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# Investor Day

## Company Participants

- Christian Becker-Hussong, Head of Investor Relations and Rating Agency Relations
- Christoph Jurecka, Chief Financial Officer
- Joachim Wenning, Chairman and Chief Executive Officer
- Markus Riess, Chief Executive Officer
- Nicholas Gartside, Chief Investment Officer
- Torsten Jeworrek, Chief Executive Officer Reinsurance

## Other Participants

- Andrew Ritchie, Analyst
- Ivan Bokhmat, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Thomas Fossard, Analyst
- Unidentified Participant
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

## Presentation

### Christian Becker-Hussong {BIO 19080254 <GO>}

Good afternoon, ladies and gentlemen and warm welcome to everyone to our virtual Investor Day on Munich Re Group's Ambition 2025. Thanks for joining us today. We are very -- we very much hope you are all well and healthy.

Before we start, please allow us a few housekeeping remarks. This webcast will, of course, be broadcasted live in the Internet and will be recorded. A replay will be available soon after the event on our website. At the beginning of the Q&A, I will explain the procedure for asking questions in detail. A short description can also be found in the downloads tab below.

Let me briefly introduce today's speakers to you now. Starting with the gentlemen right next to me, Joachim Wenning, Group CEO. On his left, Christoph Jurecka, our CFO. Next to him. Markus Riess, CEO of ERGO. Then Torsten Jeworrek, CEO Reinsurance. And last

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but not least, Nick Gartside, Chief Investment Officer and a special welcome to you Nick, it is the first time you join us for an Investor and Analyst Meeting.

So here's the agenda for the next few hours. Joachim will start with this presentation, followed by Christoph and Nick. Afterwards, we will move on to the first Q&A session on Group topics. Please save your questions on ERGO and Reinsurance for the second round of Q&A. Then we take a short break of about 10 minutes. Markus and Torsten, will then give their presentations, followed by the second Q&A session. We will conclude the day at around 5:00 PM CET at the latest.

So that's it for me. And Joachim, the floor is yours for your presentation of the Ambition 2025.

## Joachim Wenning {BIO 16273429 <GO>}

Excellent. Thank you very much, Christian. Ladies and gentlemen, dear colleagues from the analyst and investor community, also in the name of my fellow Board Members here on the stage, I wish you a very warm welcome to our conference this afternoon.

By the end of this year in about three weeks, our three-year Munich Re Ambition 2020 will come to an end. And the same holds true for the three-year Reinsurance strategy and also the five-year ERGO strategy program. And we are happy to disclose to you today the ambition and the strategy going forward.

When we kicked off this strategy project internally about a year ago, to us, it was very clear that it wasn't about doing everything different and changing everything what have been foolish because the business is running pretty well. So we ask ourselves rather, the question, what can we do to further strengthen the business strategies, and particularly so strengthen the growth parts of these strategies, how can we add an investment and asset management strategy to it, and how would we prioritize possible investments at ERGO or in the Reinsurance space and how would we align both the Reinsurance and the ERGO parts in terms of KPIs that we commit to the capital market.

Ladies and gentlemen, I understand that the microphone isn't working well. So I take this hand microphone. So forgive me for this. So I will start with a look back on how we have done with regard to the Ambition 2020. To me this picture here is very telling. Being on the final straight of the Ambition 2020, we are looking back on a remarkable trajectory of increased earnings. Although COVID-19 will have interrupted the rise in 2020, the view and the outlook going forward is one of a materially higher peak or in other words, we could also say with or through to COVID-19, we will have lost one year, but not more.

Please do recall that we had focused on three things in the Group: increased earnings; digital transformation; and a reduction of complexity. And this has made the Reinsurance business grow. It has made the Reinsurance business take leading positions in many markets and in many client relationships. It has made ERGO turnaround completely. It's no longer a problem. Now it's a pleasure having ERGO in the Group.

