



# Strong balance sheet – Strong returns

Morgan Stanley 10<sup>th</sup> Annual European Financials Conference 2014

London, 27 March 2014

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Munich RE 

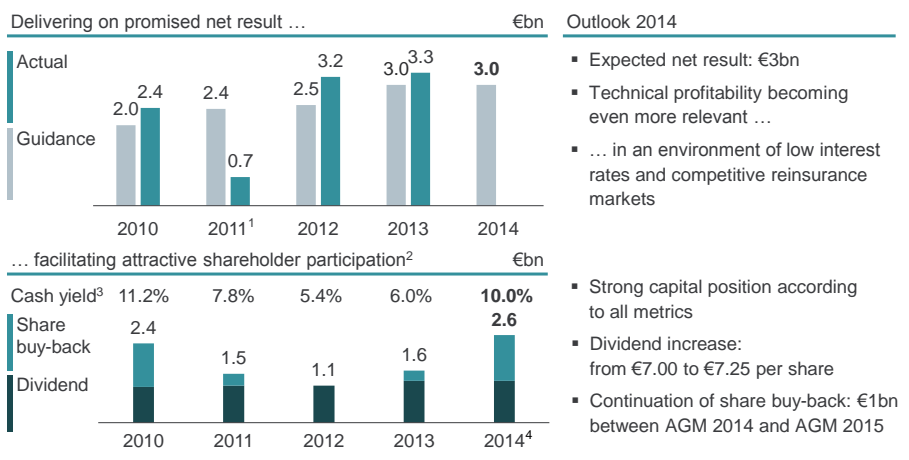
Agenda



<b>1</b>	<b>Building on a good track record</b>	<b>3</b>
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**1** Building on a good track record

Delivering on our promise, reliable for shareholders ...



**High level of diversification and disciplined bottom-line focus facilitating reliable earnings generation**

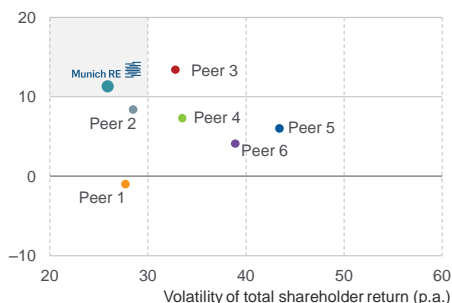
<sup>1</sup> Assuming normal nat cat claims based on 8.5% budget net result would have exceeded guidance.  
<sup>2</sup> Cash-flow view. <sup>3</sup> Total payout (dividend and buy-back) divided by average market capitalisation.  
<sup>4</sup> Share buy-back and dividend are subject to AGM approval; cash yield estimated on 2013 average market cap.

**1** Building on a good track record  
 ... resulting in stable long-term shareholder returns  
 throughout different market phases



**Attractive risk/return profile<sup>1</sup>** %

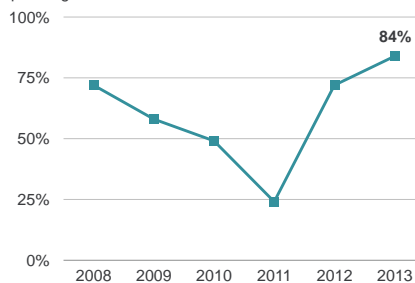
Total shareholder return (p.a.)



Below-average volatility leading to lower cost of capital

**Increasing earnings contribution from underwriting**

Contribution of technical result as a percentage of operating result.



Becoming less dependent on investment income – creating value in core underwriting business

**Munich Re shareholders enjoy attractive returns with comparatively low volatility**

<sup>1</sup> Annualised total shareholder return defined as price performance plus dividend yield over the period from 1.1.2005 until 31.12.2013; 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. <sup>2</sup> Same calculation as left chart with different starting points until 31.12.2013. European Financials Conference 2014 4

**1** Building on a good track record  
 All segments contributing to strong 2013 result



**Munich Re (Group) – FY 2013**

**NET RESULT**  
**€3,342m** (€1,198m in Q4)

Delivering good net result supported by sound core business and low tax rate

**SHAREHOLDERS' EQUITY**  
**€26.2bn** (+1.4% vs. 30.9.)

Strong capital position according to all metrics allowing for dividend increase and share buy-back

