

# The Munich Re Group

## Year-end results 2005

Nikolaus von Bomhard  
Jörg Schneider

14 March 2006



Münchener Rück  
Munich Re Group



## 2005 Munich Re Group has passed the test



Nat Cat record year demonstrates to all market players that **sound risk management** is more important than ever

AmRe: an unhindered **view for future opportunities** in the US market

Following a positive previous year, ERGO remains on course **towards sustained profitability**

With a consolidated profit of €2.7bn, Munich Re is one of the most profitable reinsurers in 2005

## Munich Re uses every available opportunity in the Group for new growth and earnings potential



### Key figures 2005

- Jörg Schneider -

- Munich Re Group in total
- Reinsurance segment
- Primary insurance segment

### Business opportunities, new target and active capital management

- Nikolaus von Bomhard -

- Integrated health strategy
- US: Focussing on attractive middle/regional insurers
- Efficiency improvement in primary business
- Enhanced financial strength
- Alignment of internal steering and external target communication
- Outlook

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**Key figures 2005 – Munich Re Group in total**

**The business year 2005 at a glance**



**Claims**

- Winterstorm Erwin in Northern Europe
- Windsor Tower Madrid
- Floods in GER, AUT, SWI
- Hurricanes Katrina, Rita and Wilma

**Investments**

- Sale of MAN and BHW
- Commerzbank and Allianz stake reduced to < 5%
- Exchange of HVB into UniCredit shares
- UniCredit stake reduced to < 5%

**Others**

- AmRe: Increase of claims reserves
- Primary insurance: Sale of Karlsruher

**Most business units with top performance, excellent result for ERGO**

- Net profit of €2,743m, operating result of €4,130m
- Combined ratios:  
Reinsurance 110.5% (thereof 17.7% pts. Nat Cat)  
Primary insurance 93.1%
- Equity strengthened by €4.0bn to €24.7bn, RoE at 12.3%

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Key figures 2005 – Munich Re Group in total

Quantification of the most important events



in €m	Reserve strengthening AmRe	Atlantic windstorms	Sale of 3% Allianz shares	Exchange UCI/HVB	Total
Investment result			563	988	1,551
<b>Total income</b>			<b>563</b>	<b>1,073</b>	<b>1,636</b>
Total expenses before retro	1,327	2,694			4,021
Total expenses after retro	1,294	2,285			3,579
Release of Group IBNR	-906				-906
<b>Total expenses</b>	<b>388</b>	<b>2,285</b>			<b>2,673</b>
<b>Result before amortisation and impairment losses of goodwill</b>	<b>-388</b>	<b>-2,285</b>	<b>563</b>	<b>1,073</b>	<b>-1,037</b>
<b>Operating result</b>	<b>-388</b>	<b>-2,285</b>	<b>563</b>	<b>1,073</b>	<b>-1,037</b>
Taxes on income	362 <sup>1</sup>	-783	11	-80	-490
<b>Group result</b>	<b>-750</b>	<b>-1,502</b>	<b>552</b>	<b>1,153</b>	<b>-547</b>

<sup>1</sup> Tax from release of Group IBNR. (see press release 4 august 2005)

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Key figures 2005 – Munich Re Group in total

Income statement  
New record level of profit



in €m	2005	2004	▲ in %		
Gross premiums written	38,199	38,071	0.3	Effect in 2005 of the most important events:	
Net earned premiums	36,210	36,534	-0.9		
Investment result	10,818	8,041	34.5		
<b>Total income</b>	<b>48,493</b>	<b>45,691</b>	<b>6.1</b>		Income 1,636
<b>Total expenses</b>	<b>44,356</b>	<b>42,322</b>	<b>4.8</b>		Expenses 2,673
<b>Result before amortisation and impairment losses of goodwill</b>	<b>4,137</b>	<b>3,369</b>	<b>22.8</b>		Result before amortisation and impairment losses of goodwill -1,037
Amortisation of goodwill	7	344	-98.0		
<b>Operating result</b>	<b>4,130</b>	<b>3,025</b>	<b>36.5</b>		Operating result -1,037
Finance costs	378	426	-11.3		
Taxes on income	1,009	712	41.7		Taxes -490
<b>Group result</b>	<b>2,743</b>	<b>1,887</b>	<b>45.4</b>	Result after tax -547	
Thereof minority interests	72	54	33.3		
<b>Earnings per share in €</b>	<b>11.70</b>	<b>8.01</b>	<b>46.1</b>		