And with regard to digital transformation, we have automated processes, we have improved the skills in our core competencies due to data and technology that we are using. Also we are using the digital transformation to get access to markets that before we didn't have access into and that generates new revenue streams.

And last but not least, complexity reduction to us, in other words meant having a business focus, making sure that structural changes, organizational changes, they all will have a positive business and tech. Overall, this has reignited profitable growth.

Let's look into the numbers. In 2018, we expected to deliver EUR2.3 billion; we have. Last year 2019, we were expected to deliver EUR2.5 billion, we delivered EUR200 million more. And this year 2020, if we normalize for COVID-19 losses, we would have delivered EUR2.8 billion as of today.

Now an interesting question is, how do we assess this? Were we just lucky? Did we benefit from tailwind et cetera? And you know, there was a little bit of tailwind may be when talking about the P&C reinsurance rates, which started going up in 2018, but very partially only, only in the loss-making regions, only in the loss-making lines of business or Reinsurance programs, not across -- not broadly. The broader improvement of rates and conditions is only happening this year. So not a lot of tailwind.

And also the net category in 2019, was above its long-term average. And also if you look into the interest rate decreases, 100 basis points in that time period in the Euro zone. 180 basis points reduction in the US dollar zone. So all in all, it was hard work and we have materially increased the earnings level of the Group.

With regard to the total shareholder return since January 1, 2018, you see it on the slide, this has increased by more than 50%. This is a snapshot from last Friday, I think we ranked one in the pack of eight peers overall.

Now, it's a snapshot only you may argue, but what it clearly underlines is that we have caught up very fast and this also translate into breaking the trend of an ROE that was going down in the last decade. We've stopped that trend and we have turned it around.

Our believes into the future, which had an influence, of course, on our ambition and on our strategies and plans is that we believe in rate hardening in the Reinsurance P&C space mainly and we believe this to persist and sustain for some years. But of course, it's cyclical and we believe so despite the alternative capital being there, this is not going to go away. We believe that the customer needs will require more and more digital elements. And so the digital -- the insurance businesses will digitize more and more, but it will be more an evolution, which will take time and be expensive than the revolution that instantaneously would sort of change the whole thing dramatically. And we think as a major player, we will see more chances than we would see threats.

On the reinvestment yield side, there is a lowering of reinvestment yields, no doubt, and they will shave off more than 10 basis points of return on investments in our portfolio



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every year. But partially, we will compensate this through the investment strategy that Nick Gartside is going to explain to you in a bit.

With regard to how is globally the markets and the market size of the businesses and the underlying profit shifting, they carry-on shifting eastwards, towards China and the markets with a lower penetration rates today. But for the next five years, the traditional markets in North America, in Europe and in some select markets in the Asia-Pacific region, those will be decisive for our earnings.

The strategies in the whole group going forward will be based on three pillars; scale, shape and succeed. Now, by scale, we mean leveraging our capabilities in underwriting, in claims management, but also in distribution, of course, to grow our organic -- to organically grow our core business. And you will see later that the growth depending on which business we are talking about, will increase by between 4% to 10% per year, which is high.

By shape, we mean shaping the insurance value chain. This has an internal aspect that we are shaping our own operations and processes, but also shaping then the value chain, into the markets, into the distributions, into the end customers. And the succeed bucket means that we will benefit all stakeholder groups, shareholders, clients, employees and communities.

Let's look at the shareholders first. On the left-hand side, you would see that on a normalized basis, in 2020, we start at an ROE level of 11.9% and over the next five years into 2025, we want to increase this to 12% to 14%. And what will impact that? It's margin improvement and dominantly here the P&C Reinsurance cycle. Then in addition, it will be an across the segments and sub-segments profitable growth. That is happening. On the com [ph], it is a yield erosion that I just mentioned, but then partially compensated through a better performance of our investments.

