Munich Re Group

Half-Year Financial Report as at 30 June 2022

9 August 2022

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Munich RE

Xuanyu Han / Getty Images

Half-Year Financial Report as at 30 June 2022

Agenda

01	Munich Re
02	Group finance
03	ERGO
04	Reinsurance


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Results in H1 2022 pave the way to delivering on Ambition 2025

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H1 2022

- Profit outlook for 2022 confirmed – despite challenging environment
- Strong underlying earnings in P-C re-insurance, with major losses below budget
- After significant result improvement in Q2, L/H reinsurance back on earnings path
- With a solid result, ERGO continues to prove a reliable earnings contributor
- Low investment result, but substantially higher reinvestment yield

Ambition 2025

- Sound underlying profitability and healthy business expansion supporting earnings trajectory
- Pricing cycle in P-C reinsurance more prolonged than anticipated
- Strong underlying earnings trend in L/H reinsurance, Risk Solutions and at ERGO facilitates increasing stability of Munich Re Group's overall earnings profile going forward
- Higher interest rates provide tailwind to increase in running yield, supporting sustainable investment results

Strong business expansion and resilient result – despite headwinds from capital markets

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Gross written premium
€bn

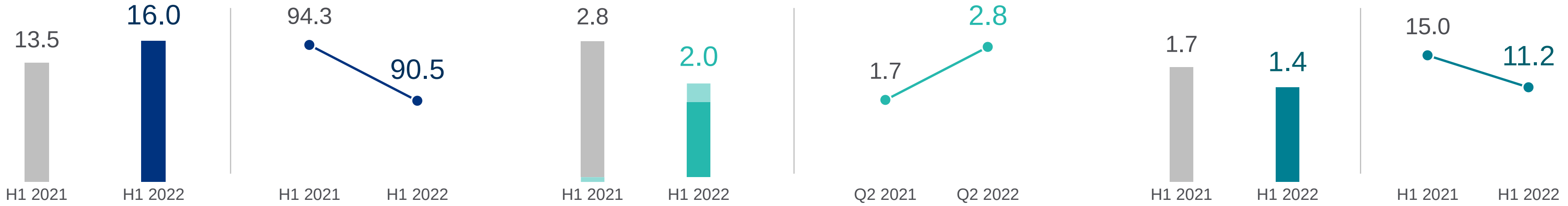
Combined ratio
%

RoI, including FX
%

Reinvestment yield
%

Consolidated result
€bn

Return on equity
%



Profitable business growth
P-C reinsurance

Robust investment result, including FX
Munich Re Group

Promising returns
Munich Re Group

On track to achieve 2022 targets

Insurance industry facing macroeconomic challenges, Munich Re is well prepared

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1 Inflation spike

RISK: Partially hedged via inflation-sensitive assets and largely restricted to prudently reserved P-C reinsurance back book

OPPORTUNITY: Prolongs hardening market

2 Rising yields

RISK: Temporary IFRS accounting mismatch, no challenge to Munich Re's Ambition 2025 targets

OPPORTUNITY: Economically positive, especially for ERGO's life back book

3 Recession/credit risks

RISK: Positive and negative business effects largely counterbalanced, relatively low credit investment risks

OPPORTUNITY: Past economic downturns provided business opportunities, e.g. demand for capital-relief deals

4 Climate change

RISK: Well captured in Munich Re's risk and pricing models – mitigated through diversification across markets and perils

OPPORTUNITY: Protection gaps and increasing uncertainty expected to drive demand

High diversification and strong balance sheet limit downside, while providing ample business opportunities

1 Inflation surge manageable – Considering inflation is an integral part of Munich Re's ALM, underwriting and reserving process

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Reserving prudency

- Prudent setting of claims reserves within IFRS allows adverse development to be buffered to some extent
- Further increased prudency in reserves in 2021, in respond to higher inflation
- Inflation impact on reserve levels monitored by actual-versus-expected analysis and stress scenarios
- Claims inflation not primarily driven by CPI; other drivers more relevant: social, wage, construction and medical inflation

Claims reserves P-C reinsurance

Maturity ≤ 4 years — Managing short-tail business

- Incorporating individual inflation factors into pricing
- High amount of short-tail business[1] allows for regular adaptation to higher inflation
- Applies especially to annually renewed treaty business as proven by the renewals outcome in 2022

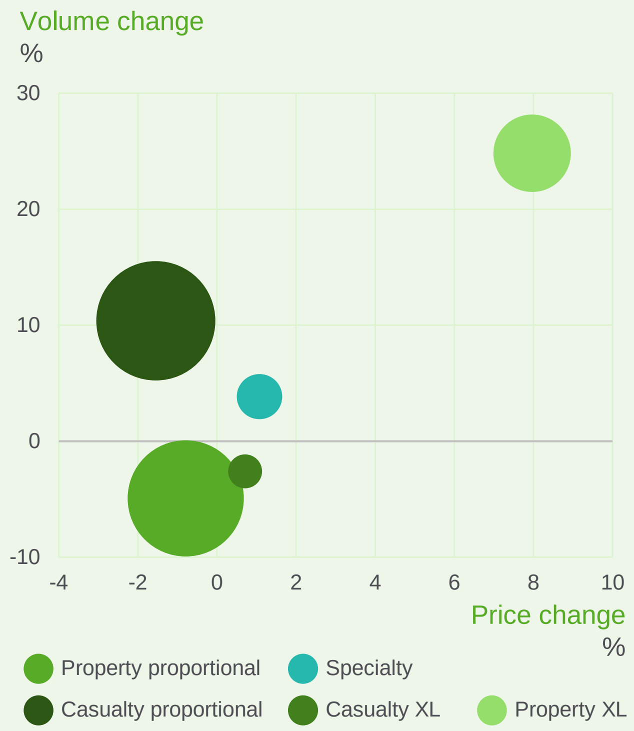
Maturity > 4 years — Managing long-tail business