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Key figures 2005 – Munich Re Group in total

**Premium development**

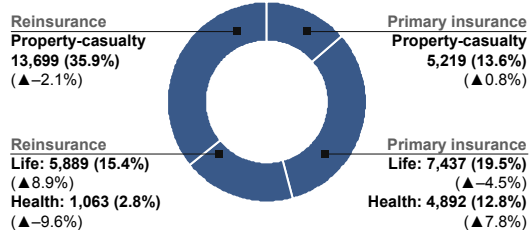
Overall stable, diverging developments within segments



in €m

Gross premiums written 2004		38,071
Foreign-exchange effects		223 (0.6%)
Divestment/Investment		-363 (-1.0%)
Organic change		268 (0.7%)
<b>Gross premiums written 2005</b>		<b>38,199</b> (0.3%)

**Breakdown by segment**  
(consolidated)



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Key figures 2005 – Munich Re Group in total

**Return on investment**

Target exceeded again



in €m		2005 <sup>1</sup>	Return
IFRS	Regular income		4.2%
	Other income/expenses		-0.3%
	Non-current income <sup>2</sup>		2.0%
	Investment result		5.9%
Economic view	Change in total reserves <sup>3</sup>		1.0%
	Total income		6.9%

- Excellent return on investments (RoI) of 5.9%
- Equity-backing ratio within target corridor (13.4% after hedges)
- Ratings structure of bonds excellent (more than 95% A or better)
- Corporate bond ratio low (< 5%)

<sup>1</sup> Return on quarterly weighted investments (market values) in %.

<sup>2</sup> Non-current income includes gains/losses on the disposal of investments, write-downs and write-ups on investments.

<sup>3</sup> On- and off-balance-sheet reserves.

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Key figures 2005 – Munich Re Group in total

**Equity**  
**Substantially increased by excellent result**



in €m

Equity 31.12.2004		20,644
Paid dividends		-457
Change in unrealised gains/losses <sup>1</sup>		1,608
Change resulting from valuation at equity		-157
Consolidated result		2,743
Changes in exchange rates		651
Other changes		-379
<b>Equity 31.12.2005</b>		<b>24,653</b>

<sup>1</sup> On other securities.

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Key figures 2005 – Reinsurance segment

**Income statement**  
**Strong result despite severe losses from hurricanes**



in €m

	2005	2004	▲ in %
Gross premiums written	22,358	22,397	-0.2
Net earned premiums	20,961	21,475	-2.4
Investment result	4,756	3,597	32.2
<b>Total income</b>	<b>26,476</b>	<b>25,547</b>	<b>3.6</b>
<b>Total expenses</b>	<b>24,092</b>	<b>22,805</b>	<b>5.6</b>
<b>Result before amortisation and impairment losses of goodwill</b>	<b>2,384</b>	<b>2,742</b>	<b>-13.1</b>
Amortisation of goodwill	-	100	-100.0
<b>Operating result</b>	<b>2,384</b>	<b>2,642</b>	<b>-9.8</b>
Finance costs	292	361	-19.1
Taxes on income	698	615	13.5
<b>Segment result</b>	<b>1,394</b>	<b>1,666</b>	<b>-16.3</b>
Thereof minority interests	-	5	-100.0
<b>Consolidated segment result</b>	<b>1,866</b>	<b>1,714</b>	<b>8.9</b>

- Very good investment result due to gains from disposal, of which due to change UCI/HVB:
  - €171m (spanned)
  - €744m (consolidated)
- Total expenses reflect increase in Nat Cat losses

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Key figures 2005 – Reinsurance segment

**Key figures :**  
**Combined ratio impacted by heavy Nat Cat losses**



Gross premiums L&H, P-C			Net profit L&H, P-C		
in €m			in €m		
2003	6,876	17,919	2003	262	1,370
2004	7,540	14,857	2004 <sup>1</sup>	432	1,234
2005	7,811	14,547	2005	976	418

■ Life and health    ■ Property-casualty

Combined ratio non-life

in %	2005	2004	2003
Loss ratio	82.0	71.0	69.6
Expense ratio	28.5	27.9	27.1
Combined ratio	110.5	98.9	96.7
Thereof Nat Cat	17.7	4.5	1.6
Thereof reserve charges for AmRe (in 2005 incl. release of Group IBNR)	2.6	2.5	1.9

<sup>1</sup> Adjusted due to first time application of IAS 1 (rev. 2003).

