

# Delivering strong capital returns

Balance sheet press conference 2015

Munich, 11 March 2015

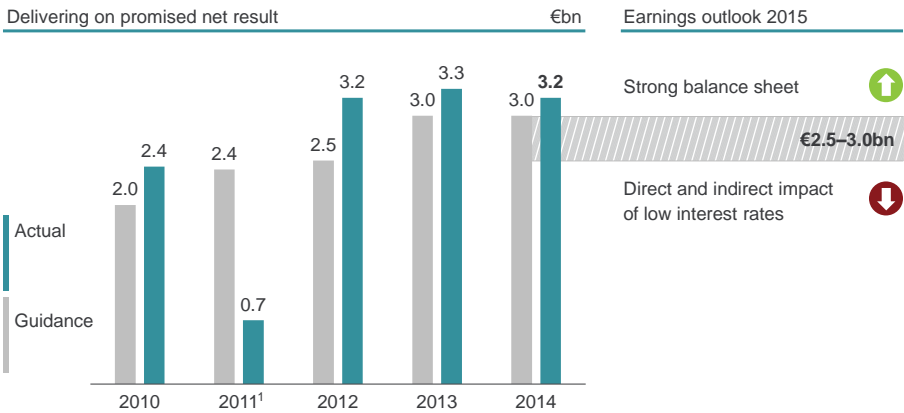
Agenda



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Delivering strong capital returns

Munich Re remains an under-promise/  
over-deliver investment case



**Strong balance sheet mitigates earnings pressure from low interest rates and declining reinsurance margins**

<sup>1</sup> Assuming normal nat cat claims based on 8.5% budget, net result would have exceeded guidance.

Delivering strong capital returns

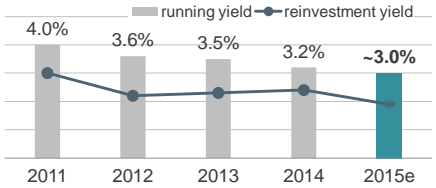
Munich Re well positioned to successfully master industry challenges



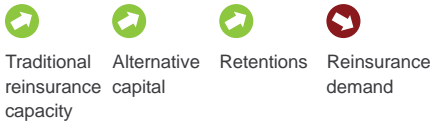
Ongoing decline in interest rates is ...



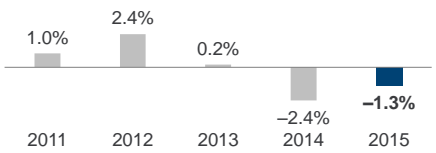
... weighing on the investment result



... also leading to imbalance of supply and demand



... and putting pressure on underwriting margins<sup>1</sup>

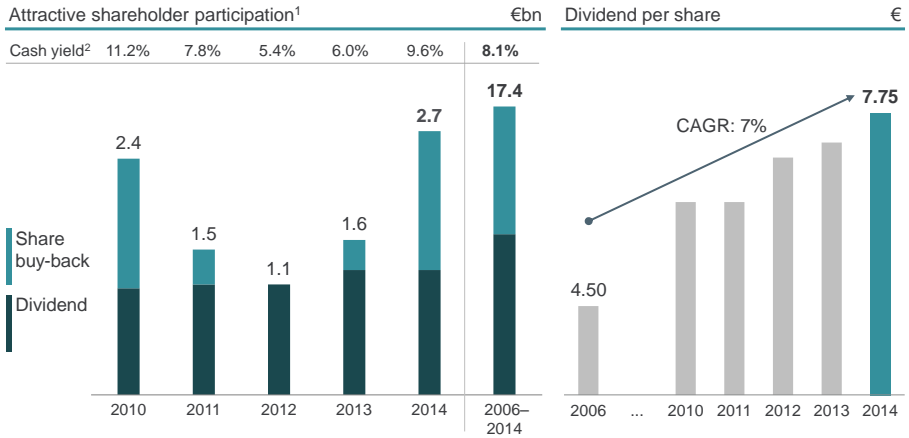


**Prudent investment strategy and underwriting discipline are the order of the day**

<sup>1</sup> Year-to-date price change of renewals. 2015 only includes January renewals. Balance sheet press conference 2015 4

Delivering strong capital returns

Sound capitalisation is driving high shareholder payout ...



