Low rates and heavy regulation – how to deliver shareholder returns

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Low rates and heavy regulation – how to deliver shareholder returns

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Low
interest rates

Imbalance of supply and demand – Competition putting pressure on margins

- Increase of traditional reinsurance capacity
- Influx of alternative capital
- Higher retentions

Softening discipline in the market?

Lower investment income

- Attrition of regular income following lower reinvestment yields

Assuming higher investment risks?

Regulatory
changes

Introduction of Solvency II fostering risk-based economic steering

- Level of diversification becoming more important
- Enormous efforts to fulfill regulatory duties

Increasing capital requirements?

Lower risk-return trade-off

- Some products or business models may become unattractive or even value-destroying

Consolidation in the industry?

Munich Re well positioned to successfully master industry challenges

Munich Re shareholders enjoy attractive returns with comparatively low volatility

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Successfully mastering industry challenges …

1 Managing the low-yield environment

Mitigating interest-rate risk while focusing on technical profitability – remaining disciplined is the order of the day

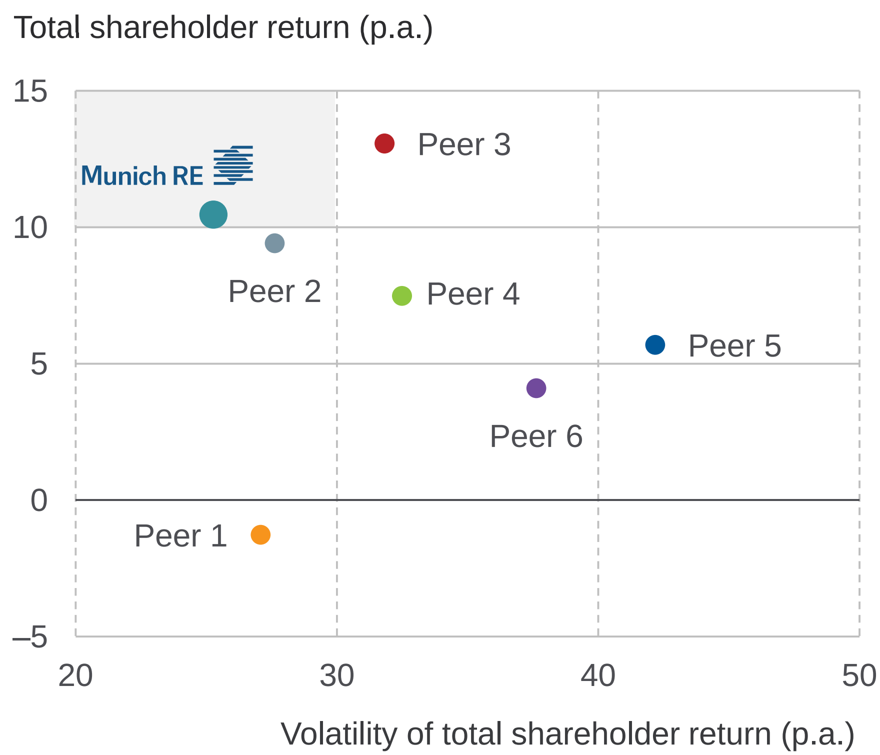
2 Competitive landscape in reinsurance

Well positioned to cope with competitive market dynamics – diversification within regions and lines of business is paying off

3 Introduction of Solvency II

Stringent risk-based economic steering and active capital management has long been a core element of Munich Re's business model

