



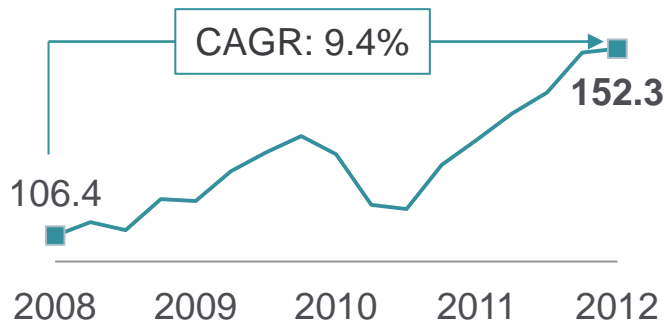
Making finance work in a higher capital world  
Bank of America Merrill Lynch Banking & Insurance CEO Conference

London, 25 September 2013

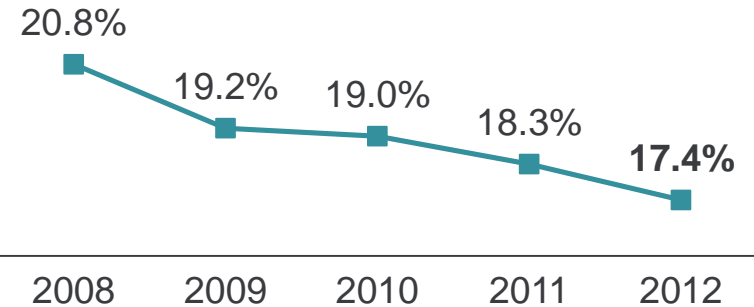
Nikolaus von Bomhard

Financial  
solidity  
and  
strong  
capital  
position

Growing book value per share €

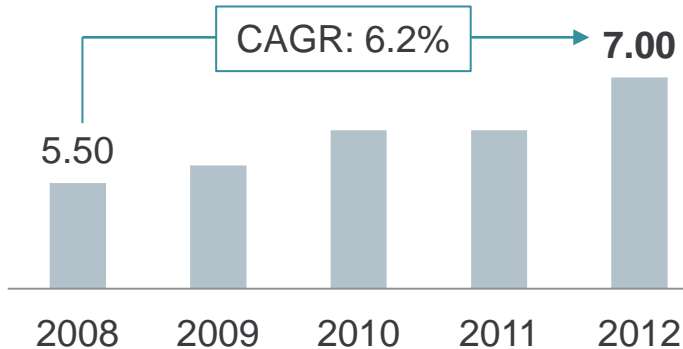


Lowest debt leverage in the industry

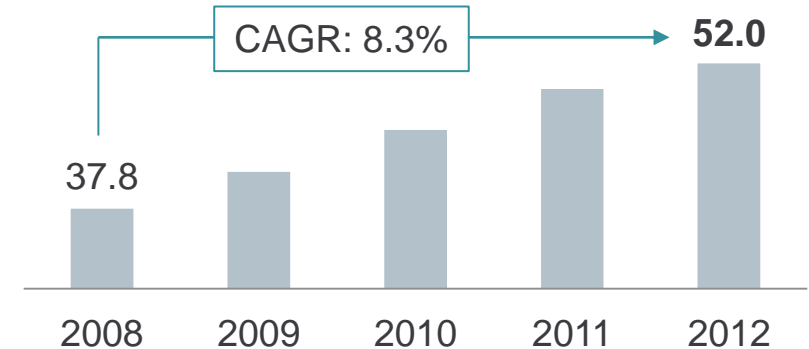


Active  
capital  
manage-  
ment  
based on  
profitable  
growth

Attractive dividend €



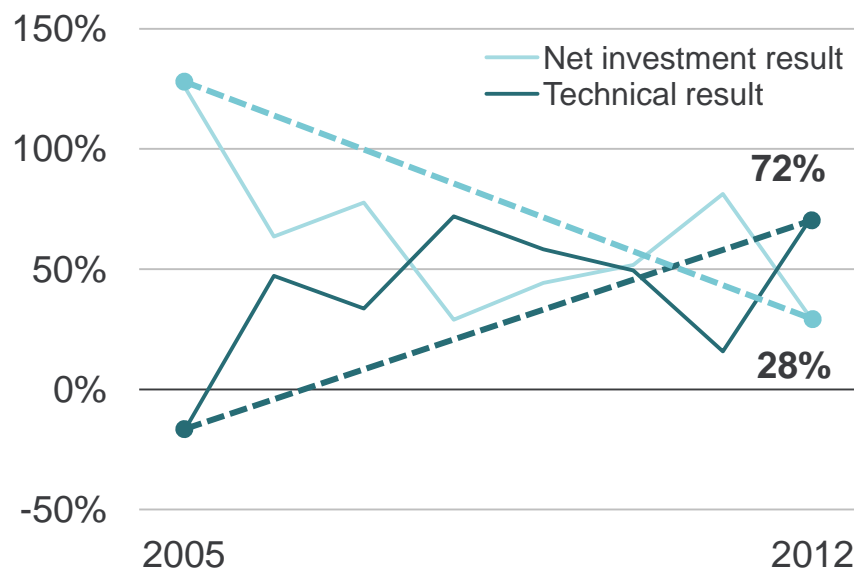
Continuous business expansion €bn



**Munich Re is a strong partner for clients and predictable for shareholders**

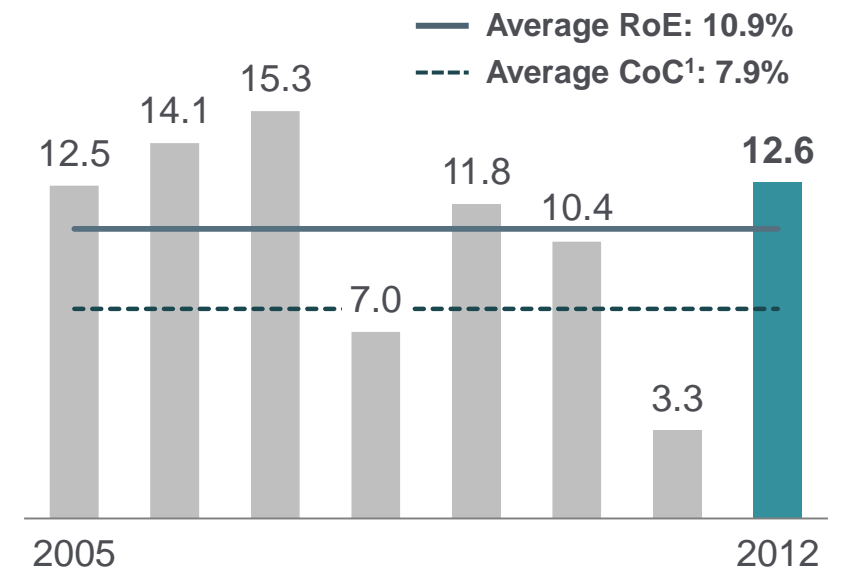
# Creating value in core business becoming even more important in a “higher capital world” ...

Increasing earnings contribution from insurance business<sup>1</sup> ... %



Increasing profitability via efficient allocation of risk capital and disciplined underwriting

