Delivering strong capital returns
Bank of America Merrill Lynch
20th Annual Banking, Insurance & Diversified Financials CEO Conference

London, 29 September 2015

Jörg Schneider
Delivering strong capital returns

Munich Re stands for high reliability –
Strong track record in value generation …

Return on equity %

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>12.5</td>
</tr>
<tr>
<td>2010</td>
<td>11.8</td>
</tr>
<tr>
<td>H1 2015</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Average cost of capital %

Average ROE: ~11.1% –
Clearly exceeds cost of capital: ~8%

Delivering on promised net result €bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Guidance</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>2011</td>
<td>2.4</td>
<td>0.7</td>
</tr>
<tr>
<td>2012</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>2013</td>
<td>3.0</td>
<td>3.3</td>
</tr>
<tr>
<td>2014</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>2015</td>
<td>2.5 – 3.0</td>
<td>2.5 – 3.0</td>
</tr>
<tr>
<td>H1 2015</td>
<td>1.9</td>
<td></td>
</tr>
</tbody>
</table>

Well on track to beat initial 2015 guidance –
New annual guidance raised to at least €3bn

Balanced business portfolio paves the way for sustainable profitability

1 Assuming normal nat cat claims based on 8.5% budget, net result would have exceeded guidance.
Delivering strong capital returns

... driving high shareholder returns with comparatively low risk profile

Attractive shareholder participation

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash yield</th>
<th>Share buy-back</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>11.2%</td>
<td>2.4</td>
<td>1.1</td>
</tr>
<tr>
<td>2011</td>
<td>7.8%</td>
<td>1.5</td>
<td>1.1</td>
</tr>
<tr>
<td>2012</td>
<td>5.4%</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>2013</td>
<td>6.0%</td>
<td></td>
<td>1.1</td>
</tr>
<tr>
<td>2014</td>
<td>9.6%</td>
<td></td>
<td>1.6</td>
</tr>
<tr>
<td>2015e</td>
<td>~7%</td>
<td></td>
<td>2.3</td>
</tr>
</tbody>
</table>

Almost €20bn repatriated to shareholders since 2006

Annualised TSR: ~10.6% – Outperforming major peers and insurance index

Strong balance sheet facilitating high shareholder payout

1 Cash-flow view. 2 Total payout (dividend and buy-back) divided by average market capitalisation. 3 Annualised total shareholder return defined as price performance plus dividend yield over the period from 1.1.2005 until 31.8.2015; 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, Zurich, Stoxx Europe 600 Insurance (“index”).
Munich Re well positioned to cope with structural and cyclical industry challenges and opportunities

Introduction

Solvency II

- Volatility of solvency ratios
- Capital fungibility
- Model consistency

Munich Re’s response

- Well-balanced investment portfolio
- Tight AL-matching and restrictive bonus policy of German life back-book, while new business continuously shifts towards our target portfolio

Industry impact

- Lower investment yields
- Increasing volatilities
- A burden for German life

Reinsurance supply/demand

- Increase in capacity
- Higher retentions
- Consolidation of panels
- More complex demand
- M&A wave

- Diversified portfolio, strict bottom-line focus
- Superior client access
- Know-how-driven business approach and high innovative potential
- Strong reserving position

Low interest rates

- Strong capitalisation
- Proven internal risk model
- No major changes in capital allocation and distribution
- Business opportunities
Delivering strong capital returns – 29 September 2015

Well-balanced portfolio – no intention to move up the risk curve

Composition of reinvestment yield H1 2015

Reinvestment yield (%)

- Solid reinvestment yields without taking high risks
- Ongoing geographic diversification and cautious investments in credit mitigating yield attrition
- Long duration has been stabilising investment returns over recent years

Declining running and reinvestment yield

1 Bubble size reflects reinvestment volume. Yield curve as at 31.3.2015.
High valuation reserves – Steady disposal gains and resilience against adverse capital market scenarios

