Half-year financial report as at 30 June 2020

6 August 2020

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Munich RE

Image: Klaus Ohlenschläger / dpa Picture Alliance

Half-year financial report as at 30 June 2020

Munich Re

Group finance

ERGO

Reinsurance

Munich Re showing resilience against COVID-19 impact

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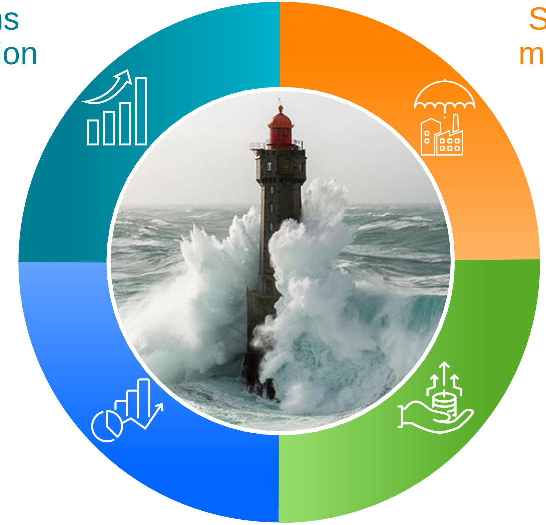
Business activities running smoothly

Strong IT facilitating work from home for tens of thousands of employees without any friction

Insurance risk well manageable

Significant short-term claims impact, but good medium- and long-term business opportunities



Solid investment result

Navigating capital market volatility with well-diversified investment portfolio and effective hedging

Reliable shareholder return

Proven stress resilience allows for dividend payment

Financial impact of COVID-19 on Munich Re well bearable

Image: MathieuRivrin / Getty Images

In times of COVID-19, Munich Re fulfils the economic and social role of (re)insurance

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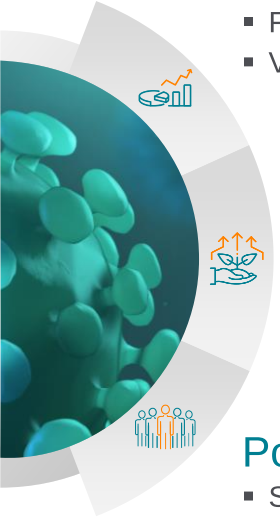

Economy

- Gradual relaxation of lockdowns, partially reversed again
- Fiscal and monetary stimuli
- V-, U-, W- or L-shaped development?

Capital markets

- Quick and strong rebound of equity and credit markets after severe losses
- Increasing decoupling from economic fundamentals
- Risk of setbacks remains

Population

- Social and economic life strongly limited
- Still rising infections and fatalities
- Increasing unemployment
- Risk of a second wave

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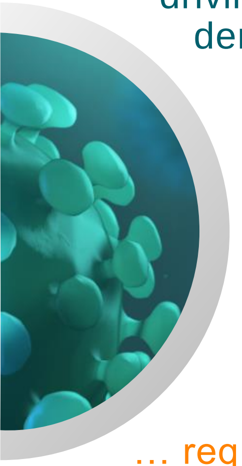
- Fulfilling our mission as an insurer by covering claims of €1.5bn in H1 2020 – immediately supporting our business partners
- Engaging in public-private-partner-ship discussions to tackle future pandemic challenge
- Protecting our employees as a socially responsible employer – strict measures ensuring infection risk is kept as low as possible
- Extending into voluntary activities – engaged in supporting communities in need

Fully committed to protecting stakeholder value

Image: CROCOTHERY / stock.adobe.com

Despite COVID-19, business operations well on track – Strong capitalisation safeguards financial flexibility …



COVID-19 …

Our strong capitalisation enables us to …

… increases uncertainty, driving reinsurance demand

… seize profitable business opportunities

- Reinsurance market hardening – 7.6% premium growth (July: 8.3%) and 1.8% price increase (July: 2.8%) in 2020 renewals
- Flight to quality – we remain reliable and provide ample capacity
- COVID-19 crisis to further crystalise the value proposition of (re)insurance

… accelerates digitalisation

… substantially invest in digital transformation

- Employees: Digital infrastructure facilitated instant mobile working
- Customers: Digital sales channels safeguarded premium service levels during lockdown
- Operations: New business models gaining momentum

… requires risk-bearing capacity and high capital flexibility

… grow GWP and deliver on capital repatriation

- Increase in dividend per share from 2017 to 2019: 14% – ambition for further growing dividends
- Total volume of share buy-back between 2017 and 2019: €3bn
- Expansion in attractive lines of business and geographies

Image: CROCOTHERY / stock.adobe.com

… to pave the way for continued earnings growth – the basis for attractive total shareholder return