… reflected in attractive risk/return profile[1] %

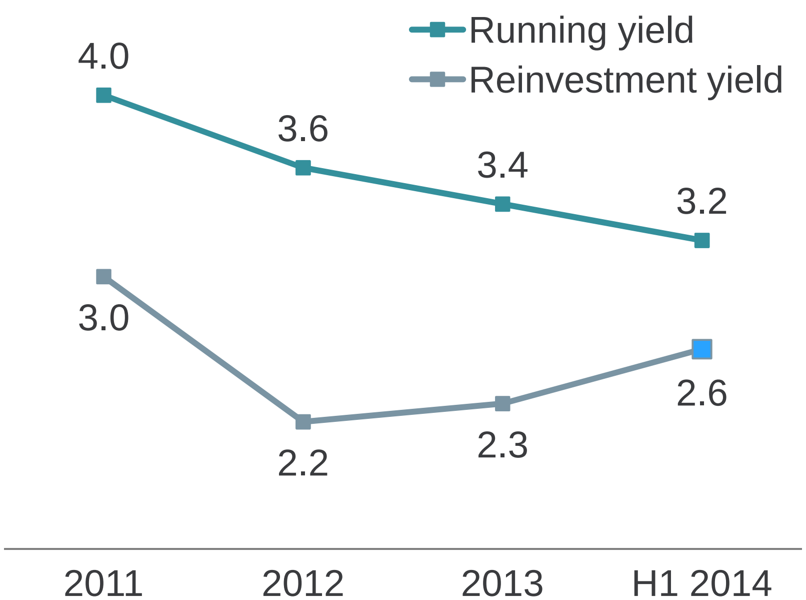


Munich Re staying the course – Responsible dealing with strong capitalisation is a prerequisite for sustainable delivery of robust returns

[1] Annualised total shareholder return defined as price performance plus dividend yield over the period from 1.1.2005 until 15.9.2014; based on Datastream total return indices in local currency; volatility calculation with 250 trading days per year. Peers: Allianz, Axa, Generali, Hannover Re, Swiss Re, ZIG.

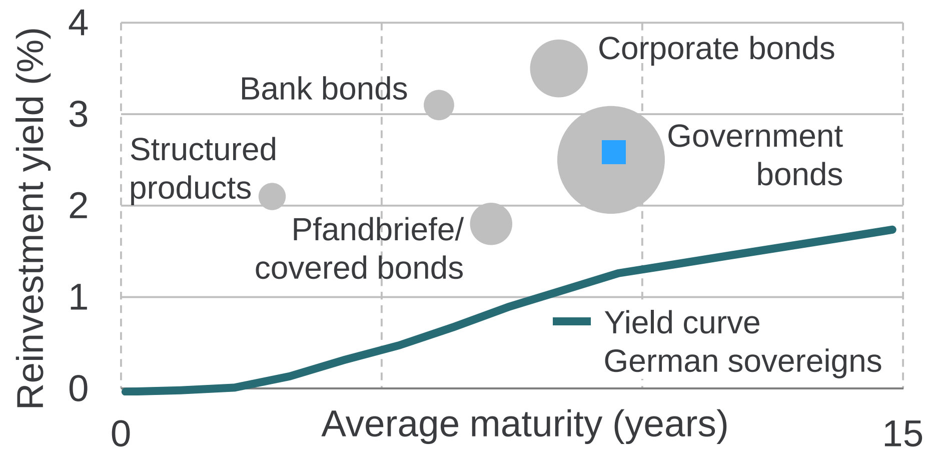
Continuously mitigating attrition of regular investment income

Running and reinvestment yield %



Duration matching and prudent diversification proving beneficial – driving IFRS unrealised gains to more than €23bn[1]

Diversification supporting solid reinvestment yield[1]



Portfolio duration[2] – Assets serving insurance liabilities

	Assets	Liabilities
Reinsurance	4.8	3.7
Primary insurance	7.9	8.5
Munich Re (Group)	**6.8**	**6.7**

No intention of substantial investment re-risking to compensate for lower investment income or short-term boosting of IFRS earnings

[1] H1 2014. Bubble size reflecting reinvestment volume. Yield curve as at 30.6.2014.
[2] As at 30.6.2014

1

Creating value in core business becoming even more relevant when interest rates are low