<table>
<thead>
<tr>
<th>Investment portfolio¹</th>
<th>%</th>
<th>Total investments</th>
<th>€bn</th>
<th>Investment result</th>
<th>€bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate</td>
<td>2.5</td>
<td>Fixed-interest securities and loans</td>
<td>84.4</td>
<td>Valuation reserves</td>
<td>236</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>187</td>
<td>196</td>
<td>225</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2010 2011 2012 2013 2014</td>
<td>H1 2015</td>
<td></td>
</tr>
<tr>
<td>Equities²</td>
<td>5.4</td>
<td></td>
<td>8.6</td>
<td>6.8</td>
<td>8.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.6</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2010 2011 2012 2013 2014</td>
<td>H1 2015</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous³</td>
<td>7.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

More than 85% fixed-income – Declining interest rates … significantly pushing up valuation reserves – … leading to disposal gains due to usual portfolio turnover

Strong balance sheet mitigates earnings pressure from low interest rates

¹ Fair values as at 30.6.2015. ² Net of hedges: 4.0% (4.3%). ³ Deposits retained on assumed reinsurance, deposits with banks, investment funds (excl. equities), derivatives, and investments in renewable energies and gold.
Life Germany: Shift to less interest-rate-sensitive products

Comprehensive management of back book …

- Interest-rate hedging since 2005
- Strict duration management – long duration keeps average yield at relatively high level
- Restrictive bonus policy
- Statutory earnings of German Life insurance industry challenged by funding of the ZZR

Average yield vs. average guarantee

… while new business continuously shifts towards our target portfolio

- New product generation launched in June 2013
- Shift to less interest-rate-sensitive products with significantly lower capital requirements
- ERGO Life will close most of its classic products from 1 January 2016

New business APE

<table>
<thead>
<tr>
<th>Year</th>
<th>Target portfolio (incl. new life product)</th>
<th>Traditional portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>2012</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>2014</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>2016e</td>
<td>84%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Management measures mitigating impact from low interest rates – clearly manageable in a Group context
Munich Re actively shaping the changing (re-) insurance landscape

**Total p-c book**

<table>
<thead>
<tr>
<th>Detaching from the cycle</th>
<th>Risk Solutions</th>
<th>Tailor-made solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disciplined cycle management</td>
<td>Other traditional business</td>
<td></td>
</tr>
</tbody>
</table>

**Future drivers of insurance demand**

**Traditional (re-) insurance**
- Higher demand from emerging markets
- Large portion of non-insured or under-insured risks
- New forms of capital and risk management

**Innovation-driven demand**
- New risk landscape (e.g. cyber, supply chains, logistics, mobility)
- New data and IT technologies
- New distribution channels
- New services due to changes in customer behaviour

**Benefitting from superior client access**
- Around 40% of traditional business with differential terms/private placements

**Well positioned to manage the soft cycle**
- Emphasis on innovation

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Reinsurance supply/demand

Traditional reinsurance –
Business comfortably meeting cost of capital

<table>
<thead>
<tr>
<th>Traditional p-c book(^1)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>7 (8)</td>
</tr>
<tr>
<td>Specialty</td>
<td>11 (12)</td>
</tr>
<tr>
<td>Other property</td>
<td>27 (28)</td>
</tr>
<tr>
<td>TOTAL(^1)</td>
<td>€13bn</td>
</tr>
</tbody>
</table>

| Casualty motor | 26 (24) |
| Casualty non-motor | 19 (16) |
| Property nat cat XL | 10 (12) |

Price changes renewals

\[ \begin{align*}
2010 & \quad -0.1 \\
2011 & \quad 1.0 \\
2012 & \quad 2.4 \\
2013 & \quad 0.2 \\
2014 & \quad -2.4 \\
2015 & \quad -1.6
\end{align*} \]

Share increases
- Profitable casualty lines
- Less volatile proportional business

Share reductions
- Deliberate cancellations and reductions in property
- Property nat cat XL share further reduced