**INVESTMENT RESULT**  
**Rol of 3.5%** (3.7% in Q4)

Solid result given low interest rates and moderate risk profile

**Reinsurance**

**NET RESULT**  
**€2,797m** (€1,089m in Q4)

2,384 413

**P-C**

Combined ratio 92.1% (89.3% in Q4) – Better than target of 94%

**LIFE**

Technical result close to target – mix of positive and adverse developments

**Primary insurance**

**NET RESULT**  
**€433m** (€73m in Q4)

169 134 130

**P-C**

Combined ratio 97.2% (97.5% in Q4) – Nat cats in Germany

**LIFE**

Result in line with expectations

**HEALTH**

Solid, stable performance

**Munich Health**

**NET RESULT**  
**€150m** (€56m in Q4)

150

**PRIMARY INSURANCE**

Combined ratio 93.5% (93.7% in Q4) – Good result largely driven by improved US Medicare business

1 Building on a good track record

Investment result – Disposal gains partly compensating for higher write-downs and declining regular income



Investment result							€m
	2013	Return <sup>1</sup>	2012	Return <sup>1</sup>	Q4 2013	Return <sup>1</sup>	
Regular income	7,498	3.4%	7,761	3.6%	1,812	3.3%	
Write-ups/write-downs	-670	-0.3%	8	0.0%	-129	-0.2%	
Disposal gains/losses	1,059	0.5%	652	0.3%	330	0.6%	
Other income/expenses <sup>2</sup>	-230	-0.1%	21	0.0%	-18	0.0%	
<b>Investment result</b>	<b>7,657</b>	<b>3.5%</b>	<b>8,442</b>	<b>3.9%</b>	<b>1,995</b>	<b>3.7%</b>	

► Pleasing investment result given low interest rates and moderate risk profile

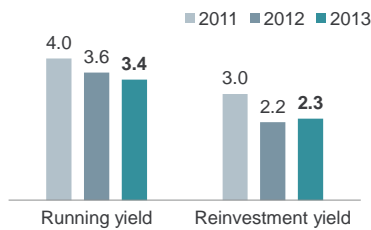
<sup>1</sup> Return on quarterly weighted investments (market values) in % p.a.  
<sup>2</sup> Including impact from unit-linked business. 2013: €400m (0.2%-points), 2012: €603m, Q4 2013: €159m (0.3%-points). European Financials Conference 2014 6

1 Building on a good track record

...as we continue with our well-balanced investment approach

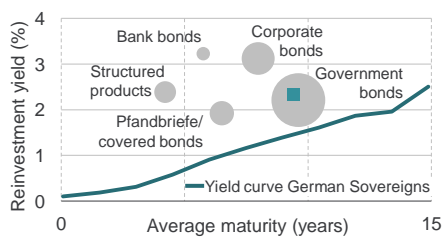


Running and reinvestment yield %



- Assets serving insurance liabilities – duration matching proving beneficial
- Solid results and reinvestment yields with limited economic exposures

Composition of reinvestment yield 2013<sup>1</sup>



- |   |   |
|---|---|
| <p><b>Expansion</b></p> <ul style="list-style-type: none"> <li>▪ Corporate and emerging market bonds</li> <li>▪ Renewable energies and new technologies</li> <li>▪ Real estate</li> </ul> | <p><b>Reduction</b></p> <ul style="list-style-type: none"> <li>▪ Select developed market bonds</li> <li>▪ Inflation-linked bonds</li> </ul> |
|---|---|

► No need for yield hunting or re-risking in times of inflated asset prices

<sup>1</sup> Bubble size reflecting reinvestment volume. Yield curve as at 31.12.2013. European Financials Conference 2014 7

2 Sound capitalisation providing flexibility  
**Stability reflected in solid financial position**



**Strong IFRS capital position**

Equity 31.12.2012	27.4bn
Consolidated result	3.3bn

**Changes**

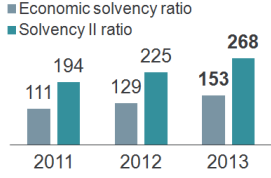
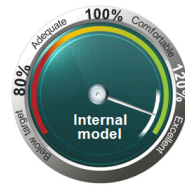
Dividend	-1.3bn
Unrealised gains/losses	-2.6bn
Exchange rates	-0.7bn
Share buy-backs	-0.2bn
Other	+0.2bn
<b>Equity 31.12.2013</b>	<b>26.2bn</b>