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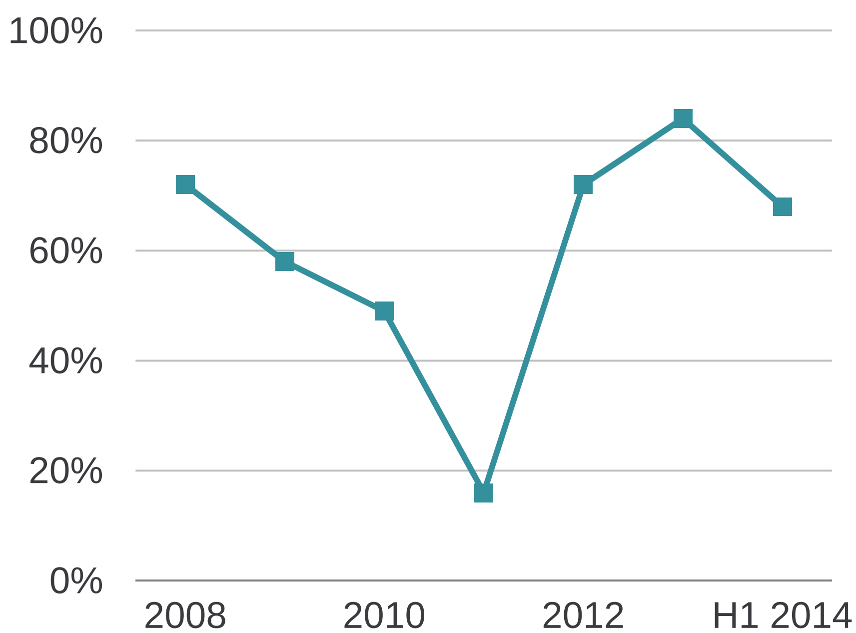
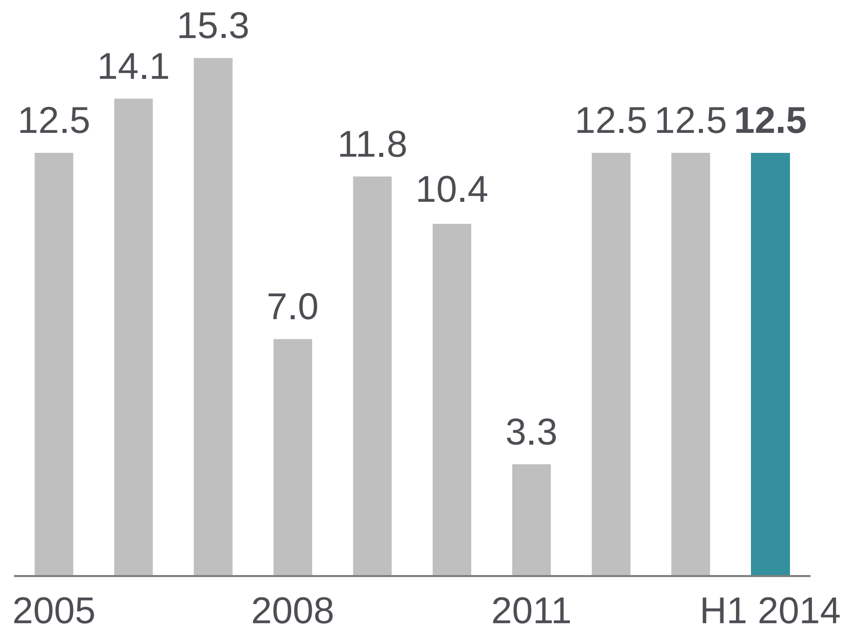
Significant earnings contribution from underwriting[1]



On average, approx. 60% of the operating result generated by core underwriting business

RoE clearly exceeding cost of capital (~8%) %



Average RoE of 11.2% despite financial crisis (2008) and historically high nat cat losses (2011)

Actively managing the low-yield environment – Munich Re creating value with comparatively low correlation to capital markets

[1] Contribution of technical result as a percentage of operating result.

New product generation in German primary life an important step to further improve the risk/return-profile

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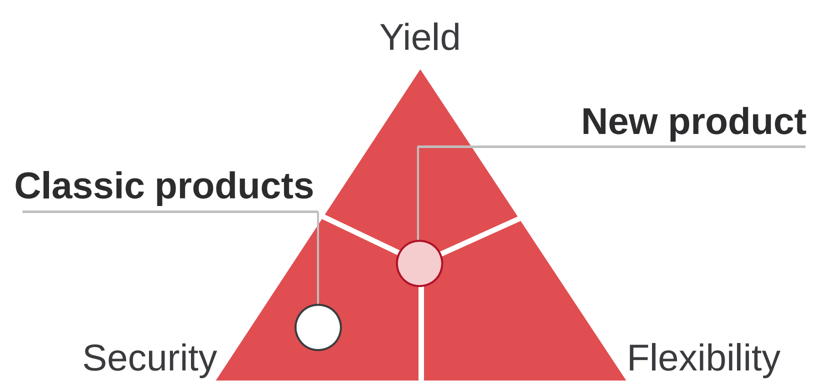
Comprehensive management of back book

- Interest-rate hedging programme already implemented in 2005
- Duration gap noticeably reduced
- Comparatively low bonus rates for policyholders

Expansion of new product generation

- New product generation launched in June 2013
- Already making up more than 70% of new business in private pensions[1]
- Significantly lower risk capital requirements



ERGO well protected against "lower for longer" scenario – New product less exposed to interest rates, gradually leading to reduced capital requirements

[1] Annual premium equivalent (APE), only third-layer private provision ("ungeförderte Rentenprodukte") and tied agent organisations.

