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Munich Re Group

Excerpt Investor Day (IFRS 17)

15 December 2022

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Munich RE

Roadmap IFRS 9/17

Munich Re prepared for transition to new accounting regime

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2022

1 JANUARY
IFRS 17 transition +
IAS 39 incl. overlay
(Comparative figures)

15 DECEMBER
Investor Day – IFRS 17
Publication of key figures
and outlook 2023
according to IFRS 9/17

2023

1 JANUARY
IFRS 9
transition

16 MARCH
Publication of
annual report 2022
Detailed opening
balance sheet IFRS 17

17 MAY
Publication date
Q1 2023
Q1 figures and
financial supplement

10 AUGUST
Publication date
H1 2023
H1 figures and
selected notes

8 NOVEMBER
Publication date
Q3 2023
Q3 figures and
financial supplement

2024

14 MARCH
Publication of
annual report 2023
2023 result and
full notes

Transition to IFRS 9 from 1 January 2023 – use of the overlay approach for investments related to VFA business of ERGO during the comparative year 2022 for IFRS 17

IFRS 9/17 is a landmark change

Addressing shortcomings of the former accounting regime

IFRS 9/17 better reflects economic earnings power of Munich Re's business model

CONSISTENCY

Market-consistent valuation to solve systematic IAS 39/IFRS 4 accounting mismatches

CLARITY

Insurance business is clearly separated from investment-type contracts; more appropriate reflection of revenues

TRANSPARENCY

Disclosure of future profit margins from long-tail business

NO IMPACT ON

- Business strategy
- Dividend and share buy-back policy
- Prudent reserving strategy
- Local GAAP (HGB)/ Solvency II
- Capital strength

Accounting changes do not alter Munich Re's DNA

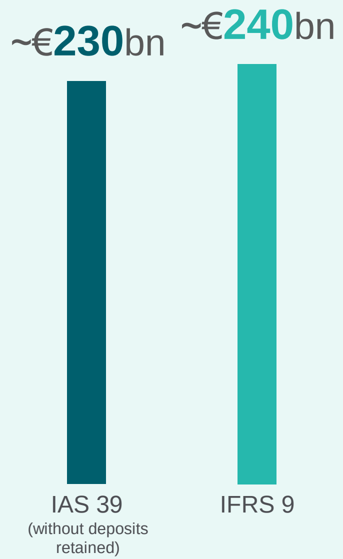
Preliminary/unaudited

Higher share of P&L-sensitive investments

Increase in total investments due to stronger reflection of fair values

IAS 39				IFRS 9
Deposits retained Participations Real estate Deposits with banks Loans and receivables	Amortised costs	31%	4%	Participations Real estate (non-VFA) Deposits with banks etc.
Bonds Share and equity funds Funds: Private equity, infrastructure etc.	Fair value OCI	68%	79%	Fixed income: Bonds, loans and receivables (SPPI-passed)
Derivatives	Fair value P&L	1%	17%	Real estate (VFA)[1] Fixed income: Bonds, loans and receivables (SPPI-failed), bond funds[1] Share and equity funds Funds: Private equity, infrastructure etc. Derivatives

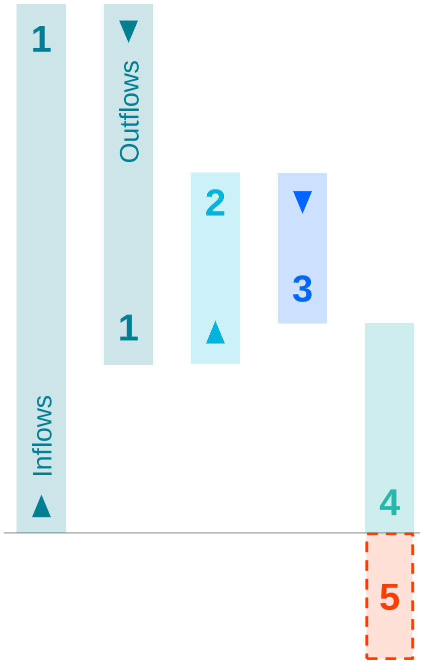
Total investments



As at 31.12.2021. 1 Real estate and loans in VFA already accounted at fair value in comparative period 2022 (overlay approach).