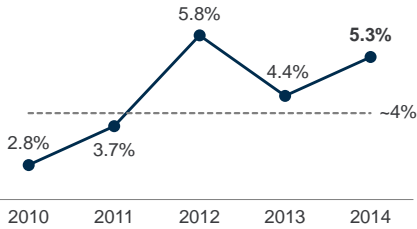
**Temporarily lower earnings are not jeopardising our capital return story**

<sup>1</sup> Cash-flow view. <sup>2</sup> Total payout (dividend and buy-back) divided by average market capitalisation. Balance sheet press conference 2015 5

Delivering strong capital returns  
 ... and stabilising earnings  
 in a softening reinsurance market

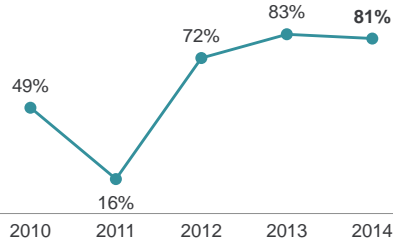


Constantly positive net run-off results in property-casualty reinsurance<sup>1</sup> ...



Actual losses consistently below actuarial expectations – at least 4% reserve releases also expected going forward

... support high earnings contribution from underwriting at Group level<sup>2</sup>



Sound technical results (including technical interest) mitigate declining contribution from investment income

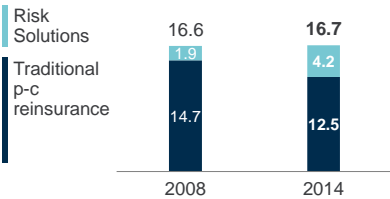
**Profitability in property-casualty reinsurance supported by strong reserving position**

<sup>1</sup> In % of net earned premiums, adjusted for commission effects.  
<sup>2</sup> Contribution of technical result as a percentage of operating result.

Delivering strong capital returns  
 Reinsurance – Leveraging on leading market position

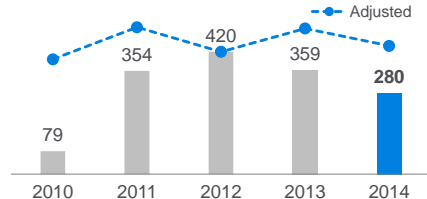


Property-casualty – GWP<sup>1</sup> €bn



- Continued growth in attractive specialty business (Risk Solutions) ...
- ... mitigates competitive pressure and decline of traditional book – rigorous cycle management
- Expansion of tailor-made solutions and innovative concepts for new and emerging risks

Life – Technical result €m



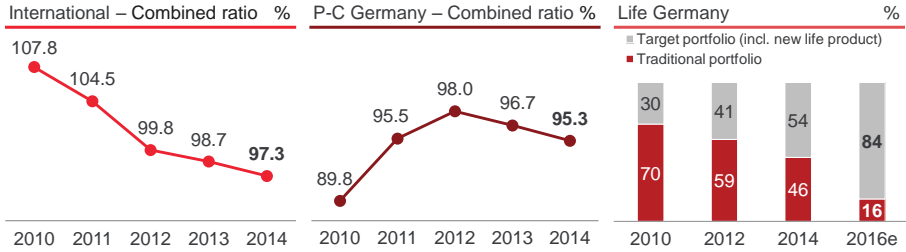
- Thorough review of critical portfolios results in earnings volatility ...
- ... while majority of the business performs in line with expectations or better
- Confirmed technical result target of ~€400m p.a.

**Actively shaping our business model – Seizing opportunities for profitable growth, taking advantage of underinsured markets/risks and demographic challenges**

<sup>1</sup> Gross premiums written.

Delivering strong capital returns

ERGO – Management measures bearing fruit



- Back to normal – Turnaround successfully completed
- Combined ratio better than initial target of ~98%
- Sound profitability – Based on favourable business mix
- Combined ratio target: ~93%
- Continuously improving risk/return profile
- Expansion of new life product
- Interest-rate hedging
- Duration management
- Restrictive bonus policy

**Low interest rates reign – ERGO on the move, addressing the challenges**

Delivering strong capital returns

Munich Health – Focus on stabilising business



<p><b>E</b>XCELLENCE Strengthen core capabilities</p> <ul style="list-style-type: none"> <li>✓ Continuously improve processes in underwriting, client management and product development</li> </ul>	<p><b>E</b>XECUTION Improve effectiveness</p> <ul style="list-style-type: none"> <li>✓ Stronger business-unit-level focus</li> <li>✓ Turnaround of underperforming business</li> <li>✓ Seize opportunities of digitalisation</li> </ul>	<p><b>E</b>XPANSION Seize growth opportunities</p> <ul style="list-style-type: none"> <li>✓ Expansion in Middle East</li> </ul>
<ul style="list-style-type: none"> <li>▪ Set up expertise and best practice</li> <li>▪ Enhance new focus areas, e.g. data analytics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Further recalibrate local strategies to market conditions and client needs</li> <li>▪ Explore digitalisation developments and their application to health</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement new ventures</li> <li>▪ Tap emerging markets</li> </ul>
Continuous approach	Current focus	Stronger focus in future

