



# QUARTERLY FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2010

Media telephone conference

9 November 2010

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Munich RE 

## Agenda

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## Overview

## Sound financial development allowing for increased earnings outlook 2010

## Munich Re (Group)

**Pleasant net result of €1,955m in Q1–3 2010**

Ongoing strong investment result and low claims in Q3

**Balanced investment portfolio**

Low interest rates cause value of fixed-interest investments to rise but reduce future returns

**Profit guidance raised to around €2.4bn**

Target of >€2bn for 2010 should be markedly exceeded

**Reinsurance****Good Q3 mitigating significant claims in Q1–2 2010**

Combined ratio p-c in Q3 standalone: 93.8%

**Primary insurance****Good operating performance**

€301m consolidated ERGO result in Q1–3 2010 confirming positive trend

**Munich Health****Consolidation process well on track**

Position in the US medicare market strengthened by the acquisition of Windsor

## Agenda

Overview

**The Group**













Primary insurance

Reinsurance

Summary and outlook

## The Group – Overview

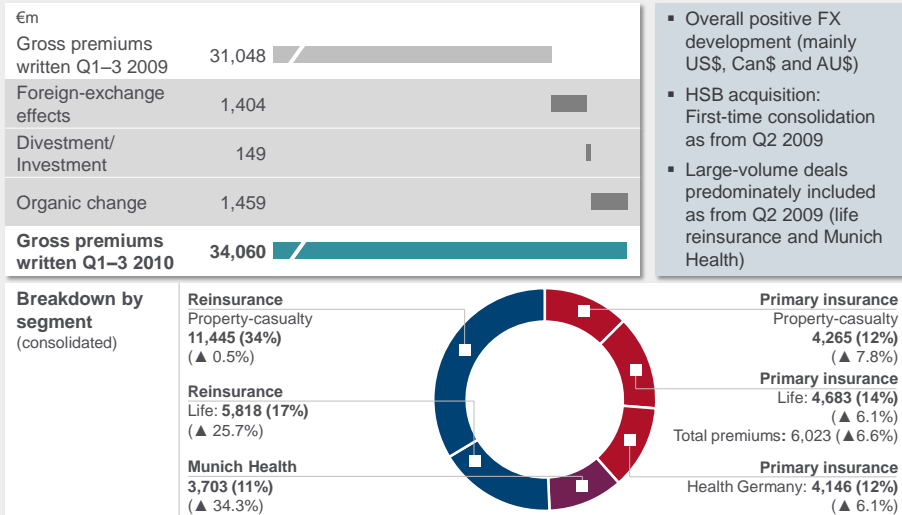
**Strong investment result compensates for higher claims**

GROUP Gross premiums written	GROUP Operating result	GROUP Consolidated result
€m	€m	€m
Q1–3 2009 31,048 	Q1–3 2009 3,321 	Q1–3 2009 1,784 
Q1–3 2010 34,060 	Q1–3 2010 3,367 	Q1–3 2010 1,955 
Substantial organic growth in addition to positive FX effects	Investment result more than offsets impact of higher claims	Outlook net income 2010 increased to ~€2.4bn
REINSURANCE Consolidated result	PRIMARY INSURANCE Consolidated result	MUNICH HEALTH Consolidated result
€m	€m	€m
Q1–3 2009 1,869 	Q1–3 2009 95 	Q1–3 2009 –1   
Q1–3 2010 1,659 	Q1–3 2010 432 	Q1–3 2010 57   
Significant impact of higher claims in property-casualty	All segments achieving increased results	Pleasant result – 2009 burdened by Sterling goodwill impairment