**Substantial capital buffer supporting AA-rating**



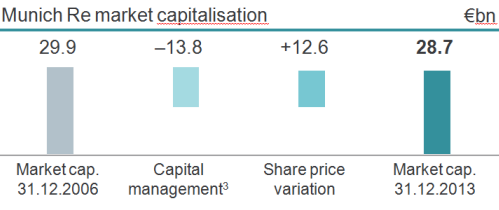
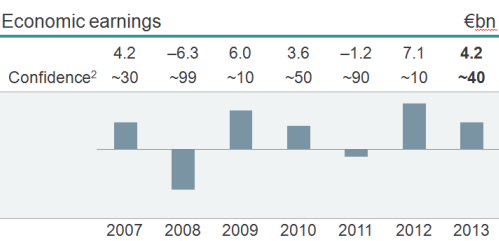
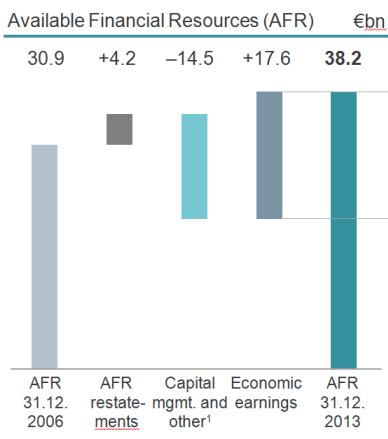
Agency	Rating
A.M. Best	A+ (Superior)
Fitch	AA- (Very strong)
Moody's	Aa3 (Excellent)
S&P	AA- (Very strong)

**Excellent economic solvency ratio further improved**



**Financial flexibility according to all metrics**

2 Sound capitalisation providing flexibility  
**Substantial increase in economic capital in the challenging environment of the last 7 years**

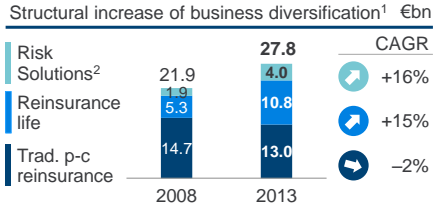
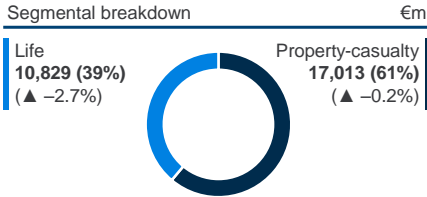


**Strong economic earnings not yet matched by share performance**

<sup>1</sup> Dividends, share buy-back, hybrid capital replacement and other.  
<sup>2</sup> Probability of achieving at least the corresponding economic earnings. <sup>3</sup> Dividends, share buy-back.

3 Business segments well on course

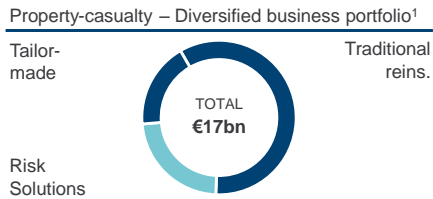
Reinsurance – Competitive environment in property-casualty following increasing supply of capacity



Gross premiums written

**Life**  
Organic growth of €242m especially in USA and Australia – negative FX effects of –€543m

**Property-casualty**  
Organic growth of €626m negative FX effects of –€665m

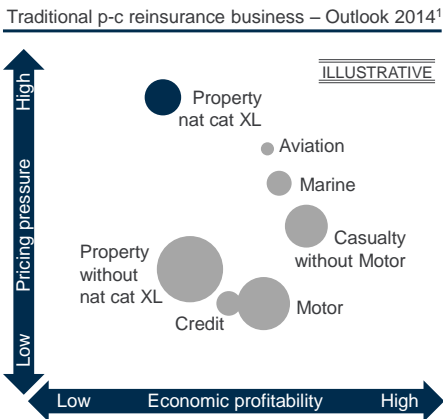


**Increasing share of business largely decoupled from reinsurance cycle and competition in traditional reinsurance**

<sup>1</sup>Gross written premiums. <sup>2</sup>Risk Solutions = Specialty primary business. European Financials Conference 2014 10

3 Business segments well on course

Bifurcation of reinsurance market – Munich Re well positioned to seize opportunities