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Key figures 2005 – Primary insurance segment

**Income statement**  
**Result more than tripled**



in €m	2005	2004	▲ in %
Gross premiums written	17,572	17,526	0.3
Net earned premiums	15,249	15,059	1.3
Investment result	5,907	4,587	28.8
<b>Total income</b>	<b>22,816</b>	<b>21,091</b>	<b>8.2</b>
<b>Total expenses</b>	<b>21,291</b>	<b>20,412</b>	<b>4.3</b>
<b>Result before amortisation and impairment losses of goodwill</b>	<b>1,525</b>	<b>679</b>	<b>124.6</b>
Amortisation of goodwill	6	236	-97.5
<b>Operating result</b>	<b>1,519</b>	<b>443</b>	<b>242.9</b>
Finance costs	85	69	23.2
Taxes on income	259	57	354.4
<b>Segment result</b>	<b>1,175</b>	<b>317</b>	<b>270.7</b>
Thereof minority interests	87	56	55.4
<b>Consolidated segment result</b>	<b>846</b>	<b>215</b>	<b>293.5</b>

- Very good investment result due to improved gains from disposal of investments
- Result due to change UCI/HVB:
  - €551m (spanned)
  - €409m (consolidated)
- High allocation of earnings to reserve for premium refunds (RfB)
- Operating and overall excellent result

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Key figures 2005 – Primary insurance segment

Key figures  
Excellent Combined Ratio



Gross premiums L&H, P-C<sup>1</sup>

in €m

Year	Life and health	Property-casualty <sup>1</sup>
2003	12,558	5,082
2004	12,324	5,202
2005	12,330	5,242

Net profit L&H, P-C<sup>1</sup>

in €m

Year	Life and health	Property-casualty <sup>1</sup>
2003	-131	-960
2004 <sup>2</sup>	25	292
2005	594	581

■ Life and health ■ Property-casualty<sup>1</sup>

Gross premiums new business Life

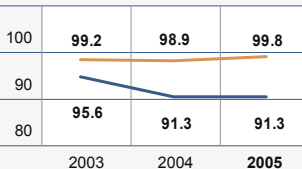
in €m

Year	Single premiums	Regular premiums	Total
2004	893	834	1,727
2005	1,012	513	1,525

■ Single premiums ■ Regular premiums

Combined ratio (93.1%)<sup>1</sup>

in %



— Legal expenses — Property-casualty

<sup>1</sup> Incl. legal expenses.

<sup>2</sup> Adjusted due to first time application of IAS 1 (rev. 2003).

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Business opportunities – Integrated health strategy

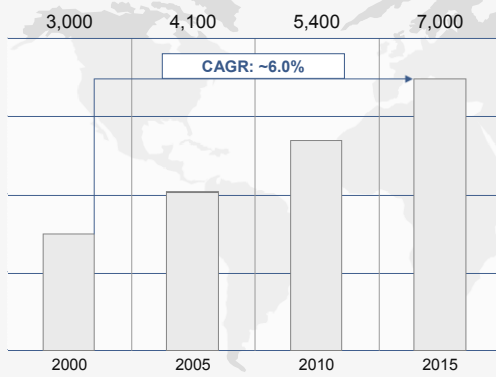
**Global healthcare market**

Has grown significantly since 2000 and will continue to grow



**Global healthcare market**

Market volume in US\$ bn



**Main growth drivers**

Demographic developments

Medical improvements

Lifestyle changes

Economic situation

Source: OECD Health Statistics, Compustat, Bloomberg

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Business opportunities – Integrated health strategy