**Private health insurance growing worldwide above GDP – Munich Health paving the way for sustainable growth**

## Agenda



Delivering strong capital returns	Nikolaus von Bomhard
<b>Munich Re (Group)</b>	Jörg Schneider
ERGO	Torsten Oletzky
Reinsurance	Torsten Jeworrek
Outlook	Nikolaus von Bomhard

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Munich Re (Group) – Financial highlights 2014

## Good annual profit of €3.2bn – Dividend increasing to €7.75 per share



### Munich Re (Group) – Q1–4 2014 (Q4 2014)

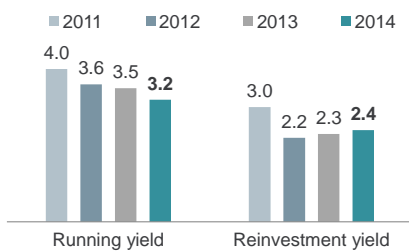
<b>NET RESULT</b> <b>€3,171m</b> (€729m)	<b>SHAREHOLDERS' EQUITY</b> <b>€30.3bn</b> (+3.6% vs. 30.9.)	<b>INVESTMENT RESULT</b> <b>Rol of 3.6%</b> (3.4%)
Pleasing result with several countervailing items – tax refund, benign major losses, goodwill impairment, Australian disability	Strong capital position – increased dividend and continuation of share buy-back of €1bn until AGM 2016	Solid return given low interest rates – Economic ALM results in losses on derivatives while usual portfolio turnover leads to disposal gains
<b>Reinsurance</b>	<b>ERGO<sup>1</sup></b>	<b>Munich Health</b>
<b>NET RESULT</b> <b>€2,893m</b> (€962m)	<b>NET RESULT</b> <b>€169m</b> (–€247m)	<b>NET RESULT</b> <b>€109m</b> (€14m)
2,483	269	109
410	176	
	–276	
<b>P-C</b>	<b>P-C GERMANY</b>	<b>REINSURANCE</b>
Combined ratio 92.7% (91.2%)	Combined ratio 95.3% (97.1%)	Combined ratio 99.4% (99.1%)
Major-loss ratio 7.2% (6.1%)	<b>L/H GERMANY</b>	<b>PRIMARY INSURANCE</b>
Technical result of €280m below annual guidance – sound underlying performance	Decent net result	Combined ratio 95.5% (103.0%)
	<b>INTERNATIONAL</b>	
	Combined ratio 97.3% (96.8%)	

<sup>1</sup> Unless otherwise indicated, all ERGO figures shown in this presentation refer to the business field ERGO according to the segment reporting of Munich Re (Group).

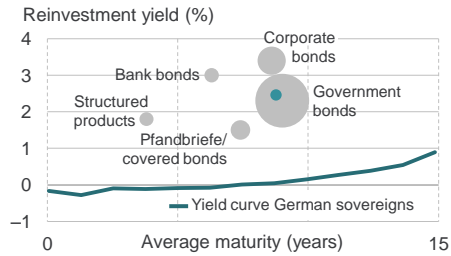
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## Well-balanced investment management in low-interest-rate environment

Running and reinvestment yield %



Composition of reinvestment yield 2014<sup>1</sup>



- Long duration has been stabilising investment returns in recent years
- At current interest-rate levels, expected annual attrition of running yield ~20bps in 2015
- Solid reinvestment yields without taking high risks
- In addition to long duration, ongoing geographic diversification and cautious expansion of credit exposure mitigating attrition of running yield

### Well-balanced portfolio provides resilience against adverse capital market scenarios

<sup>1</sup> Bubble size reflects reinvestment volume. Yield curve as at 31.12.2014.