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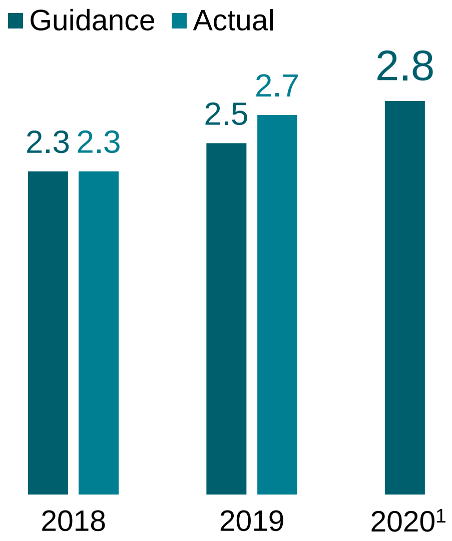
Ambition 2020 no longer achievable due to COVID-19 – underlying performance remains strong

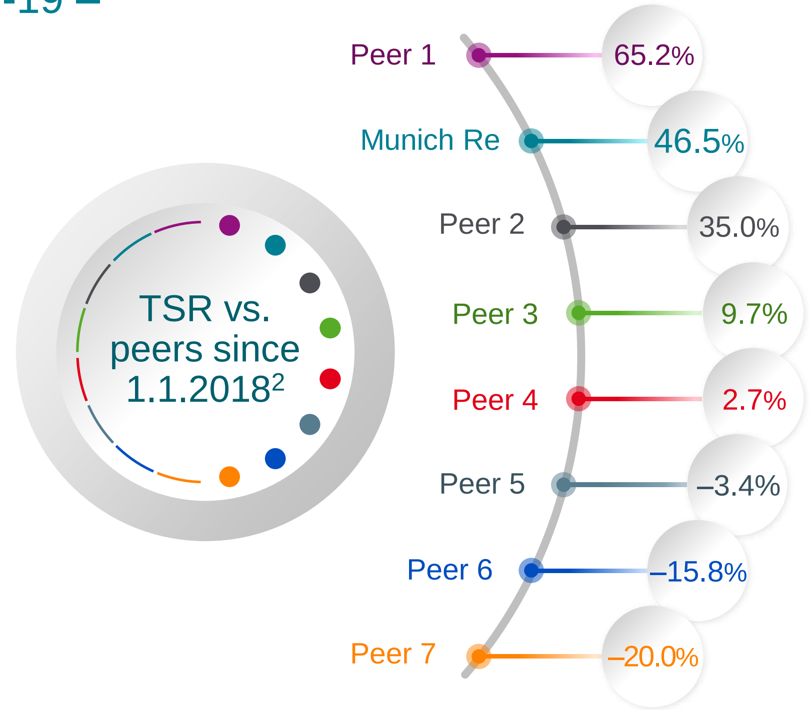


H1 2020

Net income normalised for

- 12% large losses in P-C Reinsurance
- COVID-19 claims in L&H Reinsurance

supporting former FY target



1 Guidance withdrawn due to uncertain development of the COVID-19 pandemic.
2 Source: Datastream. Period from 1.1.2018 to 30.6.2020. Peers: Allianz, Axa, Generali, Hannover Re, Scor, Swiss Re, Zurich.

Outlook 2020

Group

Gross premiums written
~€54bn
(before: ~€52bn)

Net result
withdrawn

Return on investment[1]
~3%

ERGO

Gross premiums written[1]
~17.5bn

Net result[1]
~€530m

Combined ratio
P-C Germany[1]
~92%

International[1]
~94%

Reinsurance

Gross premiums written
~€36bn
(before: ~€34bn)

Net result
withdrawn

Combined ratio
Property-casualty
withdrawn

Technical result, incl. fee income
Life and Health
withdrawn
(before: ~€550m)

1 Substantial risk of falling short of this guidance, subject to the further development of the COVID-19 pandemic.

Group finance

2

Image: Klaus Ohlenschläger / dpa Picture Alliance

Financial impact of COVID-19 on Munich Re well manageable

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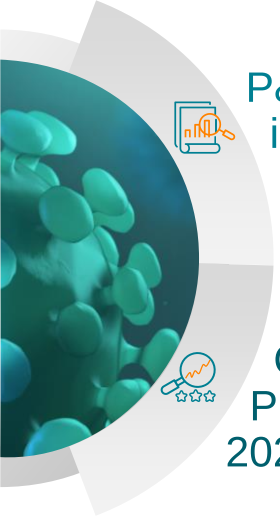

	Life and Health	Property-casualty
P&L impact in H1 2020	▪ ~€100m in COVID-19-related losses, dominated by far by the US ▪ Claims reported in Q2 consistent with pandemic development	▪ ~€1.4bn in COVID-19- related losses across various lines of business, whereas contingency losses account for the largest share by far ▪ ~€80m paid claims and client reported case reserves in reinsurance, ~€1.3bn IBNR[1]