Sound technical results in international primary insurance business

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Primary insurance p-c international – Management measures bringing business back to normal since 2012

Divestments 2011–2012

- Portugal: No core market and subcritical company size
- South Korea: Highly competitive motor market with difficult environment

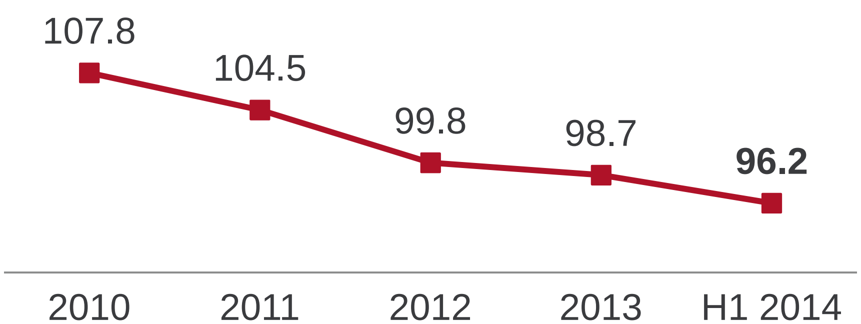
Turnaround completed

- Turkey: Significant reduction of motor business and improved pricing
- Legal protection: Quick recovery in UK after the financial crisis

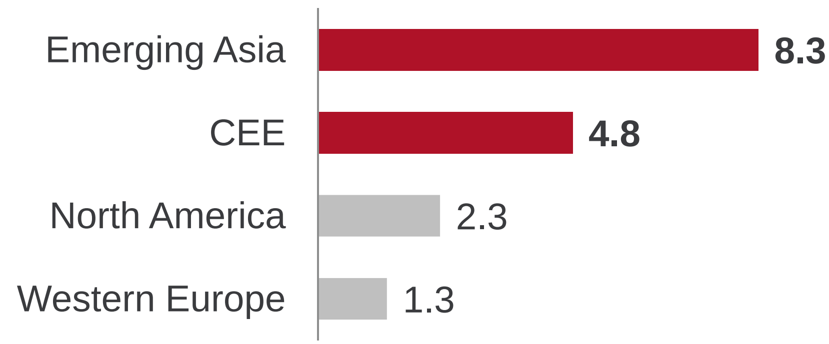
Business expansion in 2014

- Greece: Acquisition of ATE – Becoming the largest non-life insurer in Greece
- Singapore: Acquisition of SHC – expanding presence in Asia

Continuously improving combined ratios … %



… with focus on attractive growth markets[1] %



Focus on profitability with long-term growth prospects in CEE and Asia

[1] Expectation of property-casualty market premium growth (real CAGR 2014–2020).
Source: Munich Re Economic Research.

Highly competitive landscape in non-life reinsurance

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Cyclical challenges

Low interest rates

+

Low inflation

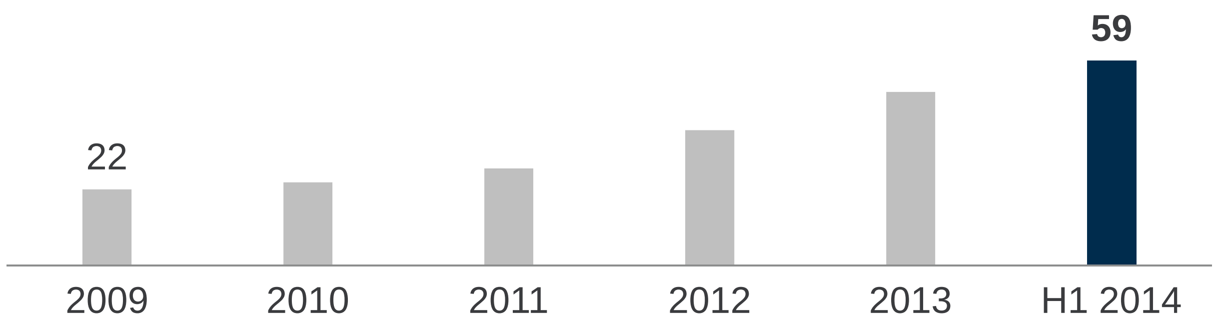
+

Benign claims experience

Abundant capital for quite some years now

Higher retentions, also driven by global players centralising their buying programmes