... facilitating a return on equity in excess of cost of capital %



RoE clearly exceeding cost of capital by approx. 300 basis points

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

<sup>1</sup> Contribution of net investment result (investment result minus income from technical interest) and technical result as a percentage of operating result.

# ... contributing to attractive shareholder return with comparatively low volatility

## Successfully mastering industry challenges ...

### 1 Managing the low-yield environment

Constantly improving technical profitability, compensating for decreasing investment income while mitigating interest-rate risk

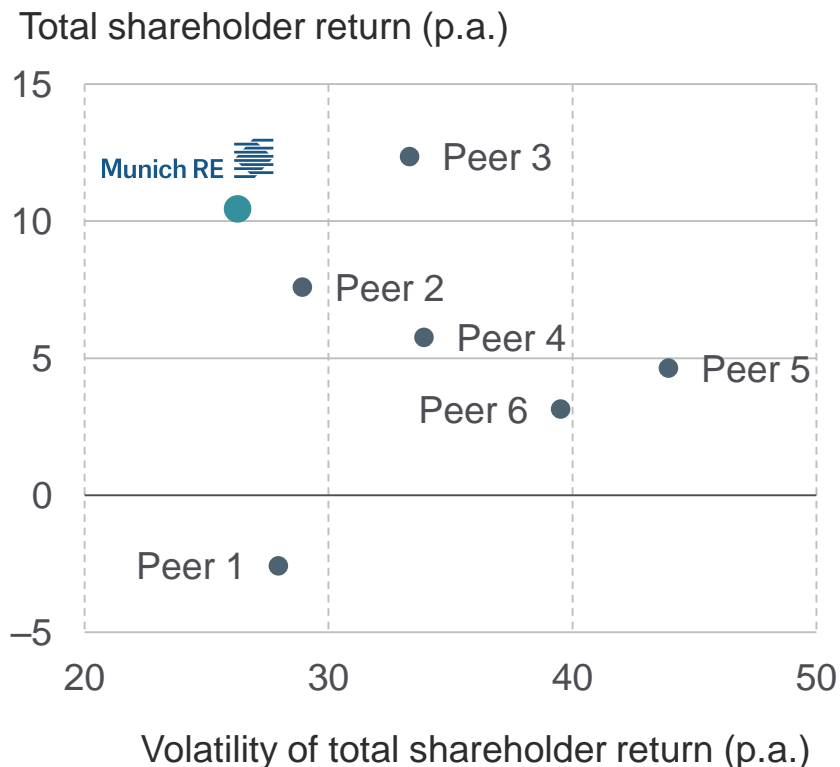
### 2 New market developments in reinsurance

Well-prepared for coping with increasingly available reinsurance capacity and increasing influx of alternative capital

### 3 Maintaining strong balance sheet

Stringent risk management striking the balance between attractive capital repatriation and seizing opportunities for profitable growth