**Health primary insurance and reinsurance**

Similar components in the value chain



Business models	Financial protection				Managed care services				Munich Re Group companies (examples)
	Risk-taking	Brand/Licence	Sales	Administration	Disease mgmt	Demand mgmt	Medical mgmt	Network mgmt	
Classical capacity reinsurance	■				■	■	■	■	Munich Re, American Re HealthCare
Classical primary insurance	■	■	■	■	■	■	■	■	DKV, Victoria
Administration plus managed care services				■	■	■	■	■	MedNet, Arztpartner, Paramount
Integrated reinsurance ("MedNet model")	■			■	■	■	■	■	Munich Re, American Re HealthCare
Integrated primary insurance ("Unternehmen Gesundheit")	■	■	■	■	■	■	■	■	Munich Re, DKV

■ Parts of the value chain covered

■ Core business      ■ Integrated parts of the value chain (market-dependent)

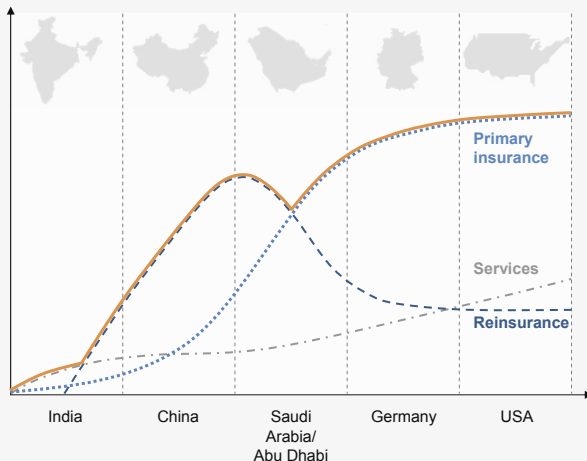
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Business opportunities – Integrated health strategy

**Market evolution in global healthcare  
Provides opportunities for the different business models**



Top-line potential



Flexible and parallel use of business models leads to maximisation of top-line and bottom-line results

Illustrative

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Business opportunities – Integrated health strategy

**Institutionalised health cooperation  
First success stories**



**Services/Disease management products**

- In the USA, strategic minority shareholding in Health Dialog
- Consolidation of our position in the disease management market as a means of further generating risk-carrying business

**Classical primary insurance**

- Establishment of the first specialised health insurer in Abu Dhabi with the backing of the entire Munich Re Group's health sector expertise
- Reference model for other economies in the region

**Expatriate business**

- Provision of insurance for Spanish expatriates with access to Munich Re Group's international provider network
- Assumption of risk-carrying and management of the expatriate product ExpaCare in the UK with access to Munich Re Group's international provider network

**Integrated primary insurance**

- Provision of combined risk-carrying and healthcare services
- Provision of cover for the public healthcare system in the Spanish administration district of Denia by DKV Seguros/Spain

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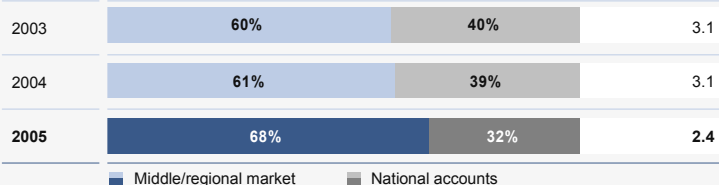
Business opportunities – US: Focussing on attractive middle/regional insurers

**American Re**  
**Strong presence in the target market segments**



**Split of core business clients<sup>1</sup>**

Underwriting year net premiums written in USD bn



<sup>1</sup> Excluding finite, HealthCare, Credit Enhancement and Corporate Retrocessions

- High client loyalty underpins strong relationship
- Services offered result in a higher pricing leverage
- Ranked #1 by clients as "Best Overall Reinsurer in the US" by Flaspöhler again in 2005

Use in-depth knowledge to generate higher profitability

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Business opportunities – Efficiency improvement in primary business

**ERGO**  
**Shifting gears**



**Strategic modules**

- Maximum utilisation of client relationship and improvement of distribution efficiency
  - Increase of market share in company pensions business
- Competitive and profitable products
  - Overproportionate expansion of property-casualty business
- Operative excellence
  - Strict cost discipline
- Value- and risk-based management
  - Net profit target 2006: €450–500m
  - European Embedded Value earnings 2006: 8–9%
- Enhancement of foreign activities
  - Leading market position in reachable markets in Eastern Europe