Insurance liabilities under IFRS 17

Generally following a building-block approach (General Measurement Model)



1 Future cash in-/outflows – Estimation of all future cash flows within the boundary of each contract

2 Discounting – Discount rates adjust cash flows for the time value of money

3 Risk adjustment (RA) – Explicit estimate of the effects of uncertainty about the amount and timing of future cash flows

4 Contractual service margin (CSM) – Quantifies the future profit (in excess of the RA) the insurer expects to earn as it fulfils the contract – elimination of gain at inception

5 Loss component (LC) – In the event that the discounted cash outflows and risk adjustment exceed the cash inflows (onerous contracts) IFRS 17 requires identification of potential losses by contract group with immediate P&L impact

Preliminary/unaudited

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Equity at transition

Shift of unrealised gains from equity to CSM

€bn

	Equity IFRS 4 31.12.2021	30.9
1	Change in valuation base	25.2
2	Risk adjustment	–5.6
3	CSM	–22.3
	Loss component	–1.4
	Taxes	1.5
	Equity IFRS 17 1.1.2022	28.4
4	Adjusted equity IFRS 17[1]	24.2

Change in valuation base

- Change from IFRS 4 to IFRS 17 best-estimate cash flows
- Discounting of insurance cash flows
- Current off-balance-sheet reserves on loans and real estate related to VFA business included (overlay approach) – IFRS 9 impact on equity thereby already largely anticipated

Risk adjustment

- Cost-of-capital approach generally in line with Solvency II
- Methodological differences to Solvency II mostly from diversification

CSM / loss component

- CSM: Unearned profits according to IFRS 17 valuation methodology, including ~€2bn shareholders' share of unrealised gains for VFA business (formerly part of equity)
- Loss component: Reflection of conservative reserving and granular grouping

Adjusted equity

- Calculation basis for RoE

1 Adjustments for unrealised gains and losses, currency translation reserve, remeasurement gains/losses from cash flow hedges.

New P&L structure according to IFRS 9/17

Providing more transparency on Munich Re's sources of earnings

1	**Gross premiums written** (Non GAAP)
2	Insurance revenue
	Insurance service expenses
	Insurance service result
	Result from insurance-related financial instruments
3	**Total technical result**
	Investment result
4	Currency result
	Investment result for unit-linked life insurance
5	Net insurance finance income or expenses (IFIE)
	Net financial result
	Other operating income/expenses
6	**Operating result**
7	Net finance costs
	Taxes
	Consolidated result

1 Gross premiums written (GWP)
Use as non-GAAP measure to indicate sales performance

2 Revenues and expenses
Presented gross and ceded

3 Total technical result
Summarises underwriting activities from insurance (IFRS 17) and insurance-related business (IFRS 9)

4 Currency result
Integral part of investment strategy, hence reflected in operating result

5 IFIE
Reflects unwind of discount of insurance liabilities

6 Operating result
Includes all revenues and expenses from business activities

7 Net finance costs and taxes
Only items outside the operating result

Preliminary/unaudited

Insurance revenue lower than GWP

Sales performance is unaffected

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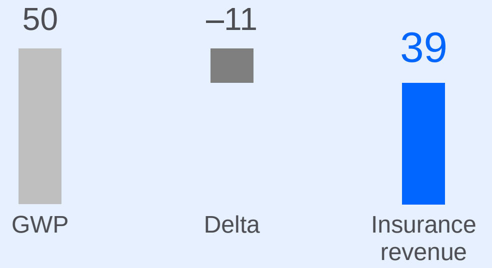
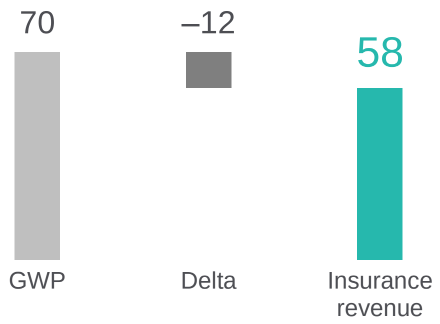
Reinsurance
€bn



ERGO
€bn

Munich Re Group
€bn



Main drivers of delta between insurance revenue and GWP

- Exclusion of fixed commissions
- Exclusion of non-distinct investment components (NDIC), e.g. profit commissions

Figures based on outlook 2023. 1 Total premium including savings contributions.