## ... reflected in attractive risk/return profile<sup>1</sup> %

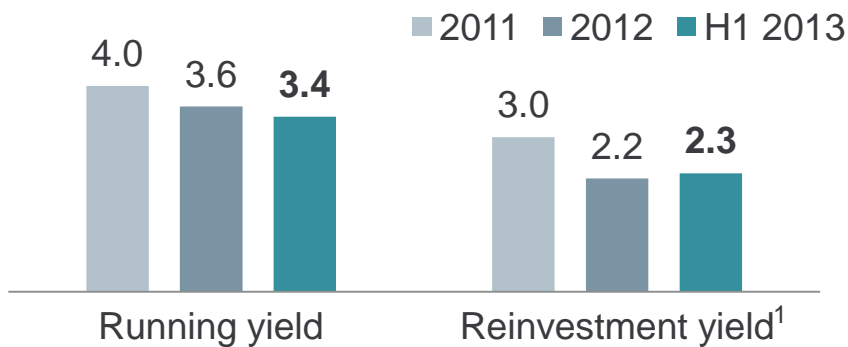


**Balanced business portfolio covering the full risk value chain, paving the way for sustainably high earnings levels**

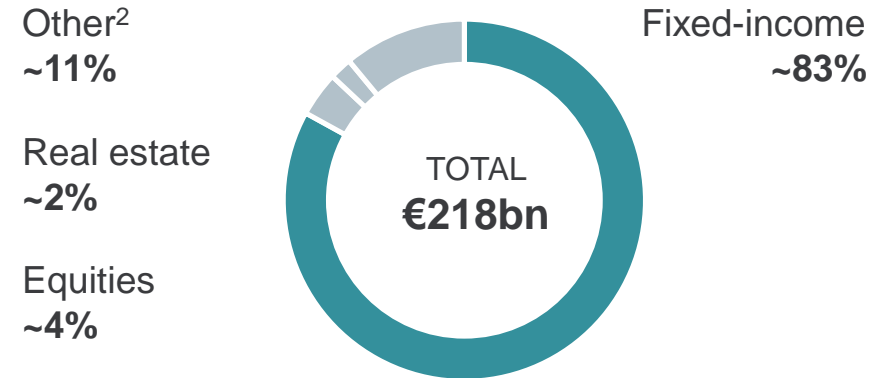
<sup>1</sup> Annualised total shareholder return defined as price performance plus dividend yield over the period from 1.1.2005 until 15.9.2013; based on Datastream total return indices in local currency; volatility calculation with 250 trading days per year. Peers: Allianz, Axa, Generali, Hannover Re, Swiss Re, ZIG.

# 1 Mitigating attrition of regular income as a consequence of low interest rates

Attrition of running and reinvestment yield %



Investment portfolio (30.6.2013)



## Measures to mitigate attrition of running yield – Examples

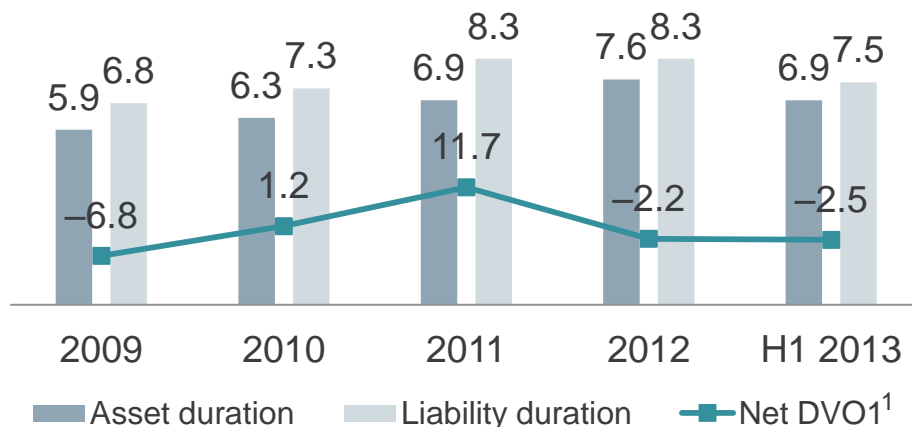
Illiquid asset classes	Earning illiquidity premium by investing in renewable energies and infrastructure
International diversification	Investing in higher-yielding international bond markets
Credit	Finding attractive opportunities in corporate and structured credit

**No intention of substantial investment re-risking to compensate for lower investment income – creating value in core business remains key**

<sup>1</sup> Six-month average rate.

<sup>2</sup> Including deposits retained on assumed reinsurance, unit-linked investments, investments in renewable energies and commodities.