**Traditional business to continue to comfortably surpass profitability threshold – tailored solutions generating business less bound to market terms**

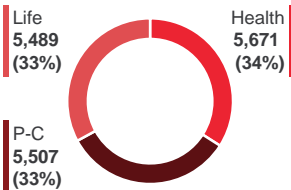
<sup>1</sup> Bubble size reflecting gross written premiums as at 31.12.2013. Traditional reinsurance only. European Financials Conference 2014 11

3 Business segments well on course

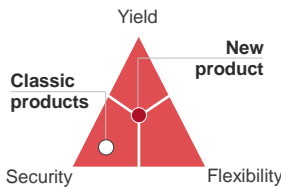
Primary insurance – Based on well balanced business composition proactively tackling challenges



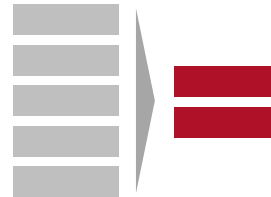
Segmental breakdown



German life – New product



Reorganisation



**Life:** Premium income decreasing in both German –5.1% and international business –6.0%  
**Health:** Growth in supplementary partially offset-ting decline in comprehensive / travel business  
**P-C:** Growth in German business +1.3% offset by decline abroad

- Successful introduction of new life product – Already making up ~50% of new business in private pensions<sup>1</sup>
- Continuously improving risk/return-profile

- Streamlining of sales completed
- Organisational changes aiming for leaner structures and stronger customer orientation
- Improving cost efficiency over the next years

Well on track to continuously increase earnings contribution

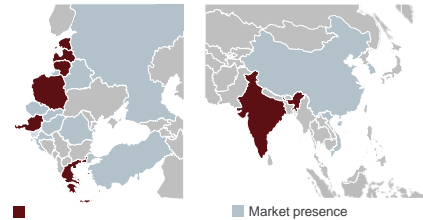
<sup>1</sup> Annual premium equivalent (APE), only 3rd layer private provision and tied agent organisations.

3 Business segments well on course

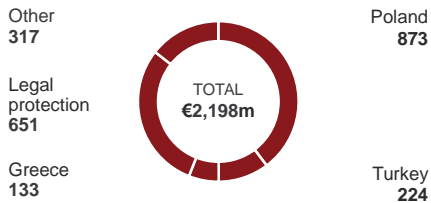
ERGO gaining momentum in international p-c business



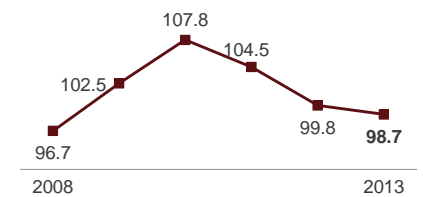
Strategic focus regions – CEE and Asia



International: Gross premiums written



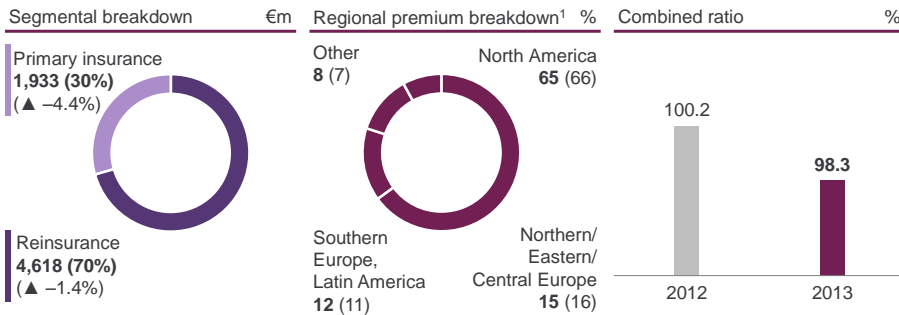
International – Combined ratio



- Getting back to normal – Management measures bearing fruit reflected in further improving profitability
- Combined ratio close to mid-term target of ~98%

3 Business segments well on course

Munich Health – Health insurance providing portfolio diversification and growth potential



Gross premiums written

**Reinsurance**

Negative FX effects (-€242m); new business in Middle East and increased large-volume deals

**Primary insurance**

Organic growth in Spain and Benelux, decline in USA due to exit from PFFS business

<sup>1</sup> Gross premiums written as at 31.12.2013 (31.12.2012).