- Incorporating individual inflation factors into pricing
- Substantial reduction in US commercial XL lines
- Index clauses common in non-US/Canadian long-tail bodily-injury-prone casualty XL business[2]

1 More than 50% of reserves are shorter than two years (as at 31.12.2021).
2 Motor third-party liability, general liability, medical malpractice, workers' compensation.

1 Higher claims inflation compensated for in July renewals

Risk- and inflation-adjusted price increase ~ 0.1%, volume change +6.4%



Market drivers

- Continued positive price momentum, supported by high loss experience, inflation and uncertainty, further fueling flight to quality
- Increased demand for protection outstrips further tightening in (alternative) capacity, particularly visible in the Florida cat market
- Supply shifted to higher layers to reduce claims frequency, while demand for cover in higher layers increased due to elevated exposure levels

Munich Re portfolio

- Price change is fully risk- and business-mix-adjusted, considering diligent actual inflation and loss-trend assumptions
- Munich Re continues to have capacity that is within its overall appetite for nat cat business in a healthy pricing environment while remaining cautious on US casualty
- Reduction of proportional property business mainly in the US – selective growth in proportional casualty on original rate base but not with new business in reinsurance
- Implementing targeted exposure and risk-mitigating measures

Bubble size reflects relative volume up for renewal.

2 Rising interest rates economically positive

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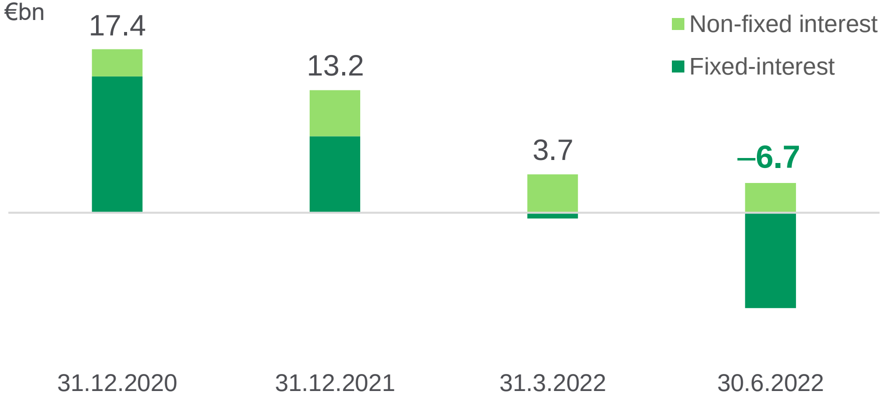
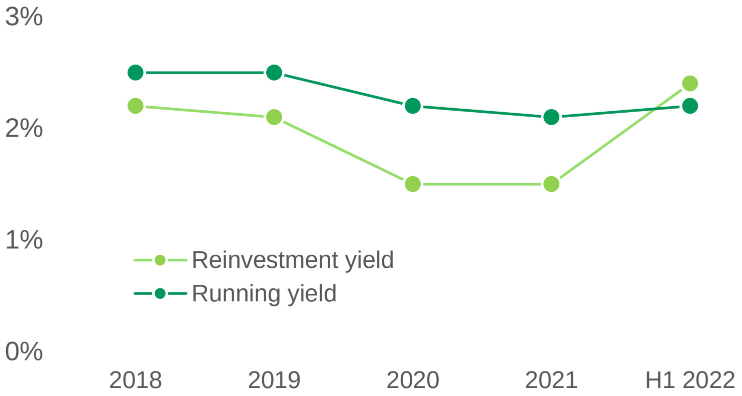
Rising interest rates reduced on-balance-sheet reserves



Fixed income Reinvestment yield exceeds running yield



- Liabilities to a large extent discounted with invariant interest rates
- Immediate reflection of higher interest rates in the asset portfolio results in decline of unrealised gains and uneconomic reduction of IFRS equity
- Economically beneficial, Solvency II ratio improved from 227% to 252%

- Attrition of running yield stopped, gradual increase going forward …
- … to improve quality of investment result with higher contribution of sustainable income

3 Munich Re is experienced in swiftly managing business that is highly vulnerable to recession

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Potential impact of recession …		… on insurance industry	… on Munich Re
	Economy ▪ Decreasing economic prosperity ▪ Less spending/investments ▪ Increasing unemployment	▪ Less demand from cyclical industries, higher lapse rates ▪ Higher claims in some liability lines, e.g. credit and D&O ▪ Some risks completely detached, e.g. frequency of nat cat events ▪ Lower claims frequency in some lines of business, e.g. motor	▪ Exposure and cycle management decisive for recession-prone lines of business ▪ Business interruption due to energy shortfalls or gas rationing only covered by physical damage trigger ▪ Property: Positive and negative effects largely balance each other out
	Capital markets ▪ Growing credit concerns for corporates and states ▪ Decreasing interest rates ▪ Lower equity and commodity prices	▪ Pressure on investment returns ▪ Impairment risks ▪ Increasing capital requirements affect solvency positions	▪ Strong capitalisation buffers adverse development ▪ Relatively low exposure to corporate and sovereign credit risks ▪ Effective management of interest-rate and equity risks ▪ Short-term accounting mismatch