## Strong balance sheet facilitates earnings resilience and attractive distributions to shareholders

Sound net profit

Less required capital

Subdued growth opportunities

- Currently limited opportunities to profitably grow the business in traditional reinsurance ...
- ... tend to lead to lower capital requirements for FX-adjusted underwriting risks
- M&A prices often too high

No intention to have substantially higher investment risks

- Risk profile of investments remains moderate
- Spreads of many asset classes no longer adequately reflect underlying risks

- Sensible to hold some capital buffer to absorb downside risks of macroeconomic uncertainties
- No further expansion of already comfortable capitalisation planned

### Dividend increase of 6.9% for 2014 and further share buy-back

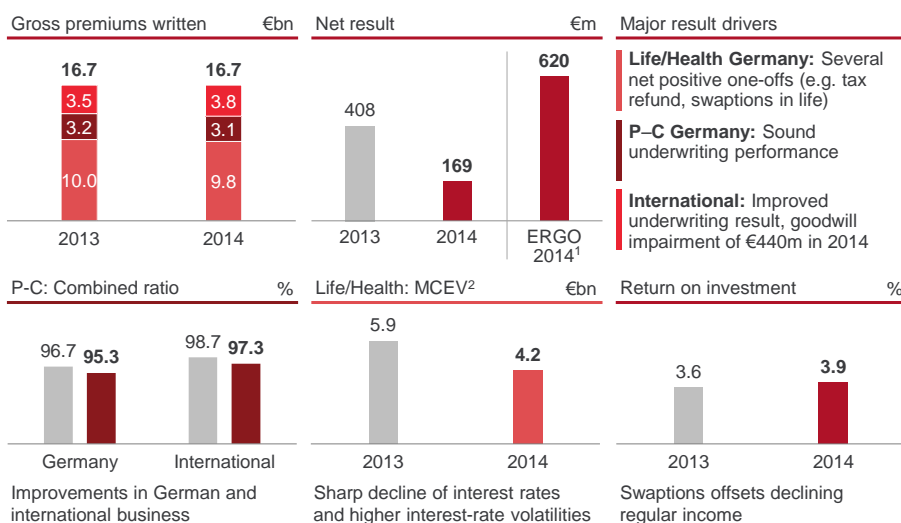
Agenda



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Outlook	Nikolaus von Bomhard

Business field ERGO – Key financials

Business field ERGO – Key financials

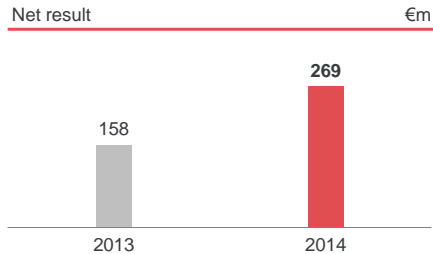
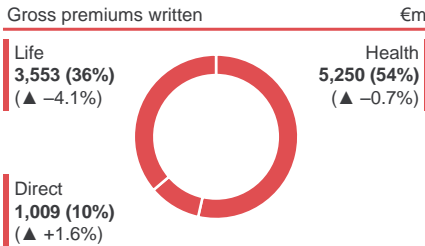


<sup>1</sup> Original result of ERGO Group.  
<sup>2</sup> German and international business.



Business field ERGO – Life/Health Germany

## Low interest rates leave their mark on German life business



### Life

- Total premiums: €4,363m (-3.8%)
- Lower regular premium business
- Comprehensive management of back-book to fulfil guarantees

### Health

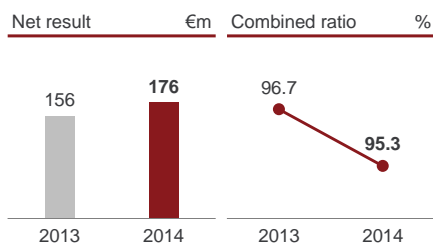
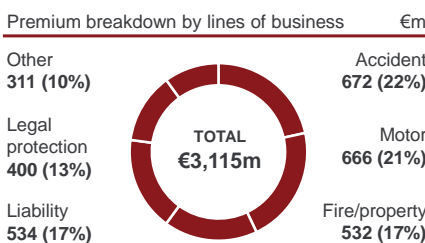
- Growth in supplementary insurance
- Lower premium income in comprehensive insurance
- Moderate price increases as at 1 April 2014: Ø 0.8% (2015: 1.9%)

### Direct

- Total premiums: €1,117m (-3.4%)
- Significantly lower single-premium capitalisation business in direct life (-€55m)
- Dental insurance remains driver of growth in direct health

Business field ERGO – Property-casualty Germany

## Property-casualty Germany – Successful business



### Highlights

- New insurance solution to protect homeowners in flood-prone areas
- Low interest rates affect markets – reduced demand, increased competition
- Commercial/industrial business: ERGO steps up cross-border activities

### Profitability further improved

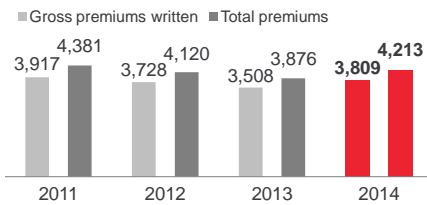
- Profitable portfolio pays off
- 2014 with low nat cat burden – storm Ela with relatively low impact
- Portfolio restructuring visible after high impact from flood and hailstorms 2013
- Profitability protected by solid reserve position