3 Business segments well on course

Munich Health – Moving ahead after fixing problems in the US primary market



	Recent key findings	Management measures
<b>Excellence</b>	<p>Reinsurance</p> <ul style="list-style-type: none"> <li>Underwriting results too volatile</li> <li>Portfolio highly concentrated</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen underwriting and client management in Europe and the US</li> <li>Foster international know-how exchange and intensify use of primary insurance capabilities for reinsurance</li> </ul>
<b>Execution</b>	<ul style="list-style-type: none"> <li>Missing scale in US primary insurance</li> <li>High steering complexity</li> </ul>	<ul style="list-style-type: none"> <li>Sale of Windsor Health Group and revised US strategy focused on reinsurance</li> <li>Streamline organisational structure</li> </ul>
<b>Expansion</b>	<ul style="list-style-type: none"> <li>Reinsurance: Limited growth</li> <li>Primary insurance: Limited attention on growth due to turnaround challenges</li> </ul>	<ul style="list-style-type: none"> <li>Reinsurance: Focus on capital relief transactions</li> <li>Primary insurance: Expansion through leveraging existing platforms in emerging markets</li> </ul>

**Strengthen profitability and participate in growth of selected health markets**



4 Outlook 2014: Strong results

## Balance-sheet strength strictly adhered to for many years, supporting resilience of future profits



Immediate response to early signs of adverse development, e. g. for

Tax assets

Goodwill

Claims reserves

- Provisions to absorb adverse impact even from those scenarios that are difficult to analyse and measure
- Reserve releases are not booked to earnings until manifestation confirmed

In hindsight: Performance was better than originally anticipated – higher base level for the future

No intention to embellish current earnings but ...

... strong balance sheet providing further resilience against event risk and bad surprises

**Future profitability dependent on market performance – but in any case solidly supported by strong balance sheet**

4 Outlook 2014: Strong results

## Ambitions financial outlook 2014



### Munich Re (Group)

GROSS PREMIUMS WRITTEN		RETURN ON INVESTMENT		NET RESULT	
2013	€51bn	2013	3.5%	2013	€3.3bn
Target 2014 <sup>1</sup>	~€50bn	Target 2014	~3.3%	Target 2014	€3bn
Focus on bottom-line growth prevails		Solid return given ongoing low interest-rate environment		RoRaC target of 15% after tax over the cycle to stand	

### Reinsurance

COMBINED RATIO	
2013	92.1%
Target 2014	~94%
NET RESULT	
2013	€2.8bn
Target 2014	€2.3–2.5bn

### Primary insurance

COMBINED RATIO	
2013	97.2%
Target 2014	~95%
NET RESULT	
2013	€433m
Target 2014	€400–500m

### Munich Health

COMBINED RATIO	
2013	98.3%
Target 2014	~99%
NET RESULT	
2013	€150m
Target 2014	~€100m

<sup>1</sup> By segment: Reinsurance ~€28bn, primary insurance slightly above €16.5bn, Munich Health slightly above €5.5bn.

4 Outlook 2014: Strong results

## Munich Re well-positioned for the introduction of Solvency II

Munich RE 

### Main implications of Solvency II

- Catalyst for the introduction of risk-/value-based steering and product innovation
- Improved comparability within European financial services industry

### Impact on the insurance industry

- Fostering a paradigm change towards economic steering
- Development of products balancing capital needs and client demand
- Higher capital requirements and transparency may drive consolidation and reinsurance demand

### Impact on Munich Re

#### Reinsurance

- Capital requirements based on Internal economic model adequately reflecting portfolio diversification
- Providing know-how and structuring expertise
- Business potential as strong partner for holistic capital management solutions

#### Primary insurance

- Level competitive playing field
- Expansion of less capital-intensive new life products

**Ready for regulatory requirements while providing clients with capital management solutions**

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Backup: Shareholder information

## Financial calendar

Munich RE 

### FINANCIAL CALENDAR

30 April 2014	Annual General Meeting, ICM – International Congress Center Munich, Trade Fair Center, Munich
8 May 2014	Interim report as at 31 March 2014
27 May 2014	Deutsche Bank "Global Financial Services Investor Conference", New York
21 July 2014	Analysts' / Investor Briefing
7 August 2014	Interim report as at 30 June 2014, half-year press conference
6 November 2014	Interim report as at 30 September 2014

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Backup: Shareholder information

For information, please contact




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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.