Availability of alternative capital chasing higher yields[1] US$ bn



Direct impact

Rate decline most notable in US nat cat XL business

- Short tail – predictable capital deployment
- External models are available

Foundation of hybrid business models

Indirect impact

Accelerator for price competition among some traditional reinsurers

- Fight for market share
- Softening terms and conditions
- Less diversified players expanding business to other areas and perils

Recent renewals showed continuing margin compression due to abundant supply, especially in the nat cat area

[1] Source: AonBenfield.

Munich Re set-up supports earnings strength

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Challenges requiring the right mix of skills to excel

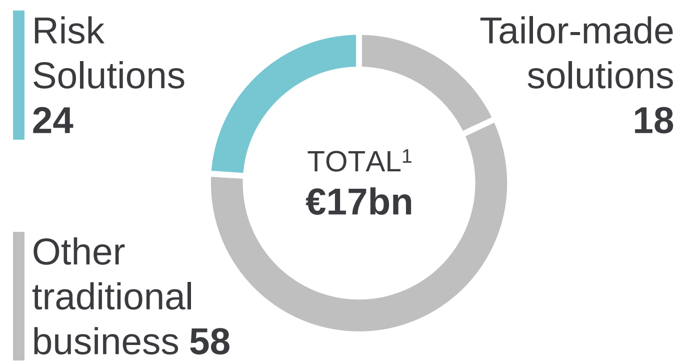
%

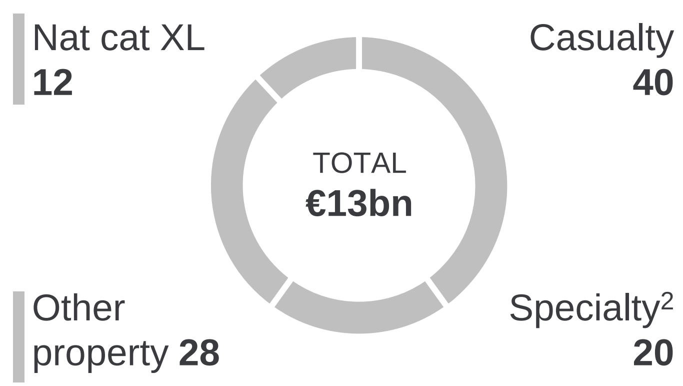
A Traditional business
- Excellent client access – strategic partnerships
- Rising demand for tailor-made solutions
- Access to profitable business across all lines

B Risk Solutions
- Continued business expansion …
- … with strong bottom-line contribution

C Alternative risk transfer
- Taking advantage of dynamic market …
- … for clients and our own book/retrocession

D Product innovation
- Leverage of strong know-how base …
- … extending the boundaries of insurability





Munich Re continuously increasing its share of business largely decoupled from competition in traditional reinsurance while taking advantage of ART

[1] Gross written premium property-casualty reinsurance as at 31.12.2013.
[2] Aviation, agriculture, marine and credit.

2

Disciplined management of traditional business while continually expanding know-how-driven business