## Asset-liability management – Assets strictly matching the liability structure



### Portfolio management

- Limiting interest-rate sensitivity – strictly aligning investments to the term structure of liabilities
- Reducing inflation sensitivity – investing in inflation-sensitive asset classes, e.g. inflation-linked bonds and swaps, commodities, real estate, equities and renewable energies
- Hedging of interest-rate and inflation sensitivity frequently implemented via derivative instruments ...
- ... sometimes leading to short-term IFRS accounting volatility in contrast to sound economic position

### P&L sensitivity to interest rate changes<sup>2</sup> €bn

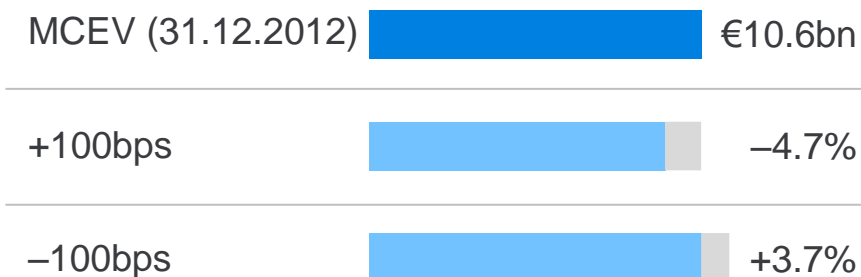
+100bps	0.10
+50bps	0.09
-50bps	-0.10

## IFRS accounting volatility not jeopardising sustainable earnings generation

<sup>1</sup> Sensitivity in €m to parallel upward shift of yield curve by one basis point reflecting portfolio size.

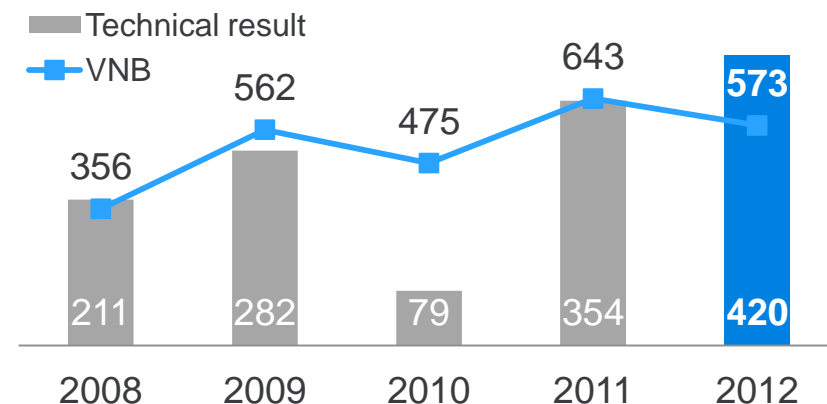
<sup>2</sup> Rough calculation with limited reliability assuming unchanged portfolio as at 30.6.2013.

## Low interest-rate sensitivity ...



- Stringent ALM process and market-consistent pricing based on risk-free interest rates ensuring that return can be earned during policy lifetime
- No need to rely on earning investment spreads
- Focus on biometric risk accounting for more than 90% of total book – substantially reducing interest-rate sensitivity

## ... and solid financial performance<sup>1</sup> €m



- Delivering steady results in a leading global market position
- Large diversified portfolio able to balance out adverse and positive claims experience
- Strong organic growth not diluting margins

**Life reinsurance becoming an increasingly important earnings contributor**

<sup>1</sup> VNB: Value of new business. 2008: EEV figures, 2009 – 2012: MCEV figures.

# 1 New product generation in German primary life as an important step in the right direction

New life product meeting demand of stakeholders

## Shareholders

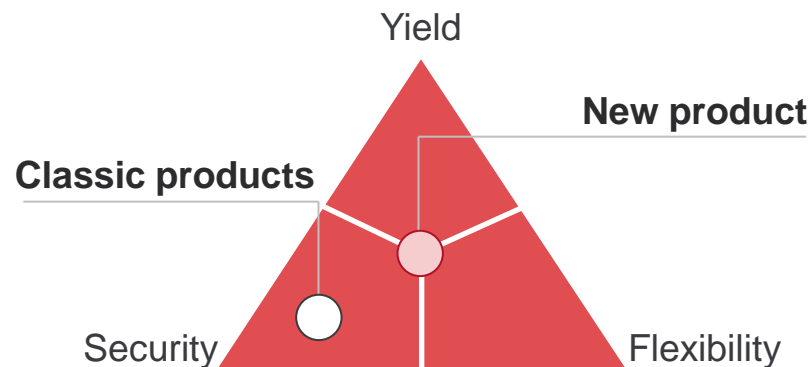
- Significant reduction of risk capital requirements
- Hedgeable guarantees
- Profitability in line with RoRaC targets

## Customers

- Guarantee component
- Risk/return profiles for different levels of risk appetite
- Highly flexible pay-out/pay-in
- Transparency as regards guarantees, benefits and costs

## Sales force

- Competitive product features
- Flexibility facilitating new advisory approaches
- Unique guarantee structure



**New product less exposed to interest rates – leading to gradually reducing capital requirements**



# 1 Primary insurance international – Taking pro-active measures safeguarding sustainable value creation

Management measures bringing business back to normal ...