4 Managing nat-cat-driven short-term accounting volatility

Dampening IFRS P&L volatility through earnings diversification

Risk models

- >100 internal nat cat models capture peak and non-peak risk scenarios
- Permanently incorporating new data and forward-looking findings
- Prudent consideration of inflation changes, including post-loss amplification

State-of-the-art modelling

Portfolio measures

- Very low exposure to frequency and aggregate covers
- Reduced appetite for cat-prone proportional property business
- Smart growth in line with risk-bearing capacity

Exposure and cycle management decisive for profitability

Business opportunities

- Volatility is inherent to our business model – we get paid for taking volatility from our cedants' books
- Existing protection gaps and increasing uncertainty driving demand
- Munich Re well positioned as tier 1 reinsurer to benefit from hardening market environment

Nat cat one of the most profitable lines of business – average combined ratio[1] of 70–75%

1 Average 2012–2021.

ESG highlights

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Insurance

Green tech solutions

Projects in the "green tech" space
>850[1]

Countries with rated capacity
~80[1]

Gigawatts in total
>50[1]

Net promoter score (NPS): 60 (2020/21: 56)

- Reinsurance client survey 2022 (as of June 2022, bi-annually)
- Scale from –100 to 100

Member of the TNFD Forum

Founding member of the Net-Zero Insurance Alliance

Investments

Rating coverage of liquid asset classes
>96%

ESG-focus investments[2]
€7,301m
(2020: €6,278m)

Emissions 2021[3]
–31%
(compared to base year 2019)[4]

Active member of the Net-Zero Asset Owner Alliance

Own operations

Decarbonisation achievement per employee
~ –25%
(compared to base year 2019)[4]

Electricity purchased from renewable sources
92%
(+2% compared to base year 2019)

Employees with at least one training
>95% (2020: >85%)

Share of women in management
38% (2020: 35%)

Number of nationalities Munich Re Group
114

ESG highlights as of 31.12.2021 unless marked otherwise. 1 Cumulative figure 2009 to 30.6.2022. 2 Green bonds, renewables, certified real estate and certified forestry management. 3 From listed equities, corporate bonds and direct real estate investments. 4 Reduction includes "corona dip" – backswing expected.

Outlook 2022

On the way to achieving our Group Ambition 2025

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Group	Gross premiums written ~ €64bn	Net result ~ €3.3bn	Return on investment >2.0% (prev. >2.5%)	
ERGO	Gross premiums written ~ €18.5bn	Net result ~ €0.6bn[1]	Combined ratio P-C Germany ~ 91%	International ~ 92%
Reinsurance	Gross premiums written ~ €45bn	Net result ~ €2.7bn[1]	Combined ratio P-C ~ 94%	Technical result, incl. fee income in life and health ~ €400m[1]

1 Including COVID-19 impact of ~€300m (before tax) in L/H reinsurance; insignificant COVID-19 impact at ERGO and P-C reinsurance.

Higher interest rates and hardening market support achievement of Ambition 2025 targets

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Higher interest rates
Clearly positive for Solvency II ratio and sustainable investment result

Growth
Prolonged cycle supports profitable business expansion

Capital repatriation
Strong capitalisation funds dividend growth and share buy-back

Ambition 2025

ROE	**12–14**%
EPS growth	≥**5**%[1]
DPS growth	≥**5**%[1]
Solvency II ratio	**175–220**%

1 CAGR – Compound annual growth rate 2020–25 (EPS 2020 normalised).

Group finance

Michael H / Getty Images

Resilient result despite challenging macroeconomics – Strong technical performance offsets lower investment result

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Q2 2022 (H1 2022)

Consolidated result
€768m (€1,376m)

Reinsurance (€608m): Below-average major losses in P-C, strong technical result in L/H; negative investment return (RoI: –0.5%) mitigated by high currency gains

ERGO (€160m): Healthy underlying performance across all segments

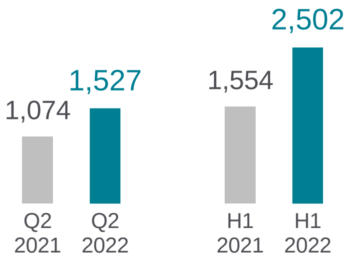
Return on investment[1]
1.6% (1.6%)

Resilient investment result despite volatile capital markets – reinvestment yield up to 2.8%

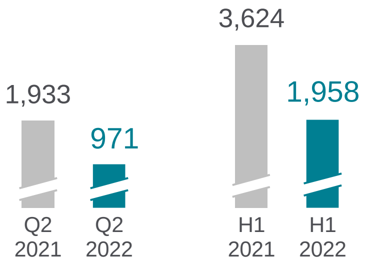
Return on equity[1]
12.3% (11.2%)

Shareholders' equity: €23.5bn
Solvency II ratio: 252%

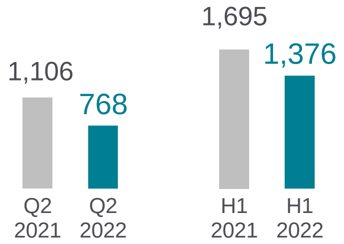
Technical result
€m



Investment result
€m



Consolidated result
€m



Reinsurance

Life and health: Technical result, incl. fee income: €240m (€259m), incl. COVID-19-related losses of €100m (€259m) – consolidated result €147m (€69m)