Business field ERGO – International

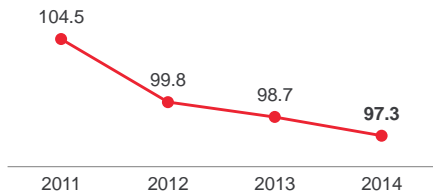
## Good profitability due to strong technical improvements in recent years



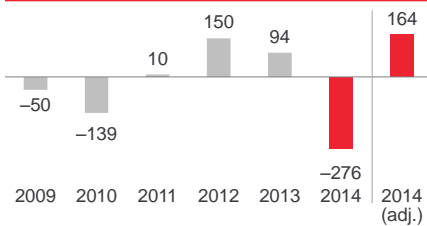
Gross premiums written/Total premiums €m



Combined ratio %



Net result €m



### Highlights

- Strong improvement of combined ratio – reserve releases in Greece and the Netherlands in 2014
- Decrease of premium levels until 2013 due to strong focus on profitability – in 2014 resumed growth, mainly in life
- Goodwill impairment due to new segmentation – pleasing adjusted net result of €164m in 2014

Business field ERGO – Development and innovation

## Continuously develops new solutions for customers' needs



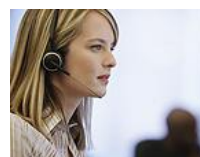
### Products

- Life: Extension of new life product concept to corporate pensions – similar product concept to be introduced in international markets
- Health: Further development of portfolio in corporate and long-term care insurance
- Property-casualty:
  - Exploration of niche business in Germany
  - Micro-insurance product weather insurance (HDFC ERGO, India)



### Sales

- Set-up of Direct Sales Competence Center to improve ERGO Germany's attractiveness for hybrid customers
  - Improve cross-selling on existing tied-agent customer base via targeted mailings
  - Increase online sales
- Online CRM and sales support tool (ERGO Hestia, Poland)



### Customer services

- Further develop COO-organisation – enhance efficiency and process quality
- Develop additional online and mobile service
- “Office in the bag” – mobile office including on-the-spot policy issuance in rural India (HDFC ERGO)

Business field ERGO – Development and innovation  
**ERGO proceeds the digital route**



**Website**

- ERGO website rankings among German insurance websites<sup>1</sup>
  - ERGO: #1
  - ERGO Direkt: #3
  - DKV: #5
- 12 products available online
- €35m in new business online in 2014
- Multiple features like
  - Tariff check (DKV)
  - Claims management evaluation (ERGO Direkt)
  - LawOnTheWeb (DAS UK)



**Mobile**

- Digital signature (ERGO Direkt) – pilot for fully digital sales process without media discontinuity
- ERGO customer app: mobile insurance file
- Claims app (DKV)
- Driver's assessment app (ERGO Baltics)
- Loss adjuster management app (ERGO Hestia, Poland)



**Innovation**

- ERGO Digital Lab in Berlin since 2013
- Cooperation with Axel Springer Plug and Play accelerator
- Cooperation with online business models (i.e. Amazon, audibene, ...)

<sup>1</sup> Source: AMC study "Die Assekuranz im Internet" (German insurers on the internet), November 2014. Photo: Axel Springer Plug and Play.

Business field ERGO – Summary

**Key takeaways**



**ERGO**

Operating business on track, result distorted by goodwill impairment, mid-term net earnings target remains ~€600m

**Life/Health Germany**

Shift to target portfolio well on track, challenges from low-yield environment

**Property-casualty Germany**

Profitable book, combined ratio: 95.3%; Target: ~93%

**International**

Measures to restore profitability successful, combined ratio: 97.3%; Target: ~97%, additional growth mainly in international life