## Divestment

Portugal: No core market, subcritical company size and unstable economic situation

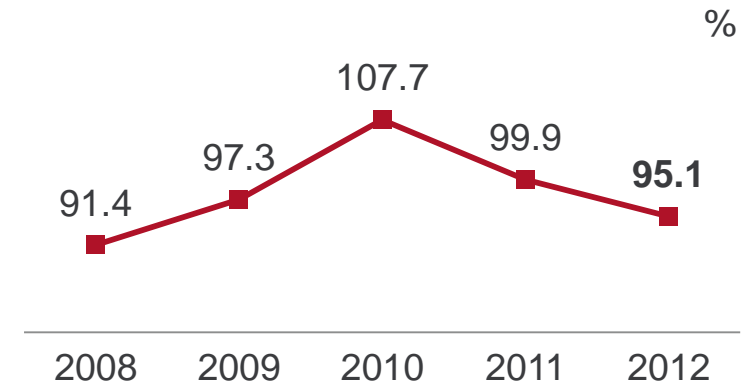
South Korea: Highly competitive motor market with difficult environment

## Turnaround

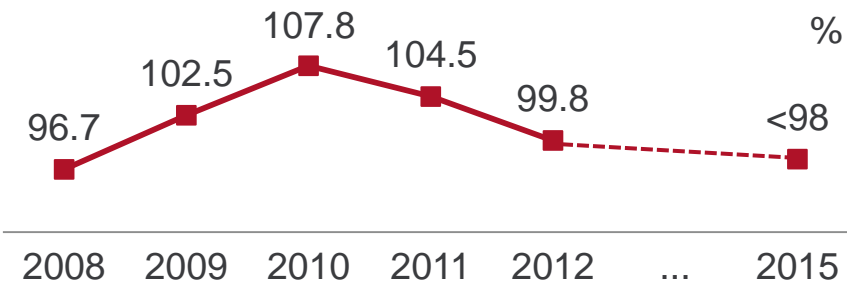
Turkey: Good progress after significant reduction of motor business and improved pricing

UK: Quick recovery of legal protection business after rise in labour law claims caused by the financial crisis

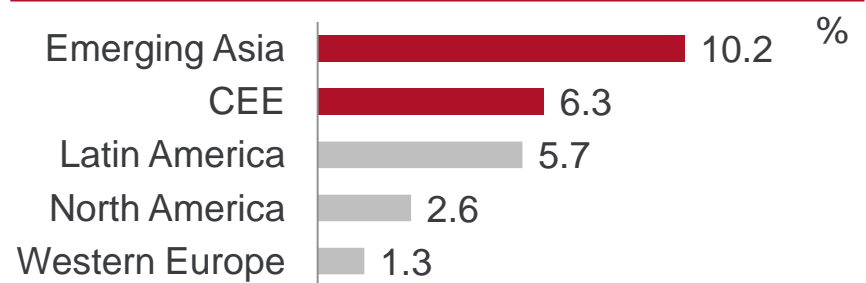
... while Poland delivering good results<sup>1</sup>



International total – Improving combined ratios ...



... with focus on attractive growth markets<sup>2</sup>

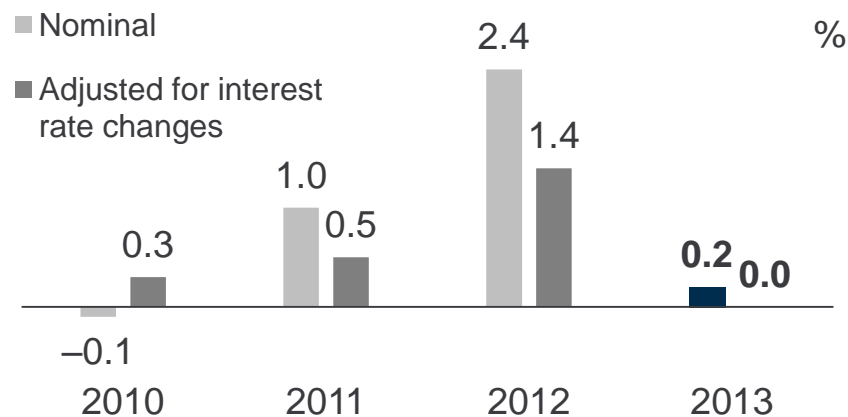


**Focus on improving profitability with long-term growth prospects in promising markets in CEE and Asia**

<sup>1</sup> Combined ratio. 2010 affected by extraordinarily high nat cat losses. <sup>2</sup> Expectation of non-life market premium growth (real CAGR 2013–2020). Source: Munich Re Economic Research.