Property-casualty: Combined ratio: 89.7% (90.5%) – Major-loss ratio: 7.5% (8.3%), reserve releases[2]: –4.0% (–4.0%) – consolidated result €462m (€1,051m)

July renewals: Risk-adjusted price change: ~ 0.1%, premium change: +6.4%

ERGO

Life and Health Germany
RoI: 3.7% (2.9%) – consolidated result €59m (€103m)

Property-casualty Germany
C/R: 86.9% (91.9%) – consolidated result €45m (€57m)

International
C/R: 94.5% (93.5%) – consolidated result €56m (€96m)

1 Annualised. 2 For prior-year basic losses.

Capital position

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Equity

€m

		Change in Q2
Equity 31.12.2021	30,945	
Consolidated result	1,376	768
Changes		
Dividend	–1,541	–1,541
Unrealised gains/losses	–9,082	–4,657
Exchange rates	1,257	820
Share buy-backs	–68	–68
Other	598	380
Equity 30.6.2022	23,486	–4,297

Unrealised gains/losses

Fixed-interest securities

H1: –€8,276m Q2: –€4,260m

Non-fixed-interest securities

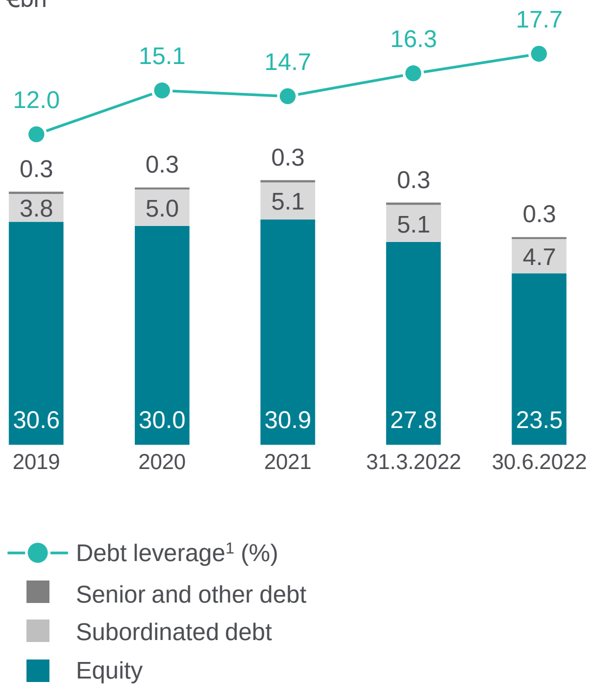
H1: –€801m Q2: –€387m

Exchange rates

Mainly driven by US$

Capitalisation

€bn



1 Strategic debt (bonds and notes issued, subordinated and other debt) divided by total capital (strategic debt + equity).

Investment portfolio

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Investment portfolio[1]

%

Fixed-interest securities	54.6	(54.3)
Loans	21.0	(22.8)
Miscellaneous[2]	10.3	(9.1)
Shares, equity funds and participating interests[3]	8.4	(8.7)
Land and buildings	5.7	(5.2)

Portfolio management

- Further increase in infrastructure investments
- Reduction in equity ratio driven by market development and disposals
- Decrease in duration due to higher interest rates
- Reinvestment yield increased to ~2.8% benefiting from increased interest rates and higher credit spreads

1 Fair values as at 30.6.2022 (31.12.2021). 2 Deposits retained on assumed reinsurance, deposits with banks, investment funds (excl. equities), derivatives and investments in infrastructure, renewable energies and gold. 3 Incl. derivatives: 7.0% (7.7%).

Investment result

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€m	Q2 2022	Return[1]	H1 2022	Return[1]	H1 2021	Return[1]
Regular income	1,800	3.0%	3,258	2.7%	3,073	2.5%
Write-ups/write-downs	–908	–1.5%	–2,030	–1.7%	–248	–0.2%
Disposal gains/losses	727	1.2%	1,686	1.4%	1,610	1.3%
Derivatives[2]	–446	–0.7%	–562	–0.5%	–458	–0.4%
Other income/expenses	–202	–0.3%	–394	–0.3%	–353	–0.3%
Investment result	971	1.6%	1,958	1.6%	3,624	2.9%
Total return		–24.0%		–22.4%		–2.0%

Three-month reinvestment yield	
Q2 2022	2.8%
Q1 2022	2.1%
Q4 2021	1.4%

Q2 2022	Write-ups/ write-downs	Disposal gains/losses	Derivatives
Fixed income	–28	150	–607
Equities	–726	521	105
Commodities/Inflation	0	55	–68
Other	–153	1	124

H1 2022	Write-ups/ write-downs	Disposal gains/losses	Derivatives
Fixed income	–723	558	–1,102
Equities	–1,040	1,028	315
Commodities/Inflation	0	55	28
Other	–267	45	198