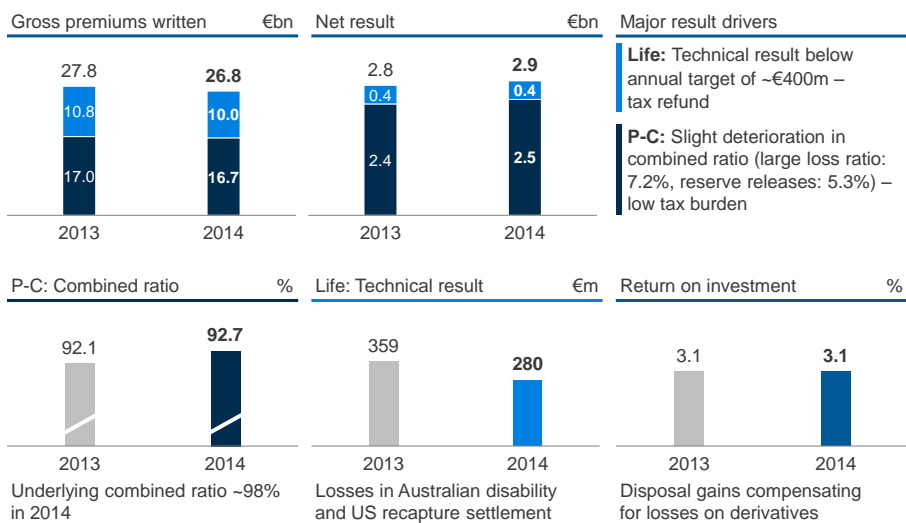
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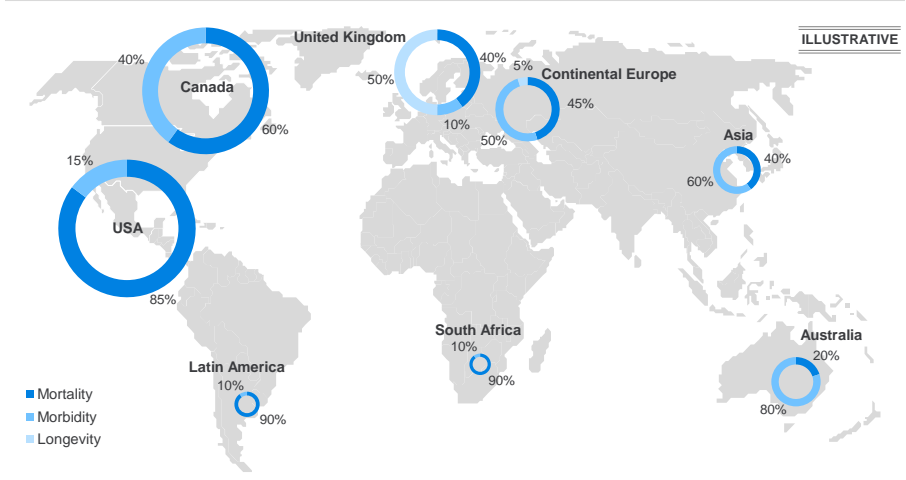
Delivering strong capital returns	Nikolaus von Bomhard
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Reinsurance

Reinsurance – Key financials



Reinsurance Life – Portfolio and strategic focus  
Well-diversified global portfolio

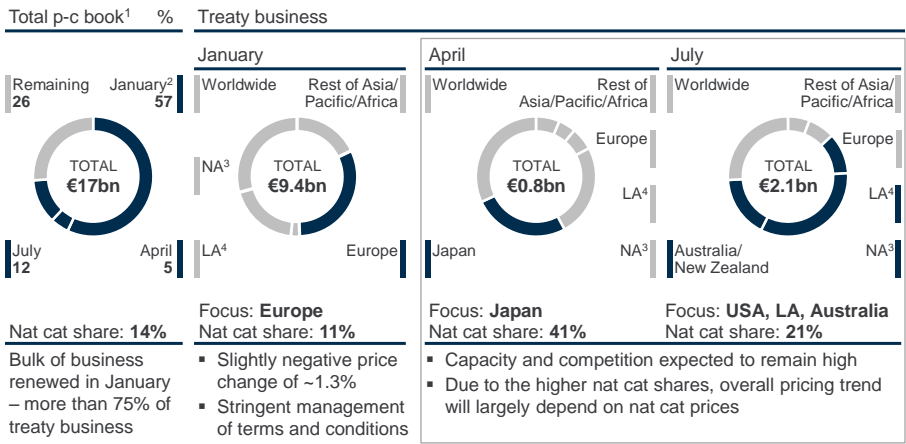


ILLUSTRATIVE

**Geographical weight on North America – High concentration on mortality risk**

Size of bubbles indicative of present value of future claims. Balance sheet press conference 2015 24