**Current initiatives**

- Restructuring of the distribution organisation
- Development of modular products
- New tariffs in motor insurance introduced as at 1 July 2005
- New €200m cost-saving programme
- Creation of standardised process architecture, e.g. IT integration
- Full integration in Munich Re's management system: Value-based management, European Embedded Value
- Expansion of health as an independent business model
- Expansion of legal expenses insurance especially in Eastern Europe

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Business opportunities – Efficiency improvement in primary business



**ERGO**  
**Attractive business mix**

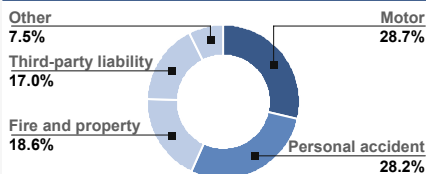
1 July 2005 – New motor tariff introduced

- Price competition in motor business. ERGO sticks to profit oriented underwriting
- Increased allowance of client specific risk characteristics in tariff
- Same tariff for ERGO companies Victoria, Hamburg-Mannheimer, D.A.S.

Initiatives in 2006

- Expansion of affinity distribution and distribution co-operation
- Further development of cancellation prevention
- Further reduction of operating costs

ERGO 2005 – Gross premiums written



Market 2004<sup>1</sup> – Gross premiums written



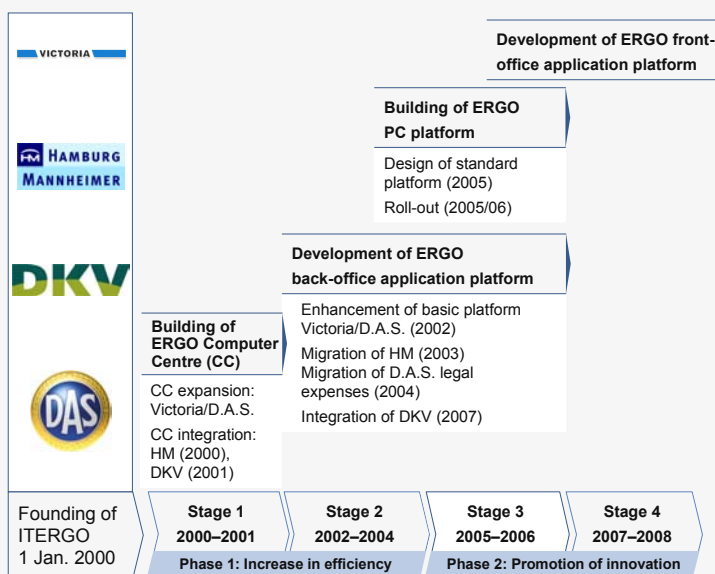
Under proportionate share in motor business,  
high proportion of attractive personal accident business

<sup>1</sup> For 2005 no market figures available yet.

Business opportunities – Efficiency improvement in primary business



**ERGO**  
**Ahead of peers – Example IT**



Further ERGO examples of integration

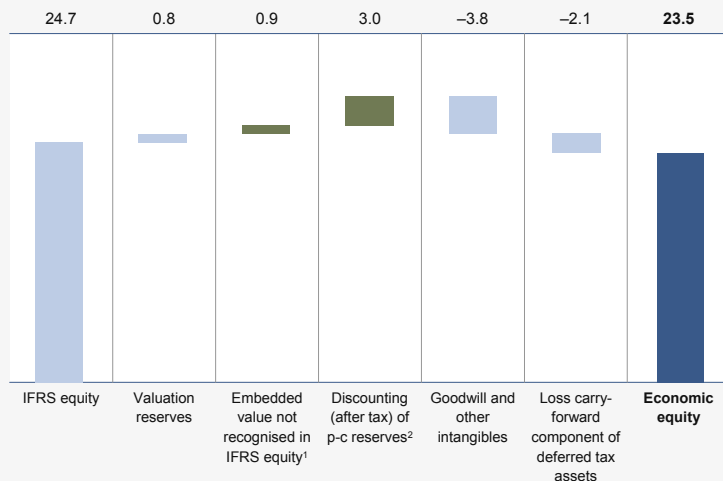
- Concentration of investments (MEAG) since 2000
- Uniform claims management since 2000
- New management structure in 2004