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

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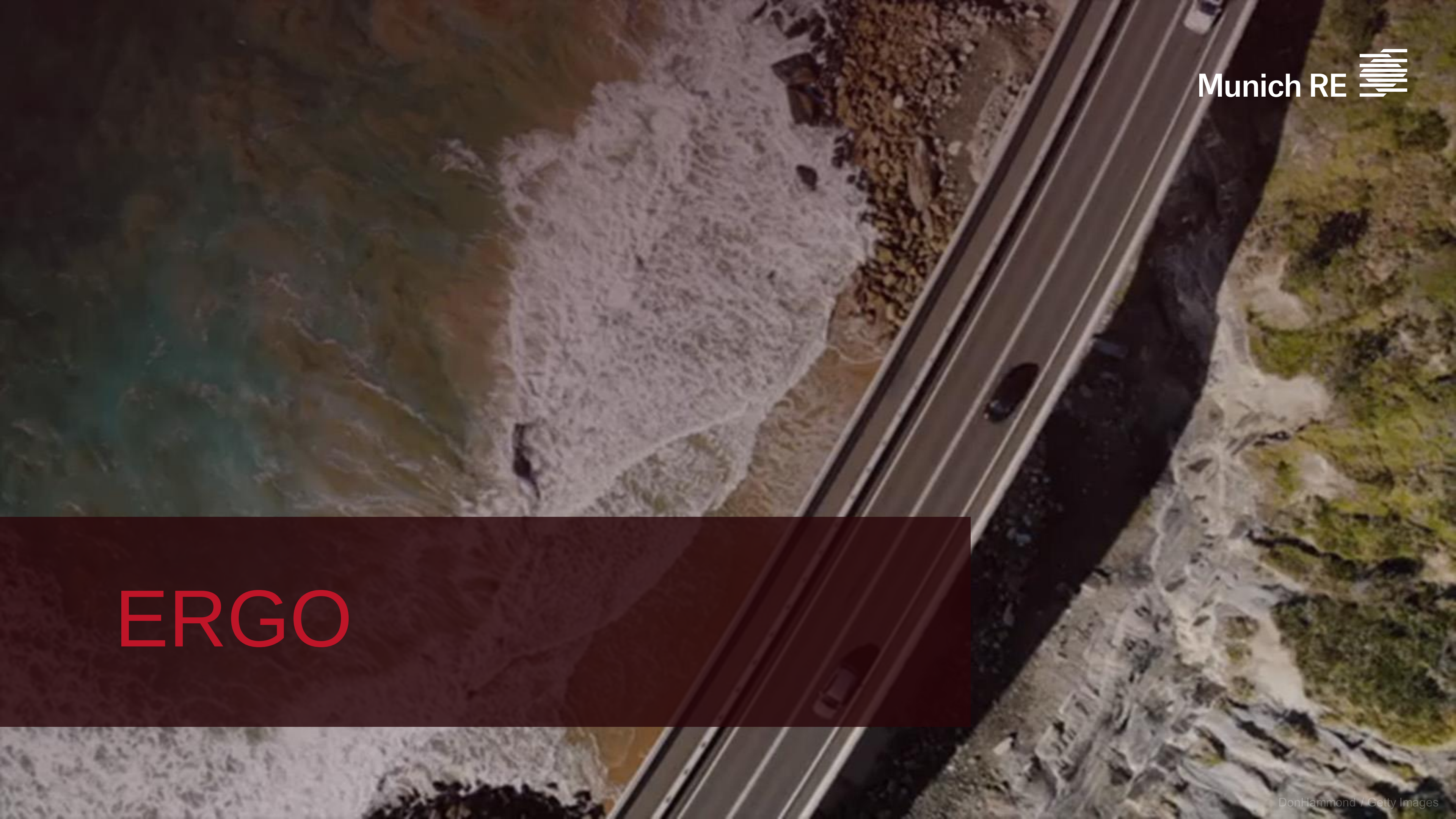
ERGO



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ERGO Life and Health Germany

Key messages

- Significant growth driven by new Life book and travel
- Improved technical result in Q2
- Higher investment result in Q2 due to disposal gains (especially Life); positive FX effects

Gross premiums written

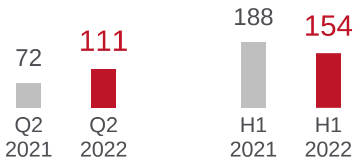
€m

H1 2021	4,569
Foreign exchange	5
Divestments/investments	0
Organic change	323
H1 2022	4,896

- Life (+€24m): Continued good growth in new Life book from biometric and capital-light products
- Health (+€280m): High growth mainly from further recovery of travel market; in addition, increase in health insurance
- Digital Ventures (+€23m): Growth due to health and property-casualty business

Technical result

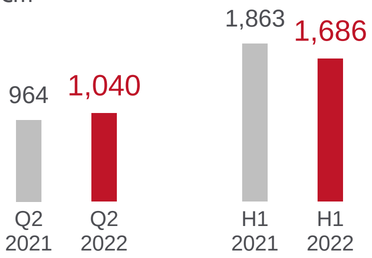
€m



- Q2: Intra-year volatility with positive effect in Health …
- … mitigated by normalisation of claims development in travel

Investment result

€m



- Q2: Disposal gains despite lower ZZR requirement and derivatives result more than compensate for impairments
- Q2: Return on investment of 3.7%

ERGO Property-casualty Germany

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Key messages

- Growth above market estimate
- Significant improvement in technical result
- Low investment result

Gross premiums written

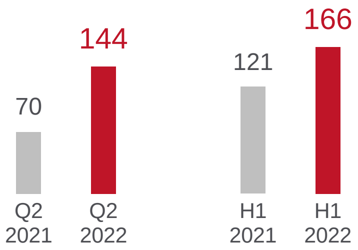
€m

H1 2021	2,341
Foreign exchange	10
Divestments/investments	0
Organic change	165
H1 2022	2,515