Outlook/ Projection 2020	▪ Claims development depends on further mortality experience, esp. in North America
	▪ Portfolio mortality expected to be below that of the general population
	▪ 5% of extra mortality claims in our book would lead to excess annual claims cost of ~€200m[2]
	▪ Still far away from 200-year event scenario[3] of ~€1.4bn
		▪ Contingency claims to remain the biggest risk
		▪ Claims in other lines of business are expected to increase, while not reaching the level of contingency losses
		  ▪ BI: Most policies are not affected, having physical damage triggers – contract wording is crucial
		  ▪ Credit: Risk manageable given government inter-ventions and exposure management of our cedants
		  ▪ Workers' comp./D&O: Risk limited as lines of business/ exposures considered less exposed

1 incl. ~€500m claims (direct business) for which we gave confirmation of coverage in H1 2020. 2 Estimate based on a stress test with simplistic assumptions, e.g. no differentiation between markets, no specific age distributions of our exposure and lethality of the pandemic. Estimate does not consider any difference between population mortality and our portfolio; refers only refers to mortality business. 3 Scenario based on the assumption of 10m incremental global deaths.
Image: CROCOTHERY / stock.adobe.com

Good Q2 result given the challenging environment – Sound business development and balance sheet resilience

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Q2 2020 (H1 2020)

Net result

€579m (€800m)

Good underlying performance: Reinsurance result of €407m impacted by COVID-19 – strong ERGO result of €173m

Return on investment[1]

2.7% (2.9%)

Solid return in volatile capital markets – reinvestment yield: 1.6%

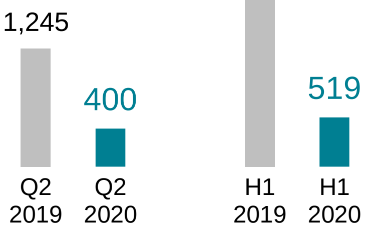
Shareholders' equity

€29.8bn (–2.6% vs. 31.12.)

Return on equity[1]: 10.4% (7.1%)
Solvency II ratio[2]: 211%

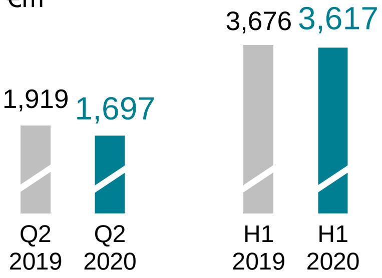
Technical result

€m



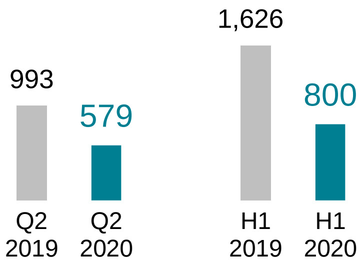
Investment result

€m



Net result

€m



Reinsurance

Life and Health: Technical result, incl. fee income: €48m (€104m) – COVID-19 negative impact in Q2 mainly in the US – net result €59m (€67m)

Property-casualty: 99.9% (103.0%) – Major-loss ratio: 14.8% (18.0%); reserve releases[3]: –4.0% (–4.0%) – net result €348m (€488m)

July renewals: Risk-adjusted price change: ~ +2.8%, premium change: +8.3%

ERGO

L&H Germany: RoI: 2.9% (2.8%) – net result €63m (€69m)

Property-casualty Germany: C/R: 92.5% (92.9%) – net result €50m (€71m)

International: C/R: 90.1% (92.7%) – net result €59m (€105m)

1 Annualised. 2 Including positive impact from cancelled share buy-back of ~5%-points. 3 For prior-year basic losses.

Capital position

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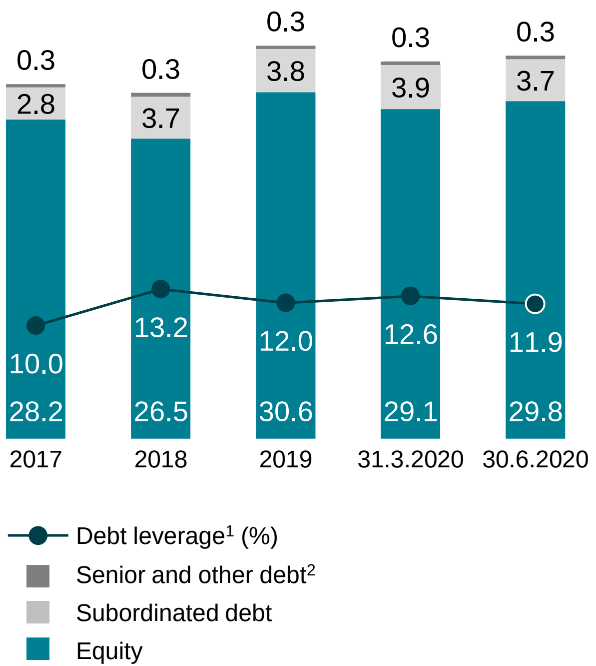
Equity