And then depending on how much growth opportunities will be there for which we need to deploy capital to earn more earnings or whether we buy them back because there is no attractive growth opportunities out there, we will then end up at the lower or the upper range of the ROE between 12% and 14%.

On the clients side, there is no doubt that already in the past five years, but also going forward more so, clients from ERGO will benefit from excellent services. And they will benefit from ERGO focusing very much on unifying -- uniforming and simplifying their products, but also using technology and newly designed end-to-end processes to improve the customer experience.

On the Reinsurance side, its reliability, its predictability, its high capacity, its thought leadership, its rating, its strength is the ability to write new risks and also to launch new products.

On the employee side, it's worthwhile highlighting that, of course, employees benefit from working for a group in which technical excellence is at home. The skills in this room



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are technical excellence. Whoever joins us learns technical excellence in this room, learns applying this and learns making a business impact on this.

Then digital culture, we have been driving this for years now and it is not just a thing that we do aside somewhere. It is fully integrated into the Group. It happens everywhere in the businesses. This is attractive to people and there is the spirit of risk entrepreneurship of assessing risk, understanding risk and building a business around this.

And with regard to social engagement, I think we have the reputation and we deserve the reputation, both at the company, but also staff. There is high and broad social engagement, which we are proud of.

And all of this is based on diversity, internationality, breadth, 50 sites globally, more than 60 nationalities, more than 80 skilled groups and an increasing ambition with regard to female representation in leadership positions. The commitment of our staff, just recently reconfirm, is extraordinarily high also for this reason, and it makes for being the employer of choice in our industry.

The communities will also benefit. The communities will benefit from newly defined climate and decarbonization strategy. Before I get into the technical details on this slide, I'd like to highlight that Munich Re since 50 years has been at the forefront of calling for the fight against global warming and climate change. We are supporting the Paris Agreement 2050. We know that signs confirms that Paris 2050 is still achievable.

We also advocate very, very strongly a carbon price high enough to set the right incentives and to get the ball rolling to transform from fossil energy into more and more renewable energy production and consumption. And we want this, of course, to be globally aligned. But in the absence of such a global CO2 price policy, we bring in our standing and our role modelship to now set an example and this we do with regards to our carbon footprint on the asset side, on the liability side and with regard to our own ambitions -- emissions.

On the asset side, as it is science-based, by 2050, we are net zero. But, because exit of thermal coal is systemically important to achieve Paris 2050, we also will exit thermal coal investments by 2040. And already in the next five years, we're going to reduce this by 35%. So that overall, our carbon footprint on the asset side will reduce by a minimum of 25% on the asset side, maybe 29%.

And that same logic, which I'm just describing on the asset side, we will apply on the liability side. So being net zero by 2050, exit any insurance, be it in-force or be it new business with regard to thermal coal and reduce that footprint already by 35% in the next five years. For those who are insured, we give time. We will not immediately apply that. We will start applying this in 2022, so that there is enough airtime of one year to adapt to it.

And on the oil and gas side, we will also engage. All those signs suggests that for some time this might be growing, so to compensate the reduction in coal, we will start reducing

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[ph] this also by 5% between now and 2025.

And last but not least on the own emission side, it's not the most material one, but emotionally may be important. We have reduced our emissions per employee by 44% in the last decade. We're going to reduce it further by 12% in the next five years and we seek being net zero by 2030.

This brings me to my conclusion of the financial commitment. We're going to deliver an ROE of 12% to 14% where it was below 10% in the last decade. Earnings per share, we believe, to grow by at least 5% CAGR and the dividend per share also will grow by CAGR 5%. And I have to underline, while at least being on the level of the previous year, and the Solvency II ratio will stay unchanged in the range of 175% to 220% of the regulatory requirements.

With that, I would hand over to Christoph for the CFO part.

## Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Joachim. A very warm welcome then also from my side. It is a real pleasure to guide you through some financial aspects of Munich Re's Ambition 2025 today.