- Strong organic growth mainly driven by fire/property (+€45m), marine (+€34m), liability (+€30m), motor (+€13m) and others (+€50m)

Technical result

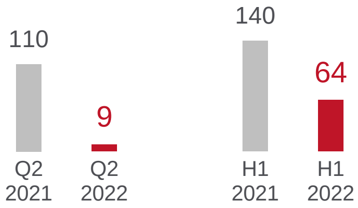
€m



- Combined ratio in H1 of 91.9% (93.4%)
- CR in Q2 of 86.9% (92.6%) with a significant improvement driven by:
  - Good operating performance – positive claims development and continued premium growth
  - Lower large losses

Investment result

€m



- Q2: Higher impairments and lower disposal result; prior year with positive one-off
- Q2: Return on investment of 0.5%

ERGO Property-casualty Germany

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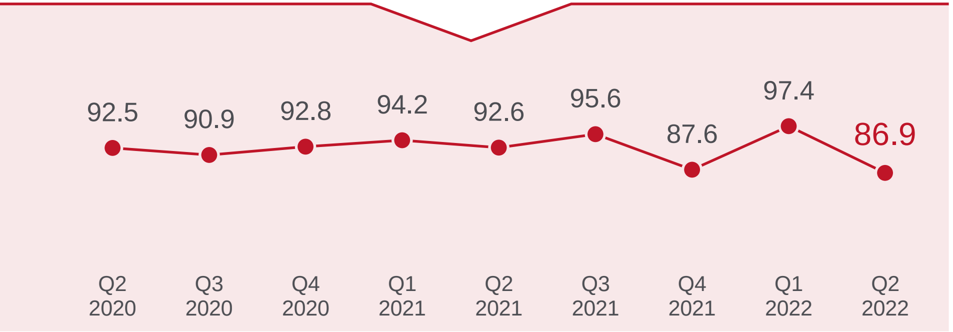
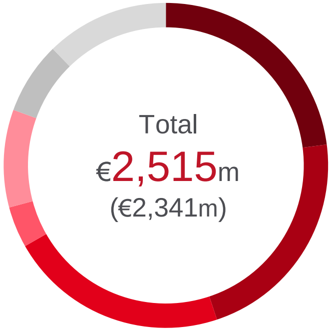
Combined ratio
%

	Combined ratio	Loss ratio	Expense ratio
2020	92.4	61.9	30.5
2021	92.4	62.6	29.8
Q2 2022	86.9	57.8	29.0
H1 2022	91.9	61.6	30.3



Gross premiums written in H1 2022 (H1 2021)
€m



Fire/property	531 (486)
Liability	508 (478)
Motor	505 (492)
Personal accident	295 (297)
Legal protection	225 (221)
Marine	166 (132)
Other	284 (235)

ERGO International

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Key messages

- Continued portfolio growth despite divestments
- Slight decrease in technical result in Q2
- Lower investment result

Gross premiums written

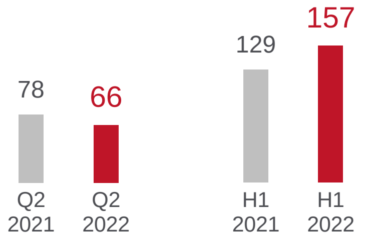
€m

H1 2021	2,596
Foreign exchange	–15
Divestments/investments	–84
Organic change	128
H1 2022	2,625

- Life (–€14m): Lower premiums due to decrease in Austria and run-down in Belgium
- Health (–€5m): Positive business development in Belgium and Spain almost compensated for one-off from the sale of a Spanish subsidiary
- P-C (+€48m): Increase driven by growth in Poland, Baltics and Greece

Technical result

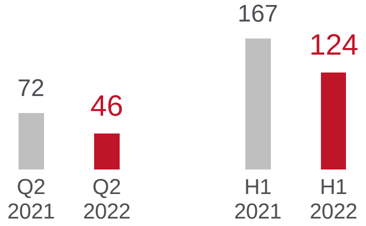
€m



- Combined ratio in H1 of 93.5% (93.0%)
- CR in Q2 of 94.5% (92.2%) due to:
  - higher claims in Poland and in health business in Spain …
  - … partially offset by good operating performance in Baltics and Austria
- Q2: Exceptionally high result in Belgian health business

Investment result

€m

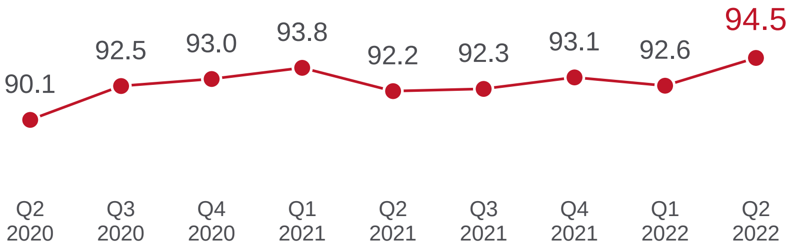


- Q2: Higher write-downs and lower result from participations
- Q2: Return on investment of 1.0%