€m

		Change in Q2
Equity 31.12.2019	30,576	
Consolidated result	800	579
Changes		
Dividend	–1,373	–1,373
Unrealised gains/losses	787	1,907
Exchange rates	–280	–175
Share buy-backs	–359	0
Other	–385	–289
Equity 30.6.2020	29,766	649

Capitalisation

€bn



Unrealised gains/losses

Fixed-interest securities

H1: €1,579m Q2: €1,738m

Non-fixed-interest securities

H1: –€805m Q2: €160m

Exchange rates

Devaluation of various currencies

1 Strategic debt (senior, subordinated and other debt) divided by total capital (strategic debt + equity).
2 Other debt includes Munich Re bank borrowings and other strategic debt.

Investment portfolio

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Investment portfolio[1]

%

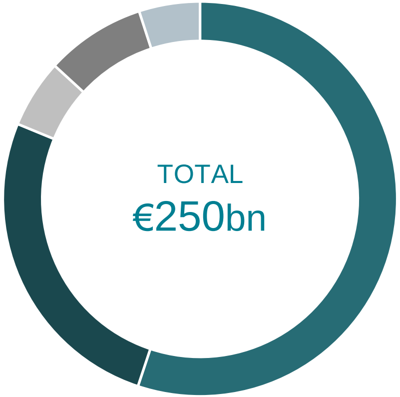
Land and buildings
4.9 (4.7)

Miscellaneous[2]
8.2 (8.1)

Shares, equity funds and participating interests[3]
5.6 (7.1)

Loans
26.1 (26.1)

Fixed-interest securities
55.1 (53.9)



Portfolio management in Q2

- Stable equity exposure – we remain cautious given ongoing disconnect with economic fundamentals
- Expansion of international investment-grade corporate bonds at the expense of covered bonds
- Reinvestment yield 1.6% in Q2 – higher corporate bond yields mitigate decline in interest rates, particularly in the US

1 Fair values as at 30.6.2020 (31.12.2019). 2 Deposits retained on assumed reinsurance, deposits with banks, investment funds (excl. equities), derivatives and investments in renewable energies and gold. 3 Net of hedges: 4.5 (6.4%).

Investment result

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€m	Q2 2020	Return[1]	H1 2020	Return[1]	H1 2019	Return[1]
Regular income	1,721	2.8%	3,265	2.6%	3,459	2.9%
Write-ups/write-downs	–108	–0.2%	–1,567	–1.3%	–181	–0.2%
Disposal gains/losses	1,189	1.9%	1,566	1.3%	1,038	0.9%
Derivatives[2]	–906	–1.5%	694	0.6%	–329	–0.3%
Other income/expenses	–200	–0.3%	–342	–0.3%	–311	–0.3%
Investment result	1,697	2.7%	3,617	2.9%	3,676	3.1%
Total return		9.5%		4.7%		12.1%

3-month reinvestment yield	
Q2 2020	1.6%
Q1 2020	1.9%
Q4 2019	1.9%

Q2 2020	Write-ups/ write-downs	Disposal gains/losses	Derivatives
Fixed income	1	622	26
Equities	–117	555	–891
Commodities/Inflation	12	0	67
Other	–3	12	–107

H1 2020	Write-ups/ write-downs	Disposal gains/losses	Derivatives
Fixed income	–14	1,038	578
Equities	–1,464	233	182
Commodities/Inflation	40	0	16
Other	–128	296	–82

1 Annualised return on quarterly weighted investments (market values) in %. 2 Result from derivatives without regular income and other income/expenses.

ERGO

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ERGO

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Gross premiums written

€m

H1 2019	9,212
Foreign exchange	–16
Divestments/investments	–90
Organic change	–86
H1 2020	9,021

- L&H Germany[1] (–€193m): Positive development in Health and growth through new products in Life overcompensated by ordinary attrition of back book and COVID-19 effects in Travel
- P-C Germany[1] (+€99m): Organic growth in almost all business lines, mainly driven by fire/property, liability, motor and other insurance
- International (–€98m): Stable premium development adjusting for portfolio streamlining and run-down in Belgium Life

Major result drivers

€m

	H1 2020	H1 2019	▲	Q2 2020	Q2 2019	▲
Technical result	280	398	–118	101	253	–152
Non-technical result	110	–3	113	189	4	186
thereof investment result	2,029	2,231	–202	1,038	1,116	–77
Other	–145	–174	29	–118	–122	3
Net result	245	220	25	173	135	37

