

The Munich Re Group American Re Reserve Review – Outcome

Media telephone conference

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Münchener Rück
Munich Re Group



Put an end to the uncertainty in American Re's reserves



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- American Re reserve strengthening by US\$ 1.6bn (€1.3bn), Group impact only €0.4bn
- The effects of the reserve strengthening on our group result are limited due to early provision made through Group IBNR reserves
- Target RoE of 12% maintained
- Munich Re secures American Re's financial position with a well balanced package of supporting measures
- American Re is core for Munich Re

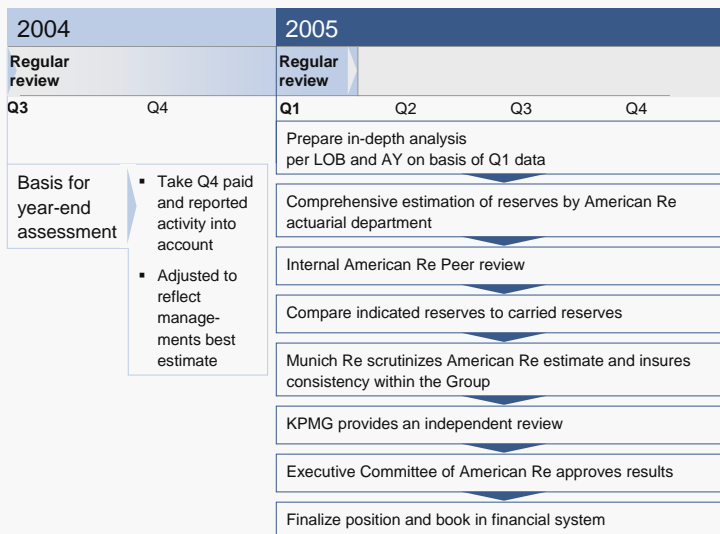
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Reserve Confidence

- Most ranges shifted higher due to re-evaluation of development patterns
- Selected ultimate losses lie higher in the range of actuarial projection
 - High end actuarial projection method for each accident year and line of business
 - Highest estimate between American Re and Munich Re projections
- The soft market years for US-Casualty, mainly 1997–2001, are now more mature
- Individual large exposures were considered regardless of actual reported experience
- Reserves for casualty business in accident years 2003 and 2004 have not been released even though all indications show favourable experience
- We re-analysed all latent segments resulting in over \$820 million and \$640 million of gross and net increases, respectively (in total for Q4 2004 and Q2 2005), mainly due to application of a new, more sophisticated methodology

The reserve review process



July 2005:
Munich Re decides to end uncertainties about American Re reserves

Components of reserve charge



American Re Corporation

Reserve review at March 31, 2005 – Change in Ultimate Loss and LAE
Gross of Corporate Retrocessions, Net of Specific Retrocessions, Statutory Accounting Basis

in US\$m	Accident Year				
	1998 & prior	1999 – 2001	2002	2003 & 2004	2004 & prior
Traditional analyses					
Automobile Liability	4	25	3	(9)	24
General Liability	28	195	20	17	261
Professional Liability	4	209	137	10	359
Property	11	(40)	1	(17)	(45)
Workers Compensation	72	247	1	(2)	318
All other	29	37	16	(5)	78
Sub-Total	148	674	179	(5)	996
Special liabilities					
Finite risk	26	43	4	7	81
Asbestos & Environmental	259	0	0	0	259
Other latent	131	51	9	12	203
Natural catastrophes	0	0	0	65	65
All other special liabilities	20	26	45	(23)	67
Sub-Total	436	120	58	61	675
Total all business	584	795	237	55	1,671

Notes: The figures above are net of \$280 million of statutory WC discount. "All Other" includes misc. lines of business, ULAE, and AAIC and PESLIC net retained business.