New target and Active capital management – Enhanced financial strength

**Munich Re Group balance sheet per 31.12.2005**  
**Detailed derivation of economic equity from IFRS equity**



in €bn



<sup>1</sup> Embedded value not recognised in IFRS equity as disclosed in 2005

<sup>2</sup> Represents IFRS reserves less the economic value of reserves, determined by discounting the expected pay-out pattern of outstanding claims at the after-tax currency-specific risk-free rates

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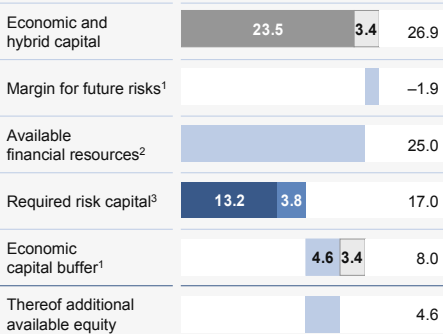
New target and Active capital management –  
Alignment of internal steering and external target communication

**Summary of economic capital disclosure**



Position as at 1 January 2006

in €bn



■ Economic capital    □ Hybrid capital  
■ Reinsurance segment    ■ Primary segment

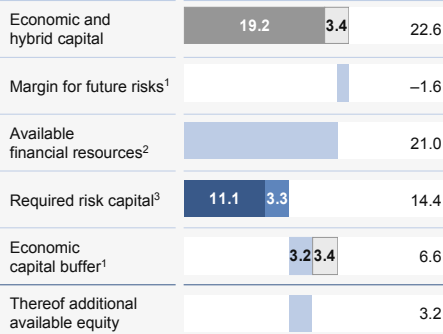
<sup>1</sup> Allowance for additional risk capital charge for uncertainty from p-c reinsurance segment beyond the current calendar year's requirements. In 2005 the charge was deducted in the stress test calculations of the economic capital buffer. In 2006 this item has been deducted directly from available financial resources.

<sup>2</sup> Sum of economic capital and hybrid capital less the margin for future risks.

<sup>3</sup> Based on requirements of internal risk model, calibrated to withstand two 1-in-100-year losses; equivalent to an economic probability of default in the AA to AAA range.

Position as at 1 January 2005

in €bn

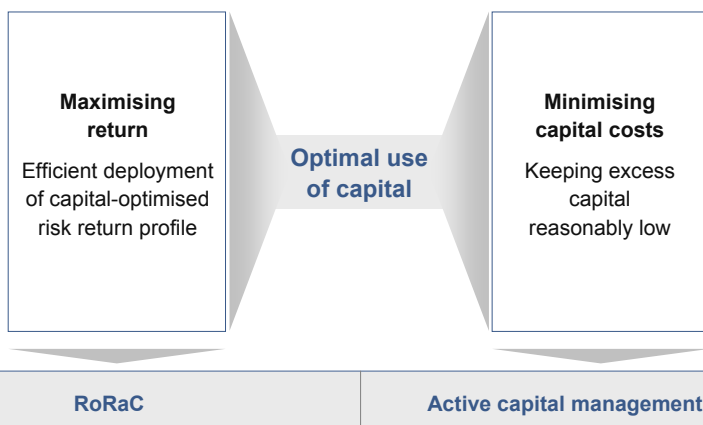


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New target and Active capital management –  
Alignment of internal steering and external target communication

**Munich Re's strategy for sustainable value creation**  
**Dedicated to use financial resources most efficiently**



New target and Active capital management –  
Alignment of internal steering and external target communication

**Better alignment of internal steering and external target communication**



$\text{RoE} = \frac{\text{Net income}}{\text{Shareholders' Equity}}$ <p style="text-align: center; color: blue;">Previous</p>	<ul style="list-style-type: none"> <li>+ Simple and accepted measure to be directly calculated from P&amp;L and balance sheet</li> <li>- Shareholders' Equity does not correspond to capital that is involved in value creation</li> <li>- Gives incentive to steer according to total earnings rather than risk adequate performance (marginal additional profit with substantial increased risk position)</li> <li>- Shareholders' equity distorted by accounting conventions</li> </ul>
$\text{RoRaC} = \frac{\text{Adjusted net income}}{\text{Risk-based capital}}$ <p style="text-align: center; color: blue;">New</p>	<ul style="list-style-type: none"> <li>+ Measure to be directly calculated from P&amp;L and annually published capital information</li> <li>+ Builds on net income as an accepted measure to communicate earnings of respective period.</li> <li>+ Earnings are only adjusted by one minor, fully transparent component which is logical consequence of using risk-based capital in the denominator.</li> <li>+ Risk capital reflects capital involved in value creation</li> <li>- Numerator still mainly driven by accounting conventions</li> </ul>