First signs of some stabilisation in July 2015 renewals

Broadest geographical reach – leading risk know how – superior diversification

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\(^2\) Aviation, marine and credit.
## Risk Solutions – Know-how-driven niche business with high entry barriers

### Key characteristics

- Leadership position in profitable specialty markets largely detached from reinsurance cycle, lower nat cat exposure
- Strong bottom-line also driven by low major losses and reserve releases – highest result contribution from US special entities

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

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1 Management view, not comparable with IFRS reporting.
Example: Protection gap in Asia – Underinsured market highly exposed to natural catastrophes

- Munich Re providing sustainable reliable capacity – in particular after historic loss events such as in 2011 ...
- ... facilitated by strong capital position and expertise of modelling various nat cat scenarios

**Demand for nat cat insurance covers expected to increase – Munich Re able to absorb high random losses by global diversification within regions and perils**

1 1980–2014. Size of bubbles indicative for share of overall losses in this time period – Asian share ~40%.
Source: Munich Re, Geo Risks Research, NatCatSERVICE.
Example: Tapping new profit pools by expanding existing market boundaries – Key development areas

New (re-)insurance products

- Cyber risks
- Energy and technology (e.g. technical performance guarantees)
  - Non-damage BI
  - Weather and Climate
  - Project cost insurance
  - Product design in Life and Health based on enhanced data analytics

New risk-related services

- Consulting (e.g. Motor and Property Consulting services)
  - Project risk rating
  - Virtual simulation of e.g. constructions
  - Predictive and preventive services

New business models

- Automation and digitalisation of processes (e.g. automated underwriting platform)
  - White labelling
  - Risk-sharing with pension funds

New clients and demands

- Corporate finance / capital management solutions (e.g. Capital Partners)
  - Public-sector business development
  - Sharing economy / mobility

~ €400m\(^1\) premium generated by innovative products

\(^1\) Approximation – not fully comparable with IFRS figures for 2014.
Munich Re well positioned for the introduction of Solvency II

| New standards in risk-based supervision | Impact on insurance industry | Munich RE
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fostering a paradigm change towards economic steering concepts and enhancing comparability and transparency</td>
<td>Risk management and economic steering already effective and integrated – Working on extensive pre-application phase of internal model with BaFin since several years – Official approval process started end of May</td>
<td></td>
</tr>
<tr>
<td>Changing capital requirements</td>
<td>Depending on company size, level of diversification and product specifics – Shift towards less capital-intense products</td>
<td>Strong capitalisation – No major changes in capital allocation and distribution expected – Diversified portfolio – Strict bottom-line focus</td>
</tr>
<tr>
<td>Market dynamics</td>
<td>Driver for consolidation, more complex reinsurance demands and product innovation – Volatility of solvency ratios</td>
<td>Market-leader in structuring complex, tailor-made solutions – Know-how-driven business approach and high innovative potential – Additional business potential due to increased capital requirements of cedents</td>
</tr>
</tbody>
</table>

Ready for regulatory requirements while providing clients with capital management solutions
Strong economic solvency – The basis of our sound capitalisation

Sound capitalisation according to all metrics

- Economic solvency ratio well above 120% – good basis for distributions to shareholders
- Substantial capital buffer supporting AA rating – providing high level of flexibility
- German statutory earnings largely protected by huge equalisation reserve, financing capital repatriation

Transition to Solvency II

- No negative effects expected from final adoption of internal model (e.g. risk-mitigating effect of deferred taxes, treatment of fungibility restrictions, EIOPA curve)
- Internal model takes a prudent approach, for example via:
  - Fully considering default and credit spread risk of sovereign bonds
  - Modeling Group SCR based on consolidated accounts – no use of lower, statutory capital requirements via deduction and aggregation method
  - Clients benefit from MR’s strong financial rating via lower SII counterparty default risk

Capitalisation in the Solvency II regime remains very strong – No adverse impact on capital management to be expected
Looking ahead – World of opportunities