The Group – Premium development

## Strong FX contribution in addition to organic growth in life reinsurance and Munich Health

Munich RE

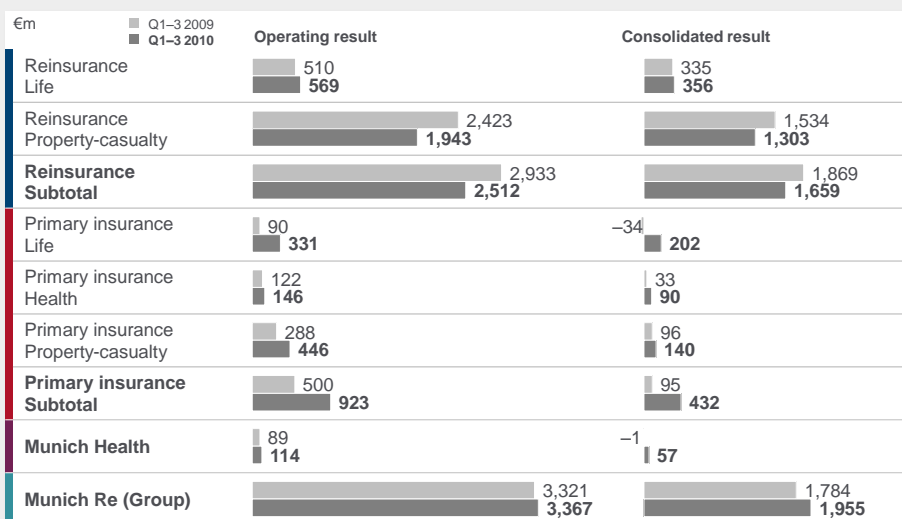


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The Group – Operating and consolidated result

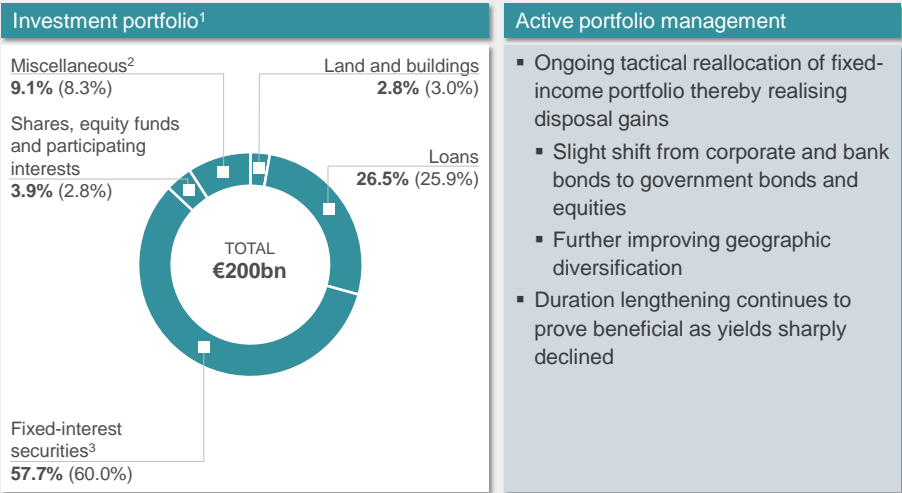
## Strongly increased contribution of primary insurance to Group earnings

Munich RE



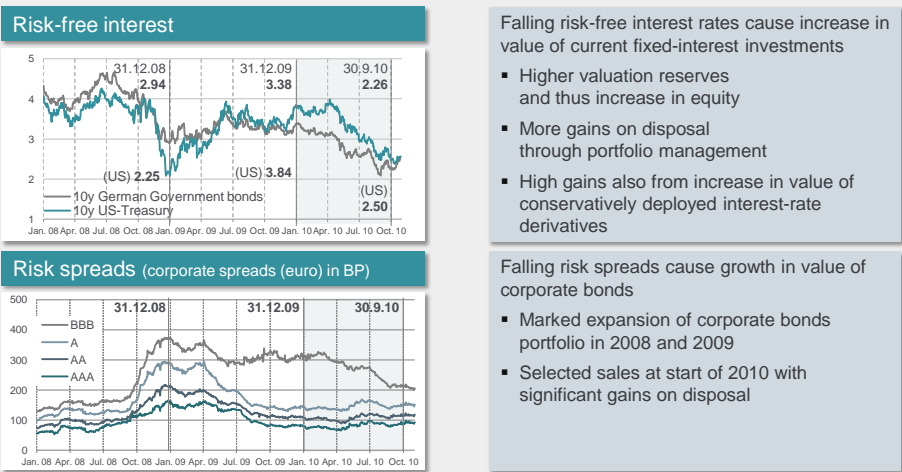
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Active asset management on the basis of a well-diversified investment portfolio



<sup>1</sup> Fair values as at 30.9.2010 (31.12.2009).  
<sup>2</sup> Deposits retained on assumed reinsurance, investments for unit-linked life, deposits with banks, investment funds (bond, property) and held for trading derivatives with non-fixed interest underlying.  
<sup>3</sup> Categories "available for sale", "held to maturity" and "at fair value".