Enhanced disclosure of risk position has prepared ground to link earnings with capital involved in value creation

New target and Active capital management –  
Alignment of internal steering and external target communication

**Focus on sustainability of high earnings  
requires risk adjusted targets**



1. Internal steering according to Value-based management through Risk-based capital allocation using RoRaC in Non-Life and European Embedded Value in life
2. Absolute return targets and RoE important, but not reflecting risk-adequate employment of capital measured by risk return-profile (=> RoRaC)
3. In 2005 risk-adequate level of earnings achieved
4. Focus in future on
  - Sustainability of earnings
  - Resilience to adverse market developments by applying strictest discipline in underwriting and asset management

New target and Active capital management –  
Alignment of internal steering and external target communication

**Calculation of RoRaC**



Target net income	=	RoRaC	x	RBC	+	$i \times (1-t)$	x	Additional available equity
Consolidated IFRS net income		Measure for the efficient use of capital involved in the value creating process		Risk-based capital (RBC) beginning of year derived from comprehensive stochastic modeling		$i = 1\text{-Year LIBOR-rate}$ $t = \text{Munich Re's tax rate of } 40\%$		Additional available equity beginning of year = Economic equity – margin for future risks - RBC
€2.6bn		15%		€17bn		3.0% x 60%		€4.6bn

$$\text{RoRaC} = \frac{\text{Net income} - \text{Risk-free interest rate} \times (1 - \text{tax rate}) \times \text{Additional available equity}}{\text{Risk-based capital}}$$

New target and Active capital management – Outlook

**New RoRaC target  
Assumptions 2006**



**RoRaC target : 15%**

	Reinsurance	Primary insurance
Gross premiums written	€22–23bn	€16.5–17bn
Currency environment	stable	
Normal major losses	Nat Cat 5%	–
Combined ratio non-life	below 97%	below 95%
European Embedded Value Earnings	in the range of 8–9%	in the range of 8–9%
Return on investment	4.5%	
Tax environment	stable	
<b>Net profit</b>	<b>€2.1–2.3bn</b>	<b>€0.6–0.7bn</b>
<b>Consolidated net profit for the Group</b>	<b>€2.6–2.8bn</b>	

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Outlook

**Reinsurance**



**Outlook for life and health**

- Life: Steady development expected after growth of recent years
- Health: Opportunities for various business models in other countries; increased cooperation with DKV

**Property-casualty renewals**

- Renewals of European property-casualty reinsurance business at the beginning of the business year involved some 66% of property-casualty reinsurance business (average treaty duration: 1 year)
- Renewals resulted in a 4.8% increase in premium volume, thereof 1.7% for price increases, 1.7% for higher exposures, and 1.4% for increased shares
- Expectations:
  - Recalibration of risk models in the US hurricane regions (RMS)
  - Return period in the S&P model for risks from natural hazards raised from 100 years to 250 years; therefore higher rating-capital requirements
- Increase in primary insurers' demand for reinsurance cover

**Overall outlook for reinsurance**

- Stable gross premium income of between €22bn and €23bn
- Profit for the year in the range of €2.1bn to €2.3bn

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Year-end results 2005  
at 15.03.2006

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Outlook

**Primary insurance**



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**Outlook for life and health**

- Increased demand for private-provision products and annuity insurance
- Supplementary health insurance products likely to continue performing positively, but remaining uncertainty about the effects of possible reforms

**Outlook of property-casualty**

- Moderate growth due to consistent underwriting policy
- Fiercer competition on the German motor insurance market

**Overall outlook for primary insurance**

- Stable gross premium income of between €16.5bn and €17bn
- Profit for the year in the range of €600m to €700m

**Disclaimer**



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