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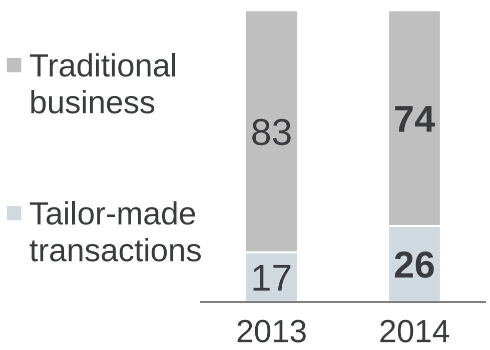
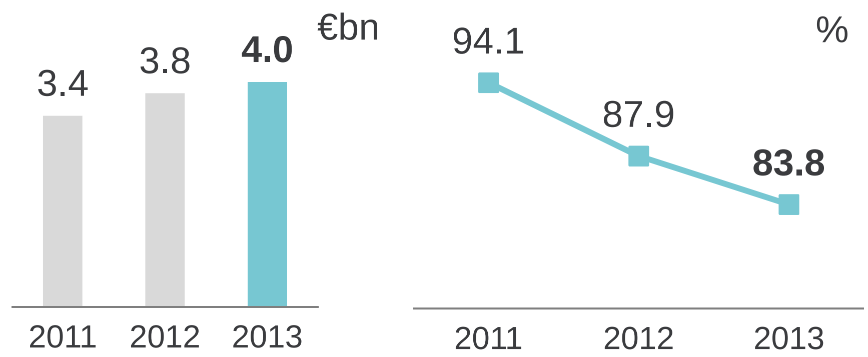
A Growing share of structured complex deals[1] %



Differential terms and private placements each year:

>40% of total renewed business

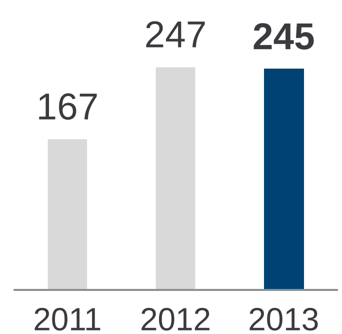
B Risk Solutions – Premium, combined ratio



C Taking advantage of alternative risk transfer

- Strong track record of ILS structuring – Transactions for third parties amounting to €1.2bn (17% market share)[2]
- Opportunistic use of favourable market terms – significant extension of retrocession
- Special purpose vehicles providing additional capacity, e.g. sidecar "Eden Re"

D Product innovation – Premium €m



Strategic advantage

- Innovative business development platform
- First mover in different market segments
- Cross-linked expertise creating new solutions

Munich Re with distinct value proposition based on solutions beyond capacity

[1] Share of total renewed business. [2] In 2013.

2

Looking ahead – World of opportunities in property-casualty reinsurance

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Smart solutions for well-known existing risks and risks with high economic impact	**Understanding accumulation**	**Understanding clients' requirements**	New covers for emerging risks that were not even known a couple of years ago
Providing capacity for traditional business – Resisting short-term pricing pressure	Strict portfolio and cycle management	**Insight into technology and loss potential**	Tap hidden demand for underinsured risks and markets with growing insurance penetration

Impact of short-term pricing pressure outweighed by mid- and long-term growth prospects – Innovative power key to success

Munich Re well positioned for the introduction of Solvency II

3

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Main implications of Solvency II

- Catalyst for the introduction of risk/value-based management
- Stimulus for product innovation and corresponding (risk) management set-up
- Improved transparency and comparability within European insurance industry

Impact on the insurance industry

- Fostering a paradigm change towards economic valuation and steering concepts
- Development of products balancing capital needs and clients' demands
- Partially different capital requirements and higher transparency may drive consolidation and increase reinsurance demand

Impact on Munich Re

Reinsurance

- Internal model properly reflecting portfolio diversification effects
- Relevant know-how and structuring expertise becoming even more important for our clients

Primary insurance

- Adaption of new long-term-guarantee products to the low interest-rate environment leading to lower capital requirements
- Development of less capital-intensive new life products

Munich Re well prepared for regulatory requirements while providing clients with risk and capital management solutions

3

Solvency II expected to provide positive stimulus – fully crystallising the value of the reinsurance business model