**Short-term priorities**

<table>
<thead>
<tr>
<th>Managing downside</th>
<th>Preserving profitability</th>
<th>Business expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERGO traditional German Life</td>
<td>ERGO P-C Germany</td>
<td>ERGO International</td>
</tr>
<tr>
<td></td>
<td>ERGO Health Germany</td>
<td>Risk Solutions</td>
</tr>
<tr>
<td></td>
<td>Reinsurance Life</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Traditional P-C reinsurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Munich Health</td>
<td></td>
</tr>
</tbody>
</table>

**Mid-term outlook**

- Remain disciplined with strict bottom-line focus
- Maintain focus on technical excellence and underwriting rigour
- Foster strong capital base and financial flexibility
- Continue to increase dividend with long-term earnings growth

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

### 2015
- **5 November**: Interim report as at 30 September 2015
- **30 November**: Briefing on Solvency II, London

### 2016
- **4 February**: Preliminary key figures 2015 and renewals
- **16 March**: Balance sheet press conference for 2015 financial statements, Analysts' conference in Munich with videocast
- **27 April**: Annual General Meeting 2016, ICM – International Congress Centre Munich
- **10 May**: Interim report as at 31 March 2016
- **9 August**: Interim report as at 30 June 2016
- **9 November**: Interim report as at 30 September 2016
For information, please contact

**INVESTOR RELATIONS TEAM**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christian Becker-Hussong</td>
<td>Head of Investor &amp; Rating Agency Relations</td>
<td>Tel.: +49 (89) 3891-3910, E-mail: <a href="mailto:cbecker-hussong@munichre.com">cbecker-hussong@munichre.com</a></td>
</tr>
<tr>
<td>Thorsten Dzuba</td>
<td>Tel.: +49 (89) 3891-8030, E-mail: <a href="mailto:tdzuba@munichre.com">tdzuba@munichre.com</a></td>
<td></td>
</tr>
<tr>
<td>Christine Franziszi</td>
<td>Tel.: +49 (89) 3891-3875, E-mail: <a href="mailto:cfranziszi@munichre.com">cfranziszi@munichre.com</a></td>
<td></td>
</tr>
<tr>
<td>Britta Hamberger</td>
<td>Tel.: +49 (89) 3891-3504, E-mail: <a href="mailto:bhamberger@munichre.com">bhamberger@munichre.com</a></td>
<td></td>
</tr>
<tr>
<td>Ralf Kleinschroth</td>
<td>Tel.: +49 (89) 3891-4559, E-mail: <a href="mailto:rkleinschroth@munichre.com">rkleinschroth@munichre.com</a></td>
<td></td>
</tr>
<tr>
<td>Andreas Silberhorn</td>
<td>Tel.: +49 (89) 3891-3366, E-mail: <a href="mailto:asilberhorn@munichre.com">asilberhorn@munichre.com</a></td>
<td></td>
</tr>
<tr>
<td>Angelika Rings</td>
<td>Tel.: +49 (211) 4937-7483, E-mail: <a href="mailto:angelika.rings@ergo.de">angelika.rings@ergo.de</a></td>
<td></td>
</tr>
<tr>
<td>Andreas Hoffmann</td>
<td>Tel.: +49 (211) 4937-1573, E-mail: <a href="mailto:andreas.hoffmann@ergo.de">andreas.hoffmann@ergo.de</a></td>
<td></td>
</tr>
<tr>
<td>Ingrid Grunwald</td>
<td>Tel.: +49 (89) 3891-3517, E-mail: <a href="mailto:igrunwald@munichre.com">igrunwald@munichre.com</a></td>
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Münchener Rückversicherungs-Gesellschaft | Investor & Rating Agency Relations | Königinstraße 107 | 80802 München, Germany
Fax: +49 (89) 3891-9888 | E-mail: IR@munichre.com | Internet: www.munichre.com
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