Active asset management successful in environment of falling interest rates



But: Declines in market interest rates dampen future return expectations

## The Group – Investment result

## Substantially improved investment result driven by high disposal gains and write-ups



	€m	Q1–3 2010	Return <sup>1</sup>	€m	Q1–3 2009	Return <sup>1</sup>
Regular income	5,844		4.0%	5,704		4.2%
Write-ups/write-downs of investments	290		0.2%	–838		–0.6%
Gains/losses on the disposal of investments	1,409		1.0%	1,069		0.8%
Other income/expenses	–262		–0.2%	–143		–0.1%
<b>Investment result</b>	<b>7,281</b>		<b>5.0%<sup>2</sup></b>	<b>5,792</b>		<b>4.3%<sup>2</sup></b>

- Regular income: Slight increase in absolute terms due to higher asset base and cautious investments in higher yielding fixed-interest securities (e.g. longer durations and investment in loans) compensating for lower reinvestment rates
- Write-ups/write-downs: Strong improvement driven by write-ups on swaptions (increase of ~€800m) as a result of declined interest levels; lower write-downs on equities due to recovered capital markets
- Gains on disposal (increase of €340m): High contribution from sale of corporate, government and covered bonds at relatively low interest-rate levels and narrowed credit spreads and gains of interest-rate futures

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

<sup>2</sup> Total return on investment Q1–3 2010 (incl. change in on- and off-balance-sheet reserves): 9.2% (7.3%).

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## The Group – Capitalisation

## Substantial increase in shareholders' equity despite €2.1bn capital repatriation in Q1–3 2010



€m	Q1–3	Change Q3
Equity 31.12.2009	22,278	–
Consolidated result	1,955	761
<b>Changes</b>		
Dividend	–1,072	–
Unrealised gains/losses	1,627	1,066
Exchange rates	405	–1,107
Share buy-backs	–1,010	–277
Other	–47	–56
<b>Equity 30.9.2010</b>	<b>24,136</b>	<b>387</b>

**Unrealised gains/losses**

Strong increase mainly due to declining bond yields

**Share buy-backs**

In October 2010, shares for further €85m were repurchased

**Exchange rates**

Overall favourable development in Q1–3 mitigated by weaker US\$ in Q3

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Strong top-line growth fuelled by large deals

Gross premiums written

€m	
Q1–3 2009	2,905
Q1–3 2010	3,836
Growth due to capital-relief treaties in North America/Asia and currency effects	

Investment result

€m	
Q1–3 2009	108
Q1–3 2010	122
Increase due to regular income and lower write-downs	

Technical result

€m	
Q1–3 2009	41
Q1–3 2010	57
Improvement due to better combined ratio in USA and new business	

Operating result

€m	
Q1–3 2009	89
Q1–3 2010	114
Improvement due to more favourable claims development and new business	

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## Primary insurance – Overview

## Primary insurance with pleasing results



## Gross premiums written

€m

Q1–3 2009 12,289

Q1–3 2010 13,132

Growth in all segments –  
Total premiums rise even more

## Combined ratio property-casualty

%

Q1–3 2009 94.3

Q1–3 2010 95.6

Ratio up due to international business –  
Combined ratio in Germany improved to 88.8%Investment result<sup>1</sup>

€m

Q1–3 2009 3,266

Q1–3 2010 4,567

Write-downs significantly decreased –  
Write-ups on interest rate hedges

## Consolidated result

€m

Q1–3 2009 95

Q1–3 2010 432

ERGO Insurance Group's consolidated result  
clearly improved to €301m (€73m)

<sup>1</sup> Investment result incl. unrealised gains/losses from investments in unit-linked life insurance; thereof unit-linked business: €178m in Q1–3 2010 (€352m in Q1–3 2009).

## Primary insurance – Premium development

## Growth in all segments



€m

Gross premiums written Q1–3 2009 12,289

Foreign-exchange effects 113

Divestment/Investment –

Organic change 730

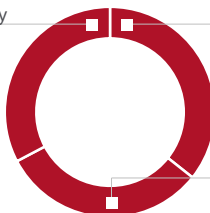
Gross premiums written Q1–3 2010 13,132

Breakdown by segment  
(segmental, not consolidated)

Property-casualty

4,297 (33%)  
(▲ 8.4%)

Life

4,683 (36%)  
(▲ 6.1%)Health  
Germany4,152 (31%)  
(▲ 6.1%)

- Life business up in Germany and abroad
- Strong growth also due to premium rate increases
- German property-casualty business grows above market-average, mainly commercial/industrial

Total premiums life:

- IFRS premiums €4,683m (▲ 6.1%)
- Savings component of unit-linked and capitalisation products €1,340m (▲ 8.2%)
- **Total premiums €6,023m (▲ 6.6%)<sup>1</sup>**

<sup>1</sup> Total premiums German life Q1–3 2010: €4,493m, ▲ 6.0%.