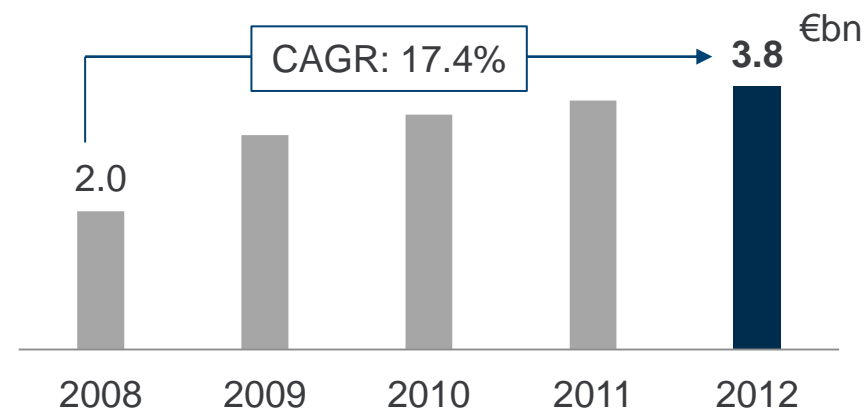
# 1 Increasing technical profitability in reinsurance property-casualty

Renewals – Nominal and economic price change



- Price increases compensating for lower investment yields
- Strict focus on bottom line – allocating capital according to the economic profitability of each business
- Profitable growth in business not freely available in the market (e.g. agriculture)

Risk Solutions – Ongoing business expansion<sup>1</sup>



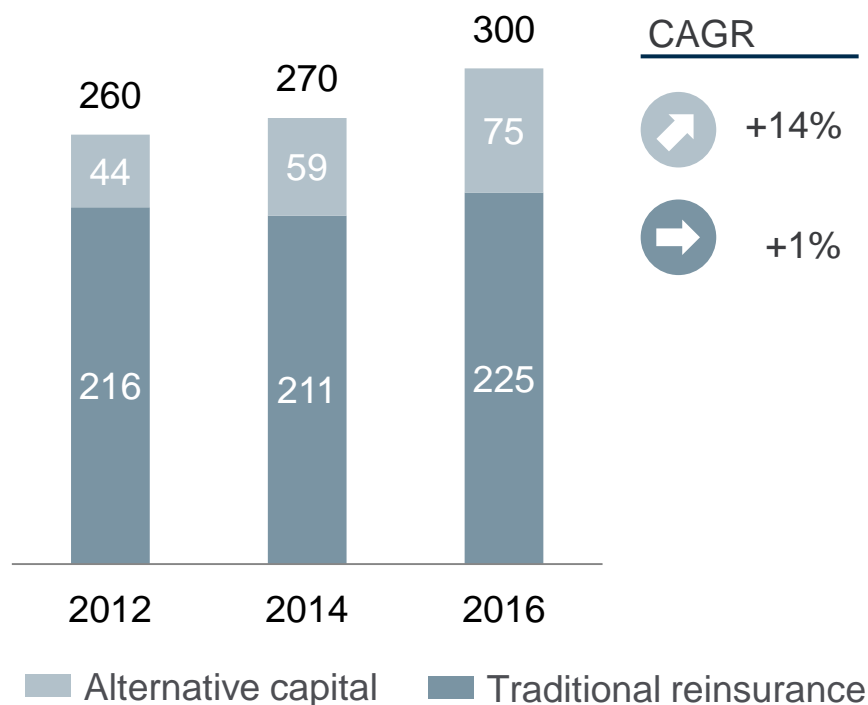
- Significant expansion of know-how-driven solutions
- Adding profitable business to become more independent of reinsurance cycle and competition in traditional reinsurance
- Applying expertise to selected, highly profitable risk segments

**Constantly improving portfolio quality – active portfolio/cycle management and expanding promising business fields**

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

## 2 Higher capital supply – Increased capacity of traditional reinsurance and influx of alternative capital ...

Worldwide nat cat XL capacity US\$ bn



### Reinsurance market dynamics

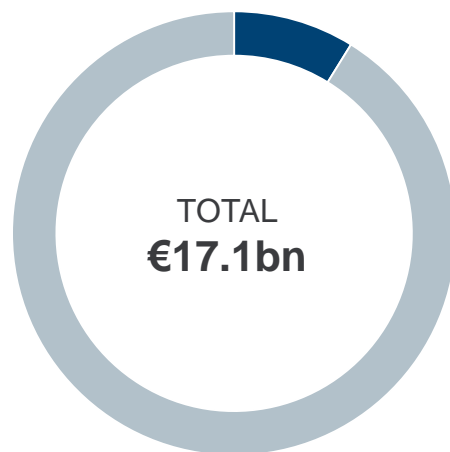
- Sufficient reinsurance capacity available in the market for quite some years now
- Alternative capital (ART) adding to the capacity – Potential to grow to ~25% of worldwide nat cat XL capacity in 2016
- Significant growth of ART largely driven by scarcity of investment opportunities in the low-interest-rate environment
- Impact most notable in well-modelled, very short-tail nat cat XL business, mainly in the USA and Japan
- Excess supply and stagnating demand leading to downward pricing pressure in certain XL business lines

**Sustainability of the current development remains to be seen**

Munich Re total property-casualty book<sup>1</sup> ... %

Rest of p-c book  
>90%

Nat cat XL  
<10%



Only a small part of the total p-c book is exposed to competition from alternative capital

... quite resilient to market dynamics

- Diversified risk book providing a competitive advantage – less risk capital intensity and the flexibility to switch capacity between different regions and business lines
- Ongoing expansion of know-how driven specialty niche business making Munich Re more resilient to competition – Risk Solutions accounting for almost 25% of total non-life book
- High customer retention based on long-term client relationships, reliable claims handling and strategic partnerships (e.g. UK motor)
- Providing clients with holistic tailor-made solutions and consulting services beyond pure capacity