Technical result

Q2: Development driven by

- L&H Germany (–€134m): Dependency between technical and investment result leading to high intra-year volatility related to COVID-19
- P-C Germany (–€42m): Continuously strong operative performance, Q2 burdened by COVID-19 partly compensated by retail lines
- International (+€24m): Ongoing good operational performance, reduced claims frequency (esp. Motor), lower large losses

Investment result

- H1: Effective hedging strategy and realisations mitigate impact from volatile capital markets
- Q2: Disposal gains for ZZR funding; derivative losses partly compensated by realisations; Return on investment of 2.7%

Other

- Improved FX result in Life and Health Germany and International

1 Life and Health Germany (L&H Germany); Property-casualty Germany (P-C Germany).

ERGO Property-casualty Germany

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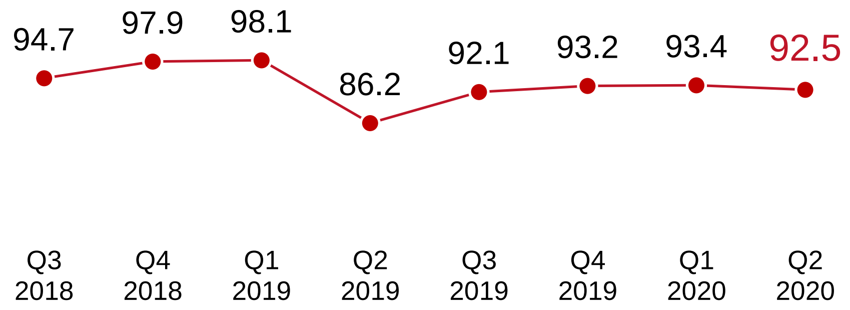
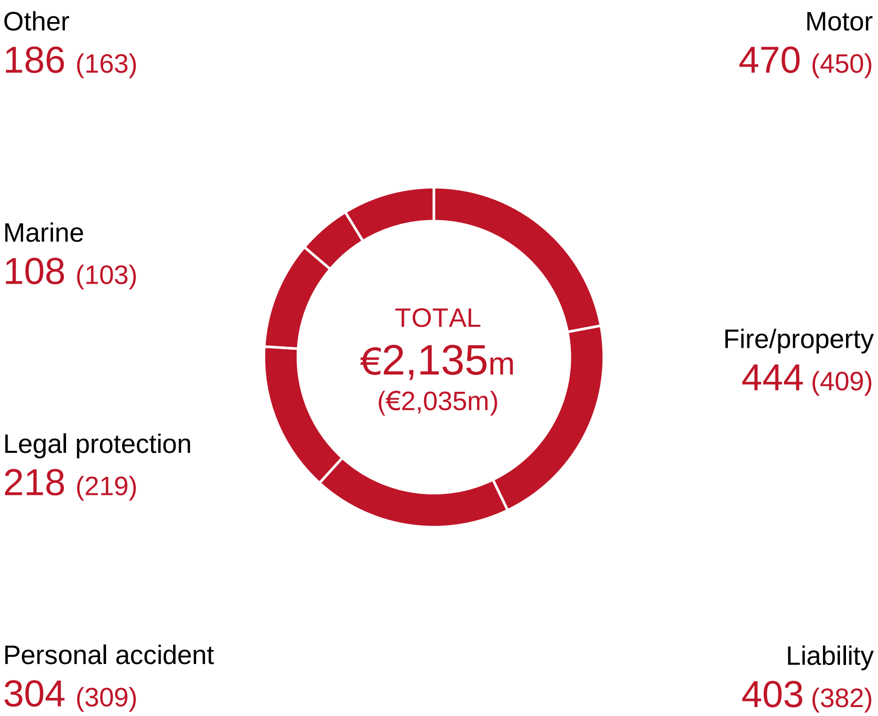
Combined ratio

%



Gross premiums written in H1 2020 (H1 2019)