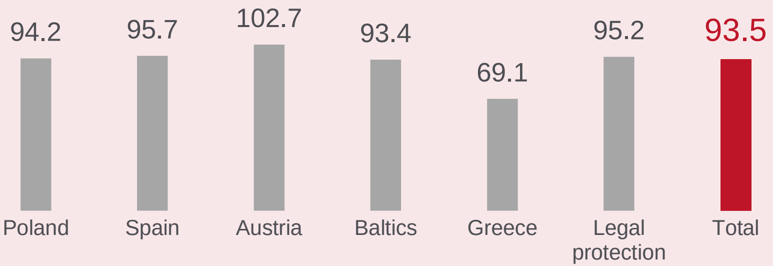
ERGO International

Combined ratio

%



H1 2022



Gross written premiums in H1 2022 (H1 2021)

€m

Property-casualty	1,520	(1,472)
Life	292	(307)
Health	813	(818)

P-C Thereof:	H1 2022	H1 2021
Poland	835	809
Legal protection	375	368
Greece	122	117
Baltics	107	100
Austria	66	60

Life Thereof:	H1 2022	H1 2021
Austria	148	158
Belgium	63	66

Health Thereof:	H1 2022	H1 2021
Spain	470	486
Belgium	343	331

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Reinsurance

jonathanfilskov-photography / Getty Images

Life and health reinsurance

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Key messages

- Strong technical result including fee income of €240m in Q2 (H1: €259m)
- Favourable claims experience, positive effects from interest rates and continuing strong fee income mitigated by COVID-19 losses
- Lower return on investments

Gross premiums written

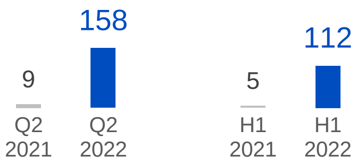
€m

H1 2021	6,202
Foreign exchange	343
Divestments/investments	0
Organic change	111
H1 2022	**6,656**

- Positive FX effects mainly driven by US$ and Can$
- Organic growth particularly in Asia and the US, partially offset by termination and restructuring of treaties in Europe

Technical result

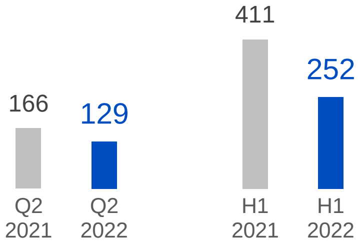
€m



- Q2: Positive impact from higher interest rates on claims reserves, mostly in the US and Australia (€65m)
- COVID-19-related losses of €100m in Q2 (H1: €259m)
- Q2/H1: Apart from COVID-19, favourable claims experience in the US, Europe and Asia
- Ongoing strong fee income of €81m in Q2 (H1: €148m)

Investment result

€m



- Q2/H1: Losses on fixed-interest derivatives and equity write-downs
- H1: Write-downs on Russian/ Ukrainian bonds, disposal gains on equities
- RoI: Q2 1.8%, H1 1.7%

Property-casualty reinsurance

Key messages

- Strong premium growth of 18.6%
- Pleasing technical performance
- Expense ratio benefits from cost reductions and premium growth
- Negative investment return mitigated by high FX result

Gross premiums written

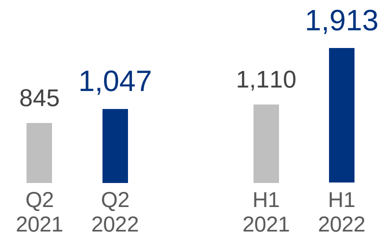
€m

H1 2021	13,486
Foreign exchange	962
Divestments/investments	0
Organic change	1,542
H1 2022	15,990

- Positive FX effects mainly driven by US$
- Strong organic growth across nearly all lines of business
- Risk Solutions: Substantial growth across all units
- Core reinsurance: Increase from new business as well as benefits from primary rate increases in proportional business and improved pricing in non-proportional business

Technical result

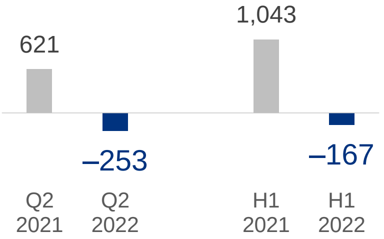
€m



- Q2/H1: Below-average major losses – remaining major-loss budget for H2 2022: ~€2.7bn
- Q2/H1:Expenditure of €90m related to war in Ukraine in Q2 (H1: ~€200m)
- Q2/H1: Underlying performance remains sound – normalised combined ratio of 94.9%

Investment result

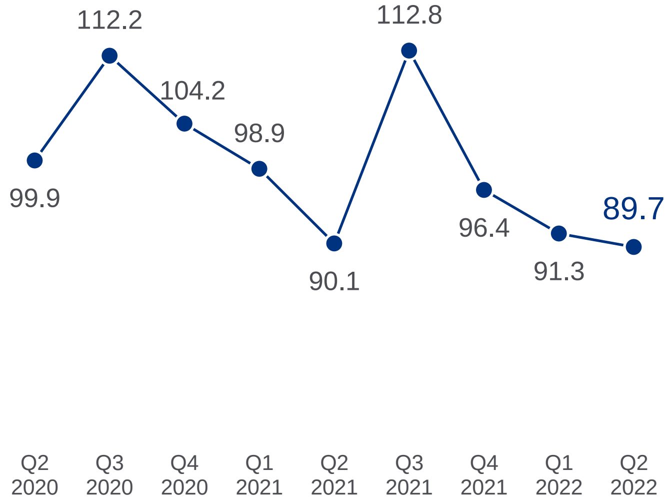
€m



- Q2/H1: Losses on fixed-interest derivatives and equity write-downs
- H1: Write-downs on Russian/ Ukrainian bonds, disposal gains on equities and inflation-linked bonds
- RoI: Q2 –1.4%, H1 –0.5%