**Thanks to global diversification, Munich Re only marginally affected by additional nat cat capacity**

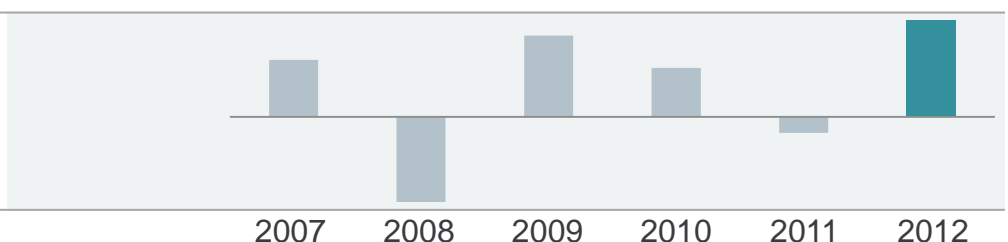
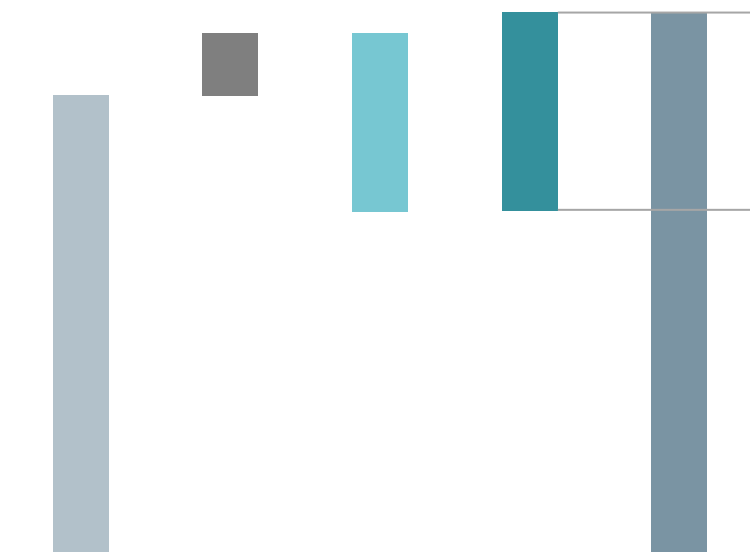
# 3 Significant increase in economic equity despite challenging environment

AFR<sup>1</sup> development 2007–2012 €bn

Economic earnings €bn

30.9 +4.2 -12.0 +13.4 **36.5**

Confidence<sup>3</sup> 4.2 -6.3 6.0 3.6 -1.2 **7.1**  
 ~30% ~99% ~10% ~50% ~90% ~10%



Munich Re market capitalisation €bn

29.9 -12.2 +6.7 **24.4**



AFR 31.12. 2006    AFR restatements    Capital mgmt.<sup>2</sup>    Economic earnings    AFR 31.12. 2012

Market cap. 31.12.2006    Capital management<sup>4</sup>    Share price variation    Market cap. 31.12.2012

**Strong economic earnings not yet matched by Munich Re's share performance**

<sup>1</sup> Available financial resources. <sup>2</sup> Dividends, share buy-back, hybrid capital replacement and higher goodwill/ intangibles.

<sup>3</sup> Probability of achieving at least the corresponding economic earnings. <sup>4</sup> Dividends and share buy-back.

# 3 Strong capitalisation facilitating shareholder-friendly capital management

## Munich Re actions<sup>1</sup>

### >120% Excellent capitalisation

- Capital repatriation
- Increased risk-taking
- Holding excess capital to meet external constraints