€m



ERGO International

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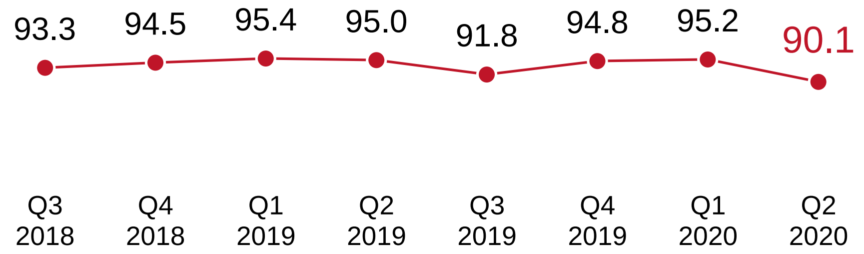
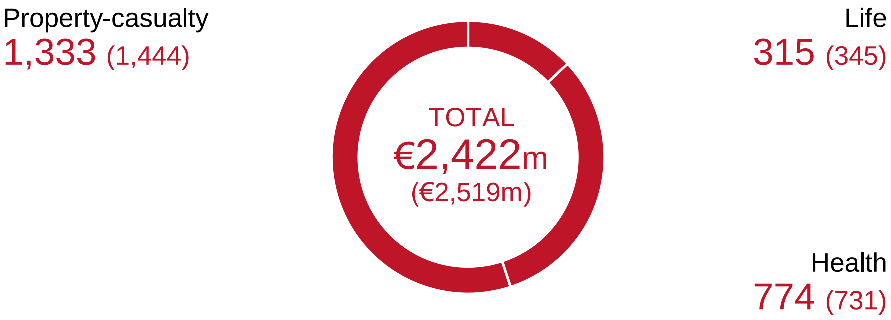
Combined ratio

%

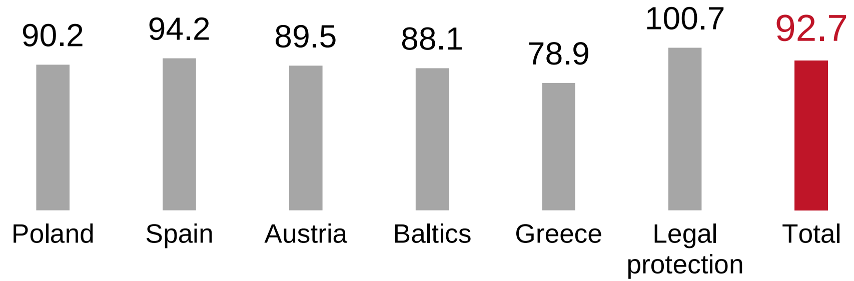


Gross premiums written in H1 2020 (H1 2019)

€m



H1 2020



P-C Thereof:	H1 2020	H1 2019
Poland	703	743
Legal protection	338	320
Greece	122	120
Baltics	96	96
Austria	52	51

Life Thereof:	H1 2020	H1 2019
Austria	164	181
Belgium	74	77

Health Thereof:	H1 2020	H1 2019
Spain	455	426
Belgium	319	305

Reinsurance

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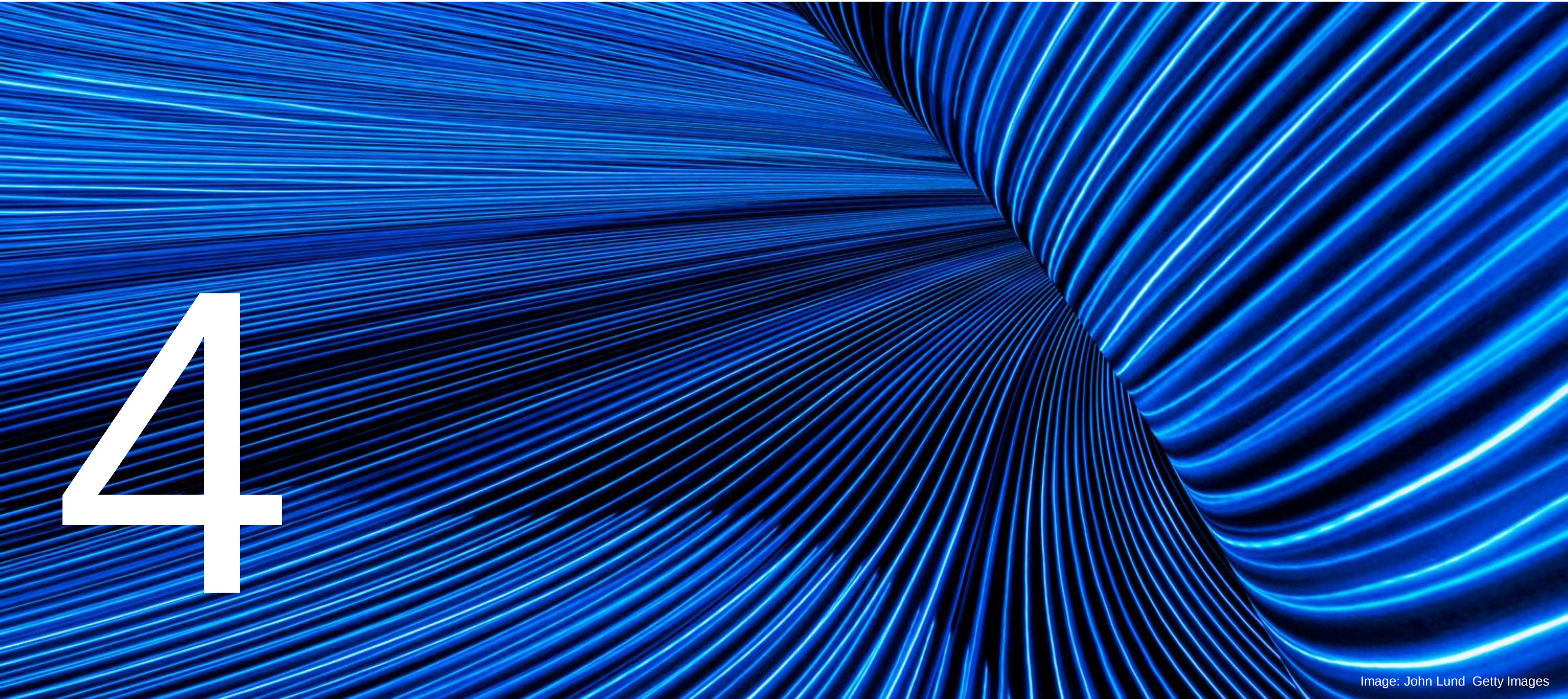