Property-casualty reinsurance

Combined ratio



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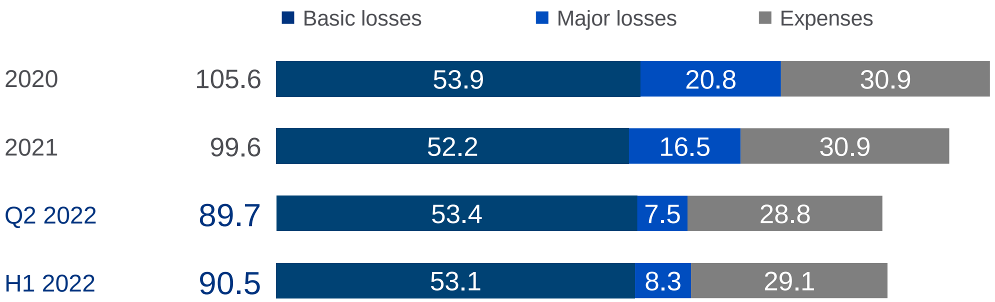

	Major losses[1]	Nat cat[1]	Man-made[1]	Reserve releases[2]	Normalised combined ratio[3]
Q2 2022	7.5	3.3	4.2	–4.0	94.9
H1 2022	8.3	4.9	3.4	–4.0	94.9
Ø Annual expectation	~ 13.0	~ 8.5	~ 4.5	–4.0	

1 Absolute figures Q2/H1: Major losses €575m/€1,242m, nat cat €253m/€734m, man-made €322m/€508.
2 Basic losses prior years, already adjusted for directly corresponding sliding-scale and profit-commission effects. Absolute figures Q2/H1: –€308m/–€599m.
3 Based on reserve releases of 4%-pts.; adjusted for an adverse one-off commission effect (corresponding to –0.3%-pts in Q2 and –0.2%-pts. in H1) and H1 also for additional expenditures including reinstatement premiums related to the Ukraine war from Q1 (corresponding to –0.2%-pts. in H1).

July renewals 2022

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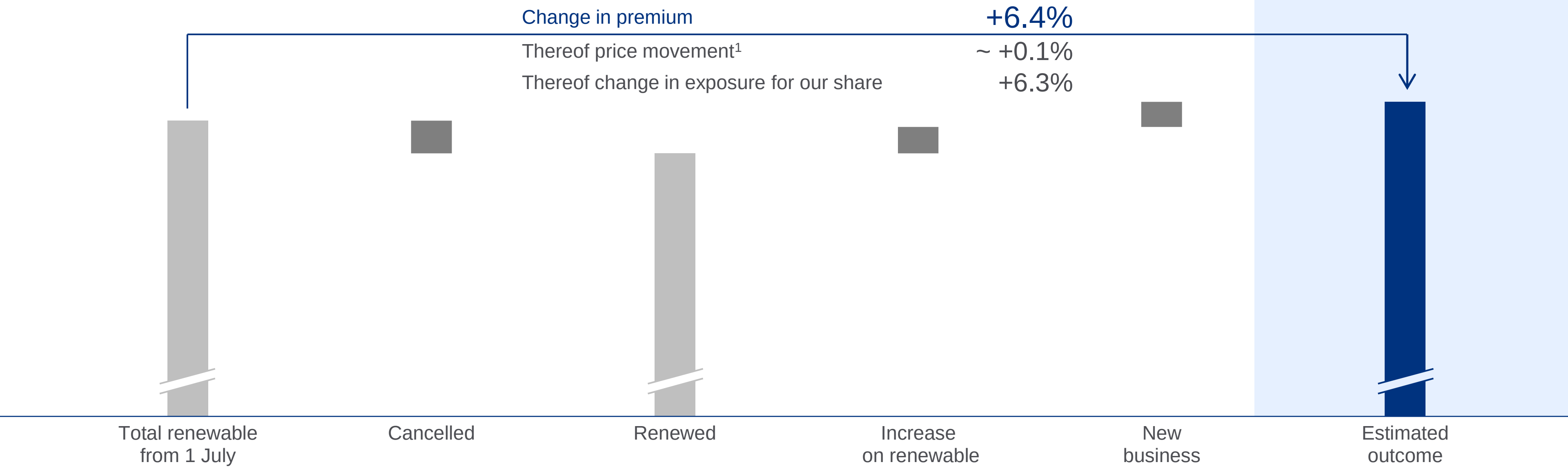
	Total renewable from 1 July	Cancelled	Renewed	Increase on renewable	New business	Estimated outcome
%	100	–11.0	89.0	+9.0	+8.4	106.4
€m	4,163	–460	3,703	+373	+351	4,427



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).

Disclaimer

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This presentation contains forward-looking statements that are based on current assumptions and forecasts of the management of Munich Re. Known and unknown risks, uncertainties and other factors could lead to material differences between the forward-looking statements given here and the actual development, in particular of the results, financial situation and performance of our Group. Obvious fluctuations in the incidence of major losses in addition to the pronounced volatility of the capital markets and exchange rates – as well as the special features of IFRS accounting – make an accurate forecast of results impossible. Moreover, there is considerable uncertainty regarding the further development of the coronavirus pandemic. The Group 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. Due to rounding, there may be minor deviations in summations and in the calculation of percentages in this presentation.