### 100%–120% Comfortable capitalisation

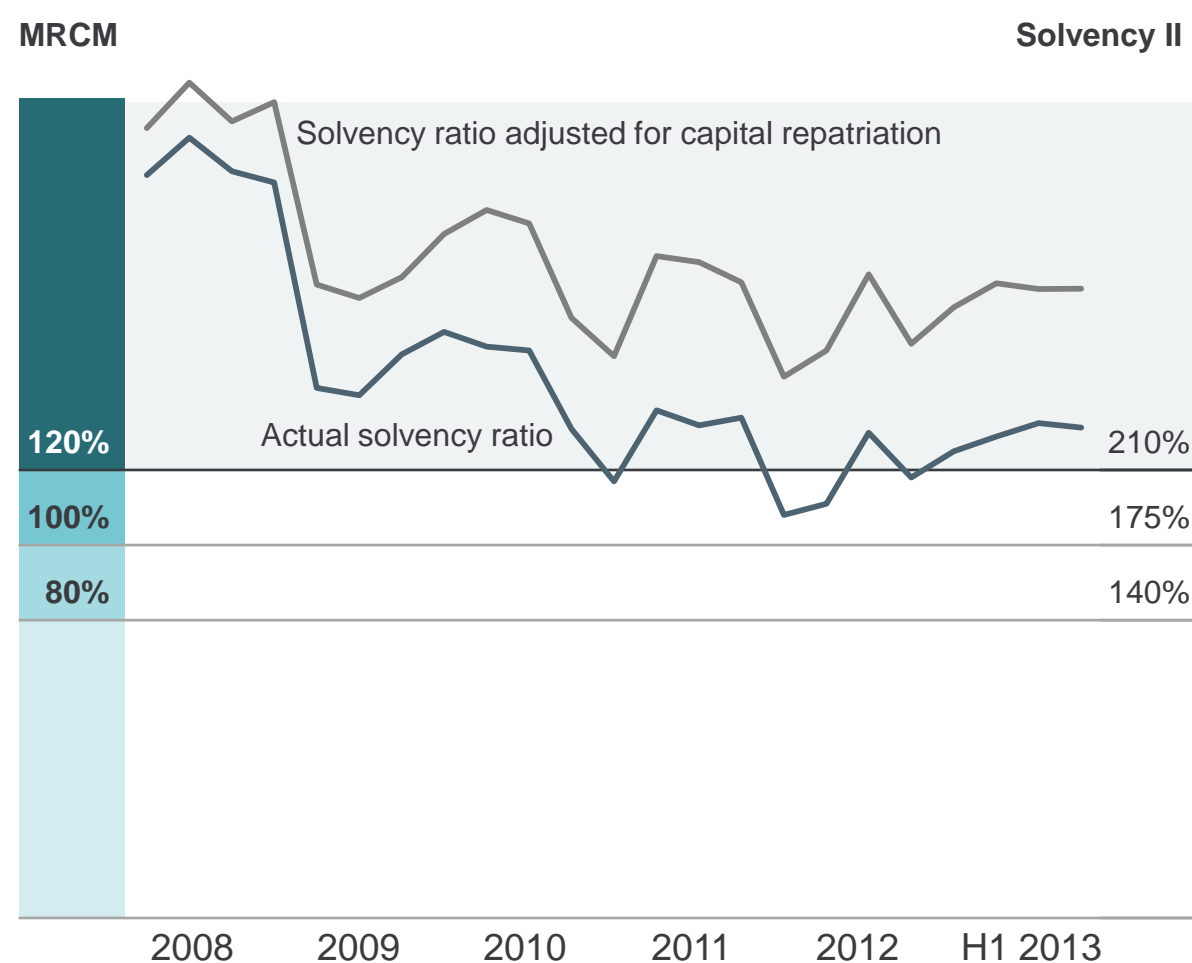
### 80%–100% Adequate capitalisation

- Tolerate and monitor
- (Partial) suspension of capital repatriation

### <80% Below target capitalisation

- Risk transfer
- Scaling down of activities
- Raising of (hybrid) capital

## Munich Re solvency ratio



<sup>1</sup> Based on Munich Re capital model (MRCM): 175% of VaR 99.5%.

# Well on track to meet financial targets

## Munich Re (Group)

GROSS PREMIUMS WRITTEN		RETURN ON INVESTMENT		NET RESULT	
Q1–2 2013	€26.1bn	Q1–2 2013	3.2%	Q1–2 2013	€1.5bn
Target 2013	€50–52bn	Target 2013	~3.3%	Target 2013	Close to €3bn
Focus on bottom-line growth – Volume not an end in itself		Solid return given ongoing low-interest-rate environment		RoRaC target of 15% after tax over the cycle to stand	

## Reinsurance

COMBINED RATIO	
Q1–2 2013	92.4%
Target 2013	~94%
NET RESULT	
Q1–2 2013	€1.2bn
Target 2013	€2.3–2.5bn

## Primary insurance

COMBINED RATIO	
Q1–2 2013	96.0%
Target 2013	~95%
NET RESULT	
Q1–2 2013	€275m
Target 2013	€400–500m

## Munich Health

COMBINED RATIO	
Q1–2 2013	98.9%
Target 2013	~100%
NET RESULT	
Q1–2 2013	€59m
Target 2013	Small profit expected

# Making finance work in a higher capital world by strictly pursuing efficient capital management

Delivering on our promise €bn



## Good track record

Successfully dealing with challenging economic conditions

## Business strategy

Focus on insurance risks within a balanced business portfolio safeguarding sustainable value creation

## Rigorous risk management

Based on a high level of diversification, actively managing the low-yield environment

## Strong capital position

Continuing the path of attractive capital repatriation while keeping the flexibility to seize business opportunities

<sup>1</sup> Upper bar: Assuming normal nat cat claims based on 8.5% budget.



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## FINANCIAL CALENDAR

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26 September 2013	Baader Bank "Investment Conference 2013", Munich (no presentation)
15 October 2013	SRI Day on "Corporate responsibility in (re)insurance business", Munich
7 November 2013	Interim report as at 30 September 2013
21 November 2013	Citi Global Financial Conference 2013, Hong Kong (no presentation)
5 December 2013	Société Générale "Premium Review Conference", Paris (no presentation)

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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.