Reserve charges mainly for accident years 1999 – 2002 for traditional business

1998 and prior mainly driven by latent segments

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Munich Re Group impact



Impact on American Re Corporation and Munich Re Group¹

in US\$m	
Reserve charge gross of corporate/net of specific retrocessions	1,671
Ceded through third party corporate retrocessions	(42)
Net to Munich Re Group	1,629
Ceded to Munich Re	(203)
Net to American Re Corporation	1,426
in €m	
Net to Munich Re Group (converted into € at 1.2588 US\$/€)	1,294
Already provided for through Group IBNR reserve	(906)
Profit impact for Munich Re Group before tax	388
= Approx. loss ratio percentage points for Q2	10.7%-pts
= Approx. loss ratio percentage points for full business year 2005	2.7%-pts

Earnings impact of reserve strengthening on Munich Re Group limited due to Group IBNR now allocated to US exposure

¹ The figures above are net of statutory Workers Comp discount.

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Whole package of measures to draw a line – Fully self-financed by Munich Re



American Re

1. Reserve increase American Re to a large extent mitigated by prior provision through Group IBNR

Increase comfort level

Munich Re

2. Strengthen American Re's capital base by around to \$1.1bn
3. Conversion of \$1.6bn loans into equity
4. Chances and risks of American Re's reserves written prior to 2002 to be transferred to highest Munich Re Group level (Loss Portfolio Transfer as efficient capital management instrument)
5. Increased variable quota share between American Re and Munich Re

Strengthen American Re's financial position

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Attractive US reinsurance market core for Munich Re Group – with AmRe as flagship for P-C and health care



Attractive US market...

- No.1 reinsurance market
- Participating from US economy
- Innovative trendsetter for the global insurance market
- Difficulties primarily not only systemic (i.e. tort system) but also result of wrong industry behaviour in the cycle

...penetrated by aligned AmRe

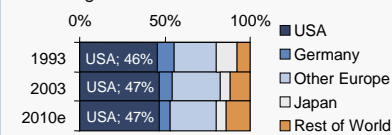
- 2002: Building the "new AmRe" with John Phelan
- 2004: Closer integration into MR Group following the US casualty project
- 2005: Comprehensive Munich Re underwriting review
- 2005: Comprehensive Munich Re reserve review
- 2005: Again "best reinsurer overall" in Flaspöhler US Cedant Survey

... visible in the market

- Exited certain business segments (in 2004 in excess of \$400m)
- American Re judged as being extremely disciplined
- Further reduction in Workers Comp premium
- Further expected volume decrease going forward due to strict cycle management

US market dominating...

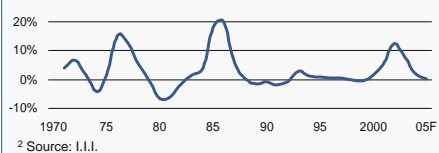
Share in global non-life direct insurance¹



¹ Source: Munich Re Economic Research

... but need to address cyclicity

US P-C real NWP Growth²



² Source: I.I.I.

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American Re Adding Core values to the Munich Re Group

Strength of American Re

- US flagship subsidiary for property-casualty and health care (re)insurance business
- Strong expertise, developing innovative client tools
- Multiple distribution channels
- Asset management for all North-American subsidiaries
- Group Center of consultancy for Program Business

Value added for Munich Re Group

- Full participation in the potential of the US reinsurance market and US economy
- AmRe provides clients with access to know-how, skills and financial strength of Munich Re Group
- American Re enhances the diversification and improves the risk capital allocation on Munich Re Group level
- Shared services and group-wide knowledge management

American Re
Integral part of Munich Re Group

Improving future earnings potential

- Put an end to uncertainties from reserve increases at American Re
- Applying Munich Re's conservative standards at American Re
- 2005: Earnings target achievable due to
 - Mitigation by Group IBNR
 - Strong current operating results
 - Strong investment gains
- Future: Improved earnings quality due to
 - Lower volatility after derisking of asset portfolio
 - No earnings drag from reserving

Drawing a line as catalyst for value creation

Disclaimer



This report contains forward-looking statements that are based on current assumptions and forecasts of the management of Munich Re. Known and unknown risks, uncertainties and other factors could lead to material differences between the forward-looking statements given here and the actual development, in particular the results, financial situation and performance of our company. The company assumes no liability to update these forward-looking statements or to conform them to future events or developments.