Primary insurance – Life – New business

## ERGO new business in life insurance up due to single premiums

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Total				
€m	Total	Regular premiums	Single premiums	APE <sup>1</sup>
Q1–3 2009	1,804	344	1,460	490
Q1–3 2010	2,247	327	1,920	519
Δ	24.6%	–4.9%	31.5%	5.9%

Germany				
€m	Total	Regular premiums	Single premiums	APE <sup>1</sup>
Q1–3 2009	1,171	228	943	322
Q1–3 2010	1,505	216	1,289	345
Δ	28.5%	–5.3%	36.7%	7.1%

### Comments

- Trend away from regular premiums and towards single premiums holds true for German and international business
- Germany
  - Strong growth in traditional annuity business
  - Total new business (regular premiums plus single premiums) up by 28.5%
- Strong growth in Poland (especially bancassurance) and Belgium

### International

€m	Total	Regular premiums	Single premiums	APE <sup>1</sup>
Q1–3 2009	633	116	517	168
Q1–3 2010	742	111	631	174
Δ	17.2%	–4.3%	22.1%	3.6%

<sup>1</sup> Annual premium equivalent (APE = regular premiums + 10% single premiums).

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Primary insurance – Combined ratio property-casualty

## Combined ratio in international business under pressure from weather-related losses

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%		Loss ratio	Expense ratio
2008	90.9	58.4	32.5
2009	93.2	60.3	32.9
Q1–3 2008	90.0	57.2	32.8
Q1–3 2009	94.3	61.8	32.5
Q1–3 2010	95.6	63.0	32.6



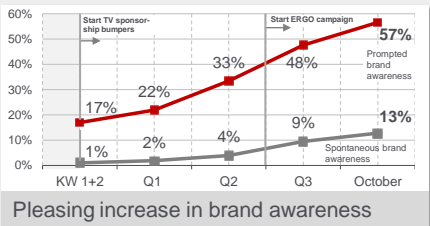
- German business with very good and falling ratio of 88.8% (89.8%) – Q3 excellent
- International business with rising ratio of 106.3% (102.1%)
- Harsh winter and flood losses in Poland
- Difficult profit situation in the Turkish motor market
- Combined ratio in international legal protection business back to range below 100%

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Primary insurance – New brand strategy  
Brand-change process formally concluded



Very popular advertising campaign



Source: ERGO market research/ Icon Added Value

Final legal steps

- Merger of Victoria health insurance on DKV health insurance
- Merger of Hamburg-Mannheimer legal protection on D.A.S. legal protection
- Portfolio transfer of corporate pension business from Victoria to ERGO life insurance

In each case effective as at 1 Jan. 2010

Delivery on brand pledges work in progress

- Advertising campaign "To insure is to understand" phrases ERGO's ambition
- Portfolio of "Beacon Projects" implemented to deliver on brand pledges, e.g. regarding
  - Clarity
  - Feedback culture
  - Easy to understand products
  - Claims handling

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## Reinsurance – Overview

## Improved result in life reinsurance partly compensates for high losses in property-casualty



## Gross premiums written

€m

Q1–3 2009 16,531

Q1–3 2010 17,628

Large-volume deals and favourable FX contribution balancing selective underwriting

## Investment result

€m

Q1–3 2009 2,812

Q1–3 2010 2,851

Higher regular income and increased gains on disposal

## Technical result

€m

Q1–3 2009 1,256

Q1–3 2010 1,025

High claims activity in property-casualty mitigated by higher technical result in life reinsurance

## Operating result

€m

Q1–3 2009 2,933

Q1–3 2010 2,512

Successful investment management partly mitigating higher major losses in p-c

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## Reinsurance – Premium development

## Favourable FX contribution as main driver of premium growth



€m

Gross premiums written Q1–3 2009 16,531

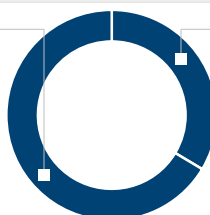
Foreign-exchange effects 1,022

Divestment/Investment 149

Organic change –74

Gross premiums written Q1–3 2010 17,628

- Clearly positive FX effects
- Premium income growth through acquisition of HSB
- Organic growth in Life only (mainly from large quota share deals)

Breakdown by segment  
(segmental, not consolidated)Property-casualty  
11,712 (66.4%)  
(▲ 0.6%)Life  
5,916 (33.6%)  
(▲ 21.1%)

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## Reinsurance – Combined ratio property-casualty