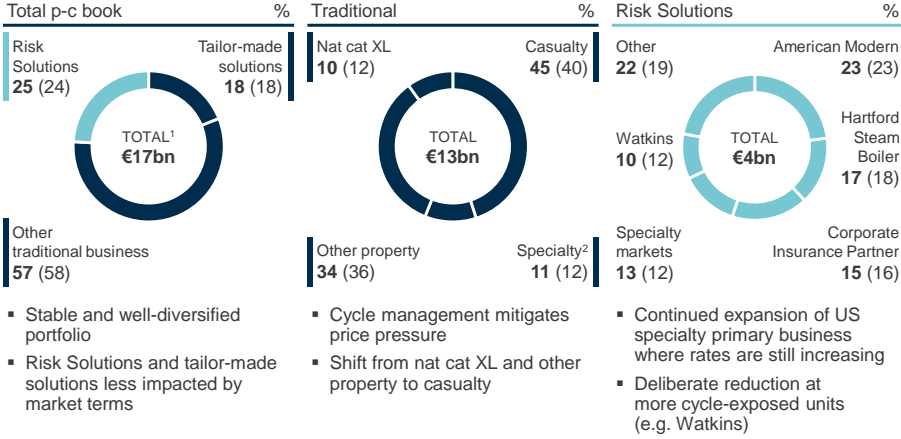
Reinsurance Property-casualty – Renewal outlook  
Upcoming renewals to take place in a continuously challenging market environment



**Clear focus on profitability to maintain portfolio quality**

<sup>1</sup> Approximation – not fully comparable with IFRS figures.  
<sup>2</sup> Includes Risk Solutions business (11% of January business or 6% of total p-c book).  
<sup>3</sup> NA = North America. <sup>4</sup> LA = Latin America. Balance sheet press conference 2015 25

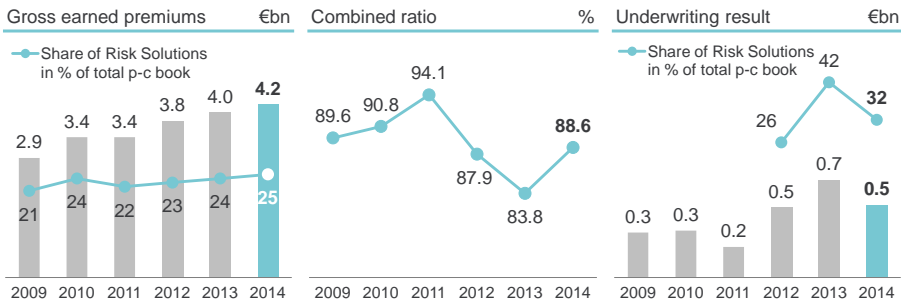
Munich Re set-up supports sustainable earnings level



**Superior diversification provides flexibility in managing the portfolio**

<sup>1</sup> Gross premiums written property-casualty reinsurance as at 31.12.2014 (31.12.2013).  
<sup>2</sup> Aviation, marine and credit. Balance sheet press conference 2015 26

Risk Solutions – Sound results provide additional stability to total p-c book



Drivers in 2014

- Successful expansion through acquisition of Australian MGA Calliden
- Strong bottom-line driven by low major losses and reserve releases – highest result contribution from US Special entities

Continuous investments to reap further organic growth potential

**Increasingly valuable business segment with strong premium growth and bottom-line contribution**

**Strategic development of innovative business –  
Growing and profitable share in Munich Re’s portfolio**



Creating solutions for new and emerging risks

Rising demand for innovative business solutions

- Technology**
- Cyber risks
  - Energy risks
  - Supply chain risks
  - Non-damage business interruption

- Environment**
- Climate change
  - Weather events
  - Water crisis

- Society**
- Contentious diseases
  - Rising cost of medical treatment
  - Reputational risks

- Politics**
- Regulatory changes
  - Global governance failure
  - Political and social instability/conflicts

Munich Re well positioned

- Dedicated specialised business units**
- Special Enterprise Risk
  - Financial & Enterprise Risk
  - HSB Strategic products
  - Munich Re Weather & Commodity Risk Holding

**Innovation initiatives across all business units**

- Continuous product innovation – Examples**
- Solutions for broad range of cyber risks
  - Space – launch + life cover for satellites
  - Reputational risk cover
  - Project cost insurance for construction risks

**Tapping new profit pools by expanding existing market boundaries with innovative products and services**

**Cyber (re-)insurance – Prudent and profitable growth through innovation and profound risk control**

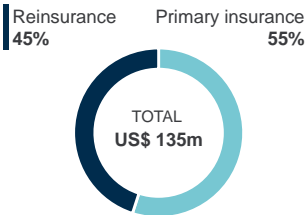


Cyber portfolio – Premium split 2014

**Reinsurance**

First mover and market leader

- More than 10 years of expertise in reinsuring cyber portfolios and large risks
- Sophisticated accumulation models (e.g. virus, cloud, critical infrastructure)
- Close cooperation with cedents (e.g. product development in undeveloped cyber markets)