P-C reinsurance: Reconciliation of combined ratio

Declining noticeably under IFRS 17

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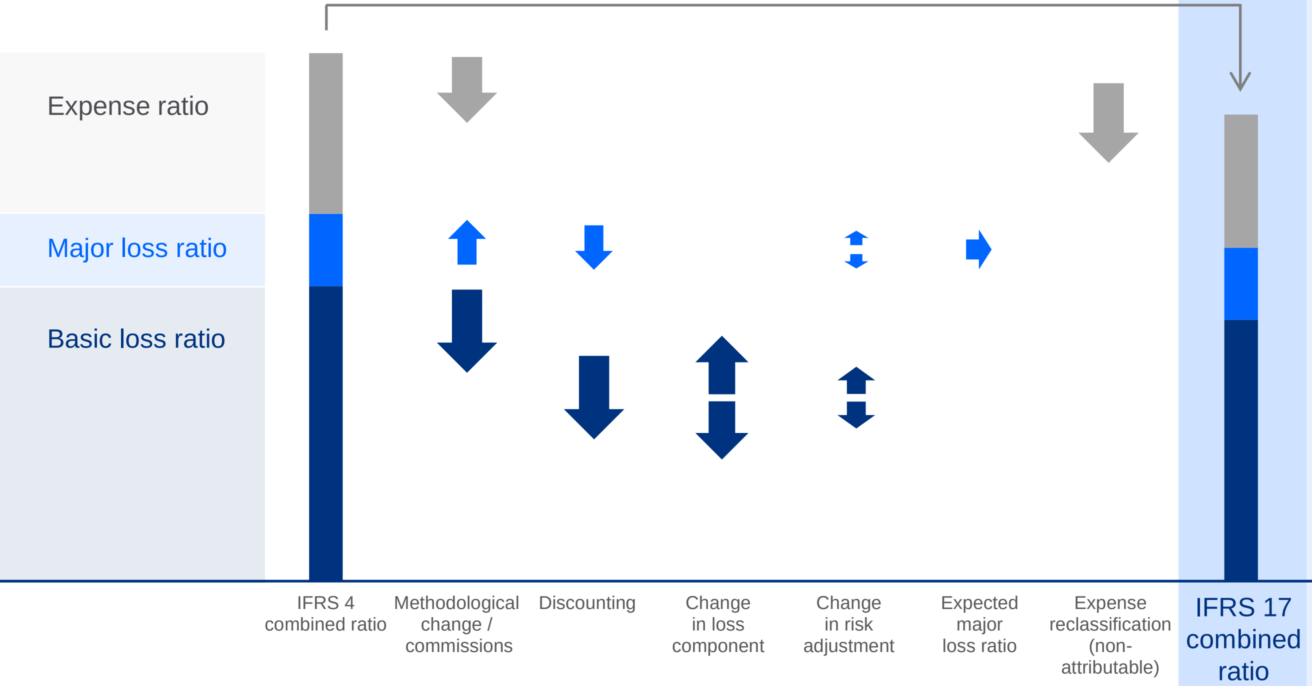
ILLUSTRATIVE



Major drivers

- Deduction of commissions from numerator and denominator leads to overall decrease of C/R[1]
- Discounting of claims
- Changes in loss component and risk adjustment may change C/R in both directions
- Updated major loss ratio of 13%, new outlier threshold of €30m
- Elimination of non-attributable expenses (reclassified to other operating result) reduces C/R by 1%–2%

$$\frac{\text{Insurance service expenses (net)}}{\text{Insurance revenue (net)}}$$

1 Assuming an underlying normalised combined ratio of <100% under IFRS 4.

P&L better reflects economic value creation

Increase of overall earnings level due to transition to IFRS 9/17

	Life and health reinsurance	Property-casualty reinsurance	ERGO
Earnings volatility	▪ Continued CSM release ensures higher earnings stability ▪ Higher volatility of investment result	▪ Some earnings volatility from interest rates ▪ Higher volatility of investment result	▪ L&H: CSM as buffer under VFA ensures higher earnings stability ▪ P-C: Higher volatility of investment result
Impact of interest rates	▪ Existing business: Low locked-in interest rates lead to low unwind of discount ▪ New business: Higher current interest rates lead to higher discount	▪ Low interest rates locked in at transition (temporarily) increase earnings[1] ▪ Discounting of current accident-year reserves benefits from higher interest rates	▪ Under VFA changes in interest rates buffered by CSM ▪ P-C: Impact similar to P-C reinsurance
Earnings level	Earlier recognition of earnings	Generally stable, currently benefitting from increasing interest rates	Slightly higher earnings expected

1 Due to lower unwind of discount.

Outlook 2023

KPIs adjusted to IFRS 9/17

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Group	Insurance revenue ~ €58bn	Net result ~ €4.0bn	Return on investment > 2.2%	
ERGO	Insurance revenue ~ €19bn	Net result ~ €0.7bn	Combined ratio P-C Germany ~ 89%	International ~ 90%
Reinsurance	Insurance revenue ~ €39bn	Net result ~ €3.3bn	Combined ratio Property-casualty ~ 86%	Total technical result Life and health ~ €1bn

Ambition 2025

Calculation of RoE and EPS adjusted to IFRS 9/17

	Old Group targets 2025	NEW Group targets 2025
Improved RoE, 2025	12–14%	14–16%
EPS growth[1]	≥5%	≥5%
DPS growth[2]	≥5%	≥5%
Solvency II ratio in optimal range	175–220%	175–220%

- No update to operational Ambition 2025 targets – only "mechanical" translation to IFRS 9/17
- Increased Group RoE owing to transition to IFRS 9/17
- RoE of 14–16% also applies to reinsurance and ERGO

1 Compound annual growth rate 2023-25 based on 2023 outlook. 2 Compound annual growth rate 2020-25. Dividend floor of at least previous year's DPS.

Outlook 2022

On the way to achieving our Group Ambition 2025

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Group	Gross premiums written ~ €61bn	Net result ~ €3.3bn	Return on investment >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 ~ €42.5bn	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.

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