Good combined ratio of 93.8% in Q3 partly mitigating exceptionally high major losses in Q1–2 2010



% <sup>1</sup>		■ Loss ratio (Thereof nat cat/Thereof man-made)	■ Expense ratio
2008	99.4	69.6 (6.2/5.0)	29.8
2009	95.3	65.7 (1.4/6.9)	29.6
Q1–3 2008	100.1	71.4 (7.8/4.7)	28.7
Q1–3 2009	96.3	67.8 (2.6/6.1)	28.5
Q1–3 2010	102.1	72.0 (10.8/4.9)	30.1



- High major losses in Q1–3 2010 (€1,657m vs. 5-year average €1,027m)
- Nat cat losses (€1,134m) clearly exceed 5-year average (€587m)
- Man-made losses (€523m) also above 5-year average (€440m)
- Expense ratio: Growing share of Munich Re Risk Solutions business with structurally different cost ratio (but lower loss ratios)

<sup>1</sup> Incl. credit, overhead costs and run-off result.

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## Reinsurance

## Special policies for oil drilling operations – Update



- High demand for insurance coverage if of a substantial amount
- Very constructive discussions with leading brokers – Insurance consortium planned

## New cover

## Project-specific liability policy

- Cover for each well
- Insurance of all new and existing drilling operations
  - Exploration wells
  - Development wells (between discovery and production)
  - Production wells
- Workovers (measures to improve production)

Limit: Up to  
US\$ 20bn

Retention  
approx. US\$ 1–2bn

- Existing covers (company-specific liability policies) remain in place
- Possibly in order to cover the retention

**Better coverage through significant increase in liability limits**

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## Summary and outlook

### Munich Re to continue to place high emphasis on sustainable earnings in a low-yield environment



#### Outlook 2010

##### CAPITAL REPATRIATION

Continuation of share buy-back programme of up to **€1bn** until AGM 2011<sup>1</sup>

##### GROSS PREMIUMS WRITTEN

**€44–46bn**<sup>2</sup>

##### RETURN ON INVESTMENT

**~4.5%** (prev. slightly >4%)

##### NET INCOME

**~€2.4bn**<sup>3</sup> (prev. >€2.0bn)

##### COMBINED RATIO – REINSURANCE P-C

**97% over-the-cycle** – in 2010 slightly below 100% expected<sup>4</sup>

##### COMBINED RATIO – PRIMARY INSURANCE P-C

**~95%**

#### First indication 2011

##### RoRAC

15% a real challenge given sustainably very low interest rates

Economically balanced positioning stabilises results and lowers cost of capital

##### RETURN ON INVESTMENT

Assuming insignificant non-recurring gains/losses and a continuation of the low interest-rate environment, RoI expected to drop below 4%

##### PROFIT

Expectation for net result to stand –

➡ Net result 2011 now presumably slightly below the increased outlook for 2010<sup>5</sup> while higher technical result expected

<sup>1</sup> Full execution remains subject to developments in the capital markets and the general economic environment. Until 31 October Munich Re repurchased own shares amounting to €475m.

<sup>2</sup> Thereof €23–24bn in reinsurance, €17–18bn in primary insurance and approx. €5bn in Munich Health (all on basis of segmental figures).

<sup>3</sup> Assuming stable capital markets and FX developments as well as normal claims activity in Q4.

<sup>4</sup> Presuming normal claims activity in Q4.

<sup>5</sup> Assuming normal claims activity and generally stable prices in reinsurance.

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## Disclaimer



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This presentation 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.

**Note regarding the presentation of the previous year's figures**

- For the new reporting format in connection with the first-time application of IFRS 8 "Operating Segments" as at 1 January 2009, several prior-year figures have been adjusted in the income statement.
- For the sake of better comprehensibility and readability, we have refrained from adding the footnote "Previous year's figures adjusted owing to first-time application of IFRS 8" to every slide.
- For details and background information on IFRS 8, please read the presentation "How does Munich Re apply the accounting standard IFRS 8 'Operating Segments'?" on Munich Re's website (<http://www.munichre.com/en/ir/service/faq/default.aspx>).
- On 30 September 2008, through its subsidiary ERGO Austria International AG, Munich Re increased its stake in Bank Austria Creditanstalt Versicherung AG (BACAV) and included it in the consolidated group. The figures disclosed at the time of first consolidation were of a provisional nature. Therefore, several previous year figures have been adjusted in order to complete the initial accounting for a business combination (IFRS 3.62).
- Previous year figures also adjusted according to IAS 8.