Image: John Lund Getty Images

Reinsurance Life and Health

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Gross premiums written

	€m
H1 2019	5,636
Foreign exchange	60
Divestments/investments	0
Organic change	715
H1 2020	6,411

- Positive FX effects
- Premium growth mainly from Europe, Asia and North America

Major result drivers

€m

	H1 2020	H1 2019	▲	Q2 2020	Q2 2019	▲
Technical result	21	129	–108	7	44	–37
Non-technical result	96	266	–170	44	161	–117
thereof investment result	400	587	–187	174	344	–169
Other	–51	–60	9	8	–51	59
Net result	67	335	–268	59	154	–96

Technical result, incl. fee income of €48m (€104m)

- COVID-19-related claims of ~€100m in Q2, particularly in the US
- Strong results in Asia and Europe largely compensate for ...
- … higher than expected non-COVID-19-related claims in the US, attributable to a small number of clients and involving a few of larger claims, ...
- … and higher-than-expected claims in Australia, reversing good Q1 results
- Pleasing fee income

Investment result

- H1/Q2: Disposal gains on fixed income investments from ordinary portfolio turnover more than compensate for write-downs of equities (H1) or derivative losses (Q2)
- Q2: Return on investment: 2.4%

Other

- H1: FX result of €14m vs €42m, thereof €20m in Q2

Reinsurance Property-casualty

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Gross premiums written

€m

H1 2019	10,327
Foreign exchange	170
Divestments/investments	0
Organic change	1,183
H1 2020	11,680

- Positive FX effects mainly driven by US$
- Organic growth esp. in fire and special lines

Major result drivers

€m

	H1 2020	H1 2019	▲	Q2 2020	Q2 2019	▲
Technical result	217	1,366	–1,149	291	948	–657
Non-technical result	428	35	394	122	9	114
thereof investment result	1,188	858	330	485	460	25
Other	–157	–330	173	–66	–253	187
Net result	488	1,071	–582	348	704	–356

Technical result

- COVID-19-related claims of ~€1.4bn in H1 (thereof ~€0.6bn in Q2), contingency losses account for the largest share
- Expense ratio improved due to cost reductions and premium growth
- Underlying performance remains sound – normalised combined ratio at ~97% in Q2 and H1

Investment result

- H1: Gains on fixed-income/real estate disposals and derivatives clearly exceed write-downs on equities
- Q2: Disposal gains on fixed income/equities more than offset losses on derivatives (equity hedges and CDS)
- Q2: Return on investment: 3.0%