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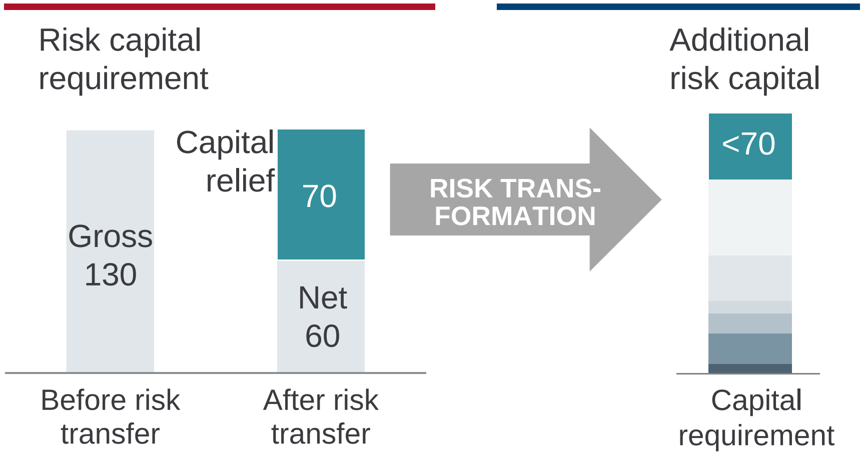
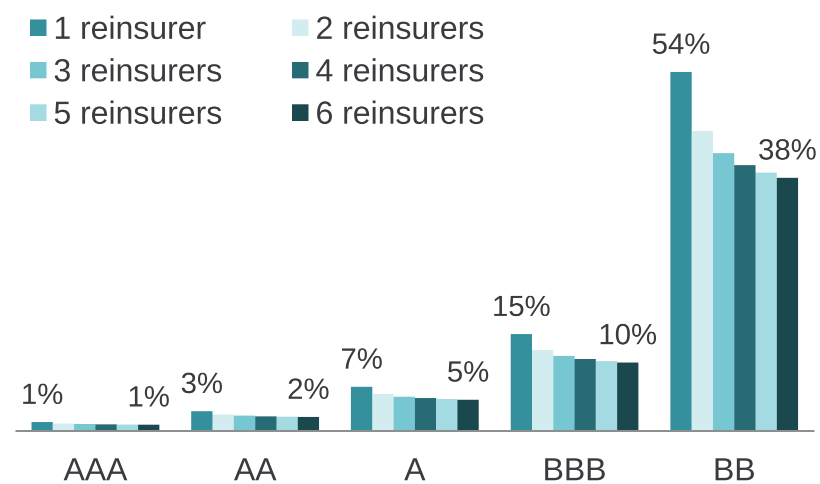
Risk transfer – Illustrative



Deduction on capital relief for counterparty default risk[1]



Diversification of reinsurers is higher due to

- number of individual risks
- geographical spread
- product and line of business mix

Explicit consideration of reinsurance credit risk

Example: Capital relief from a reinsurance treaty with only one AA-rated reinsurer greater than with a panel of six A-rated reinsurers

Well-diversified reinsurers will benefit from Solvency II

Financial strength to provide a clearer competitive edge

[1] Chart based on LTGA technical specifications.

Sound capitalisation according to all metrics

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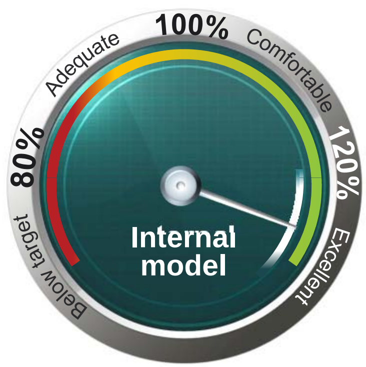
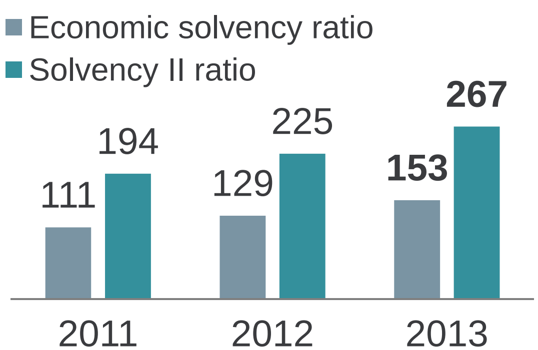
Excellent economic solvency ratio further improved



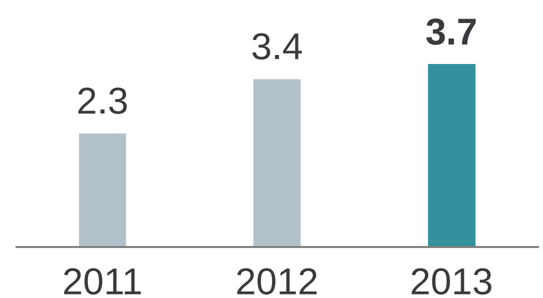


Substantial capital buffer supporting AA rating

Agency	Rating
A.M. Best	A+ (Superior)
Fitch	AA– (Very strong)
Moody's	Aa3 (Excellent)
S&P	AA– (Very strong)

Strengthened German GAAP revenue reserves

Distributable earnings €bn



Strong position providing competitive advantage and facilitating financial flexibility

[1] German statutory accounting standards.