**Primary insurance**

Specialised single-risk taker for a broad range of cyber risks

- **Hartford Steam Boiler**  
Established player in US market for cyber liability and privacy covers for SMEs and individuals
- **Corporate Insurance Partner**  
Industry-specific as well as tailor-made solutions for large clients; broad scope of cover and larger-than-average limits

**Continuous product innovation – Recent launches**

HSB CyberOne™

Cyber gap cover (energy)

15-component Digit@ll-toolbox<sup>1</sup>

**Creating cyber solutions to serve the growing demand of our clients – Munich Re with leading-edge expertise and strong market presence**

<sup>1</sup> Underwriting framework for the coverage of 15 different cyber-related risks (e.g. privacy breach, cyber extortion, technology errors & omissions).

Key takeaways



**Financial results** Strong operating profitability – combined ratio once again beats target and investment income proves resilient – combined ratio target 2015: ~98%

**Life** Development in established markets flat at best, while some growth expected from emerging markets – pressure on margins requires rigorous underwriting discipline

**Risk Solutions** Successful expansion of Risk Solutions at excellent profitability

Agenda



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<b>Outlook</b>	Nikolaus von Bomhard



Looking ahead – World of opportunities



Short-term priorities

Managing downside	Preserving profitability	Business expansion
<ul style="list-style-type: none"> <li>ERGO traditional</li> <li>German Life</li> </ul>	<ul style="list-style-type: none"> <li>ERGO</li> <li>P-C Germany</li> <li>ERGO Health Germany</li> <li>Reinsurance Life</li> <li>Traditional P-C reinsurance</li> <li>Munich Health</li> </ul>	<ul style="list-style-type: none"> <li>ERGO International</li> <li>Risk Solutions</li> </ul>

Mid-term outlook:

Temporary earnings pressure outweighed by mid- and long-term growth perspectives – Innovative power key to success

Innovative covers on the boundaries of insurability open up future earnings potential



Specialty markets	Specialty markets	Specialty markets	Specialty markets
<ul style="list-style-type: none"> <li>Launching of a weather-derivatives unit, acquisition of a US specialist provider in 2013</li> </ul>	<ul style="list-style-type: none"> <li>Introduction of a performance cover for LED lighting modules</li> </ul>	<ul style="list-style-type: none"> <li>Increased cost-of-working covers for building projects</li> <li>Launch-to-life cover for satellites</li> </ul>	<ul style="list-style-type: none"> <li>Cover solution for non-damage business interruptions in pharmaceutical industry</li> </ul>
<p>2013</p>	ILLUSTRATION	<p>2014</p>	
<p>ERGO</p> <ul style="list-style-type: none"> <li>Introduction of a new generation of life insurance products with return opportunities and guaranteed premium return</li> </ul>	<p>Specialty markets</p> <ul style="list-style-type: none"> <li>Energy-efficiency performance covers for buildings (HSB)</li> <li>Cyber solutions for companies</li> </ul>	<p>ERGO</p> <ul style="list-style-type: none"> <li>New flood insurance for previously uninsurable buildings (under the Zürs 4 zoning system for flooding, backwater and heavy rain)</li> </ul>	<p>ERGO</p> <ul style="list-style-type: none"> <li>Expansion of the new life insurance product generation to include company pensions</li> </ul>

New risks of an economy in transformation and growth markets with low insurance penetration offer opportunities for know-how-driven solutions

Delivering strong capital returns

## Outlook 2015



### Munich Re (Group)

GROSS PREMIUMS WRITTEN<sup>1</sup>

€47–49bn

Focus on bottom-line growth prevails

RETURN ON INVESTMENT

at least 3%

Solid return given ongoing low interest-rate environment

NET RESULT

€2.5–3bn

RoRaC target of 15% after tax over the cycle to stand

### Reinsurance

COMBINED RATIO

~98%

NET RESULT

at least €2bn

### ERGO

COMBINED RATIO

Germany: ~93%  
International: ~97%

NET RESULT

~€500m

### Munich Health

COMBINED RATIO

~99%

NET RESULT

€50–100m

<sup>1</sup> By segment: Reinsurance €26–27bn, ERGO €16–16.5bn, Munich Health slightly above €5bn.

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## Disclaimer



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.

Figures up to 2010 are shown on a partly consolidated basis.

"Partly consolidated" means before elimination of intra-Group transactions across segments.

ERGO new segmentation: 2009–2010 before elimination of business with Munich Re, 2011–2014 consolidated, after elimination of all intra-Group business, 2013–2014 new segmentation, earnings include share of holding costs.

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