properties used as an investment that we showed as available for sale as at 31 December 2017, were sold in the first quarter. In the second quarter, there was the sale and deconsolidation of the sale group D.A.S. Switzerland.

Non-current assets and disposal groups held for sale

€m	30.6.2018	31.12.2017
Assets		
Land and buildings, including buildings on third-party land	0	22
Other securities available for sale	82	75
Other investments	3	3
Other assets of the disposal group	35	17
Total assets	**120**	**118**
Liabilities		
Gross technical provisions	68	57
Other liabilities of the disposal group	2	8
Total liabilities	**70**	**65**

Related parties

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.

No significant transactions were conducted between Board members and Munich Re.

Number of staff

The number of staff employed by the Group as at 30 June 2018 totalled 19,326 (19,960) in Germany and 22,613 (22,450) in other countries.

Breakdown of number of staff

	30.6.2018	31.12.2017
Reinsurance	12,208	12,117
ERGO	29,731	30,293
Total	**41,939**	**42,410**

Contingent liabilities, other financial commitments

In comparison with the situation at 31 December 2017, financial commitments of significance for the assessment of the Group's financial position have not changed materially.

Earnings per share

Diluting effects to be disclosed separately for the calculation of earnings per share were not present either in the current reporting period or in the same period last 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

		Q1–2 2018	Q2 2018	Q1–2 2017	Q2 2017
Consolidated result attributable to Munich Reinsurance Company equity holders	€m	1,549	724	1,283	729
Weighted average number of outstanding shares		149,883,539	149,465,620	155,411,067	154,904,518
Earnings per share	€	10.34	4.84	8.26	4.71

Events after the balance sheet date

On 11 July 2018, via its subsidiary ERGO Group AG, Düsseldorf, Munich Re acquired 100% of the voting shares in Atena Usługi Informatyczne i Finansowe S.A. (Atena), Sopot, Poland.

Atena offers innovative software products for the insurance sector specifically, and is a leading IT service provider on the Polish market.

The Atena acquisition aims to support and systematically further ERGO Hestia's ambitious growth targets as an innovative, digital insurance provider on the Polish market.

On 20 July 2018, Heubeck AG published the current Heubeck 2018 G tables for accounting of pension obligations. We do not expect the new Heubeck tables to involve any material changes, since an extended life span and socio-economic concerns regarding a connection between pension amount and life span are already taken into account in the biometric assumptions used so far by our Company-specific modification.

Drawn up and released for publication,
Munich, 7 August 2018.

The Board of Management

Review report

We have reviewed the condensed interim consolidated financial statements – comprising the consolidated balance sheet, the consolidated income statement, the statement of recognised income and expense, the Group statement of changes in equity, the condensed consolidated cash flow statement and the selected notes – together with the interim Group management report of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, for the period from 1 January 2018 to 30 June 2018, that are part of the semi-annual financial report according to Section 115 of the German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34, Interim financial reporting, as adopted by the EU, and of the interim Group management report in accordance with the requirements of the Securities Trading Act applicable to interim group management reports, is the responsibility of the parent company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and the interim Group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim Group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material aspects, in accordance with IAS 34, Interim financial reporting, as adopted by the EU, and that the interim Group management report has not been prepared, in material aspects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, Interim financial reporting, as adopted by the EU, or that the interim Group management report has not been prepared, in material aspects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, 8 August 2018

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Ellenbürger	**Voß**
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting princples for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the financial year."

Munich, 8 August 2018

Supervisory Board

Dr. Bernd Pischetsrieder
(Chairman)

Board of Management

Dr. Joachim Wenning
(Chairman)
Dr. Thomas Blunck
Dr. Doris Höpke
Dr. Torsten Jeworrek
Hermann Pohlchristoph
Dr. Markus Rieß
Dr. Peter Röder
Dr. Jörg Schneider

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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.

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Responsible for content
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Important dates 2018

7 November 2018
Quarterly Statement as at 30 September 2018

Important dates 2019

20 March 2019
Balance sheet press conference
for 2018 financial statements

30 April 2019
Annual General Meeting

8 May 2019
Quarterly Statement as at 31 March 2019

7 August 2019
Half-Year Financial Report as at 30 June 2019

7 November 2019
Quarterly Statement as at 30 September 2019

Order number 302-09082