Outlook: High level of diversification and rigorous bottom-line focus facilitating reliable earnings generation

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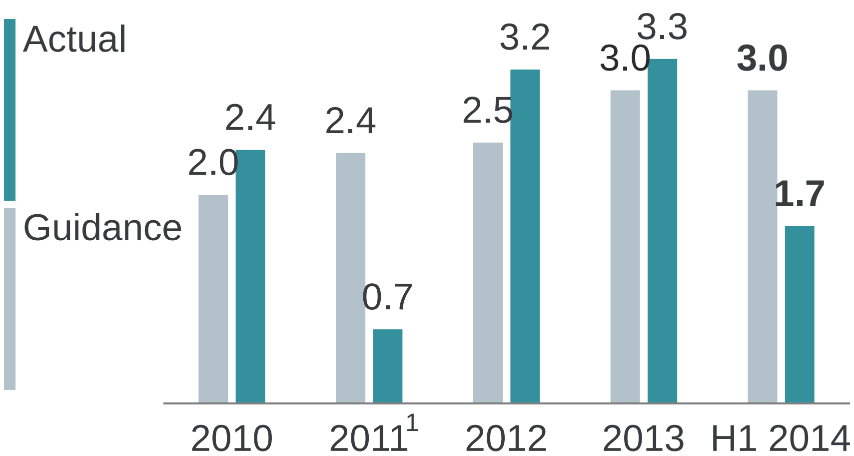
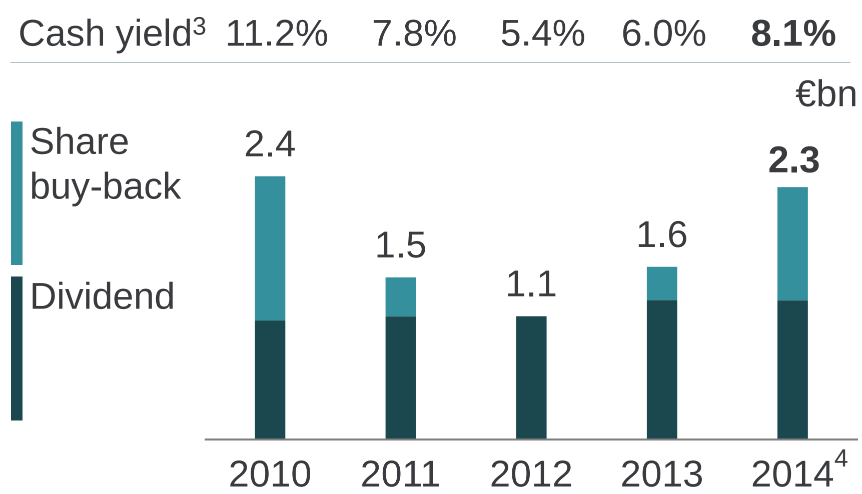
Delivering on promised net result … €bn



… facilitating attractive shareholder participation[2]



Good track record
Successfully dealing with challenging economic conditions

Disciplined business strategy
Strict focus on insurance risks and technical profitability

Strong capital position
Attractive capital repatriation and seizing business opportunities

Well on track to meet financial targets in 2014 – Continuing the path of shareholder-friendly capital management

1 Assuming normal nat cat claims based on 8.5% budget, net result would have exceeded guidance.
2 Cash-flow view. 3 Total payout (dividend and buy-back) divided by average market capitalisation.
4 As at 29 August 2014.

Financial calendar

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2014

6 November	Interim report as at 30 September 2014
27 November	Analysts' briefing, London

2015

5 February	Preliminary key figures 2014 and renewals
11 March	Balance sheet press conference for 2014 financial statements
12 March	Analysts' conference with videocast
23 April	Annual General Meeting, ICM – International Congress Centre Munich
7 May	Interim report as at 31 March 2015
30 June	Investor Day, London
6 August	Interim report as at 30 June 2015
5 November	Interim report as at 30 September 2015

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Figures up to 2010 are shown on a partly consolidated basis. "Partly consolidated" means before elimination of intra-Group transactions across segments.