Other

- H1: FX result of €191m (€114m), thereof €57m in Q2

Reinsurance Property-casualty – Combined ratio

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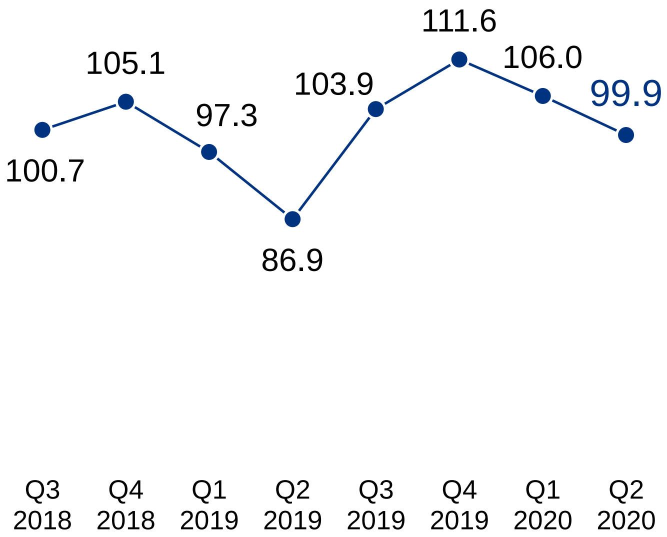
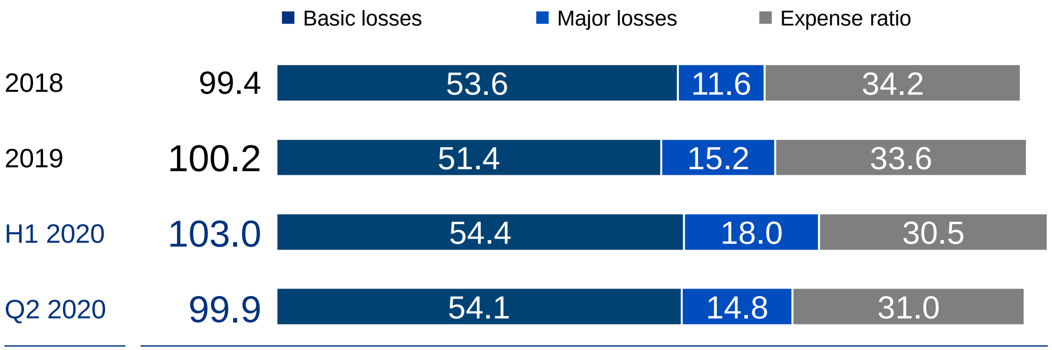
%





	Major losses	Nat cat	Man-made	Reserve releases[1]	Normalised combined ratio[2]
H1 2020	18.0	3.4	14.6	–4.0	97.0
Q2 2020	14.8	3.1	11.7	–4.0	97.1
Ø Annual expectation	~12.0	~8.0	~4.0	~–4.0	

1 Basic losses prior years, already adjusted for directly corresponding sliding-scale and profit-commission effects.
2 Based on reserve releases of 4%-pts.

Positive price dynamic continues and broadens

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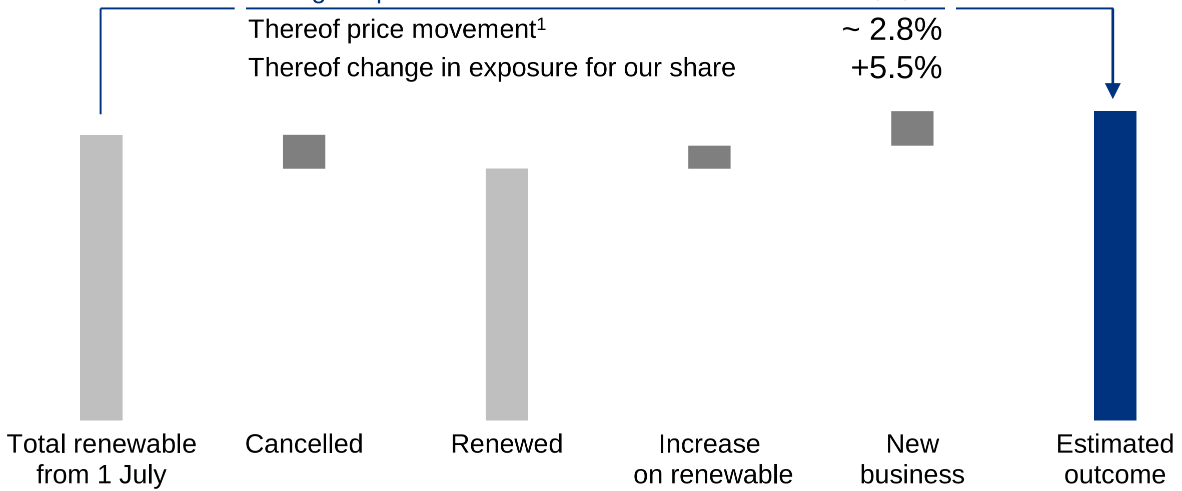
July renewals 2020

%	100	–11,9	88.1	+8.0	+12.2	108.3
€m	3,475	–412	3,063	+279	+423	3,765

Change in premium	+8.3%
Thereof price movement[1]	~ 2.8%
Thereof change in exposure for our share	+5.5%



- Positive pricing dynamics continue – particularly in regions and lines of business with high loss experience
- In addition, COVID-19 supports flight to quality and market hardening
- Premium growth driven by business opportunities, especially in North America and with global clients

1 Price movement is risk-adjusted, i.e. includes claims inflation/loss trend and is adjusted for portfolio mix effects. Furthermore, price movement is calculated on a wing-to-wing basis (including cancelled and new business).

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The Company assumes no liability to update these forward-looking statements or to make them conform to future events or developments. **Figures from Q1 2019 onwards are restated reflecting the new cost-allocation method.**