I would like to start on page 17 with more general remarks on steering and on KPIs. When we set our Group targets for the Ambition 2025, we were thriving to align our value-driven internal steering methodology with total shareholder return optimization. So we asked us, what are the main drivers of the TSR? And then looking at standard valuation models, the levers are, of course, return on equity, earnings per share and the dividend. So in other words, increase earnings and manage capital efficiently.

Now internally, our value-driven steering approach fully supports these targets. Relevant steering dimensions internally are IFRS, the economic view and capital management, which already indicates the complexity we have to deal with also from regulatory constraints some time.

Now, our Group targets in the middle column of that slide, they fully support both perspectives, the internal one, as well as the external ones. We achieved a nice level of consistency here. And the group targets, as Joachim just mentioned, are a return on equity of 12% to 14%, earnings per share and dividend per share growth of at least 5% and Solvency II capital in the optimal range throughout until 2025.

These targets are then translated into very operational targets in the various management levels of our group. And then just to remind you of the operational steering in our group is very much following, of course, economic principles. So that did not change.

On the next slide, I'll cover some key aspects of our strategy across the various steering dimensions I just mentioned. Let's start with IFRS. IFRS based KPIs like we were telling,

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equity or net income, are key measures for the short-term and long -- medium-term profitability. Our Ambition 2025 is based on earnings growth and on capital efficiency.

The economic view remains our DNA and also it helps us to strike the balance between earnings on the one hand side and risk on the other side, something which IFRS is not able to deliver. In our Ambition 2025, we are not considerably expanding risk appetite, but we are rather thriving for additional diversification benefits and then good overall balance of the risks we are taking, and on top of that, of course, capital efficiency as mentioned already. As a result, we are aiming to increase economic profitability and also capital generation.

The third dimension is the capital dimension. And in the capital dimension, it is the capital generation, which supports a strong Solvency II rating ratio also going forward and also a good rating and strong rating capital also going forward. And on top of that, of course, attractive dividend growth. Share buybacks continue to be the instrument to manage excess capital.

Now, the remainder of my presentation is structured along these steering dimensions. Let me start with some additional insights into IFRS. So how are we going to increase IFRS earnings? This slide has been shown before by Joachim. So I will add some additional flavor around to various levers you are seeing here. And to start with, again, we start with a normalized ROE of 11.9% 2020. Normalized here means normalized for COVID-19. And we then end up 2025 with an ROE of 12% to 14%.

In between, you see the various levers contributing to achieving this target in 2025. The first one is margin improvement. And margin improvement will kick in comparatively early driven mostly by the hardening rates in P&C Reinsurance, but also very much due to the increased share we see in our Risk Solutions business. But ERGO will benefit from efficiency gains, which Markus will outline later then in more detail.

The second column is growth. And growth is actually really a key topic for us across all business lines. In Reinsurance, our strong franchise and the market position allow us to outpace the average growth expectation, whereas in Risk Solutions we even expect to grow at twice the pace we are seeing in traditional Reinsurance. ERGO International is also going to grow above market as the focused approach we have been implementing over the last couple of years is now bearing fruit. Growth is supposed to contribute slightly stronger to the expected ROE increase, but at a later point in time then the margin improvement if you look at the trajectory towards 2025.

On the investment side, we continue to see headwinds from the low yield environment. I think that's not a surprise. You can see the red bar here, that's the yield erosion we are expecting until 2025. And obviously, we cannot detach ourselves from that. What we can do is implement measures along with the investment value chain to try to compensate as much as we kind of that yield erosion, and Nick is going to present to you later what these measures are in detail. They go along really the whole investment value chain for a strategic asset allocation until really the asset management mandate.

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Overall, I think the key message here is that, our core insurance business will be able to compensate for the lower yield we are seeing in the capital markets.

Capital deployment, the last column here, I think the first key message is that we continue to see attractive cash returns as being the core part of our capital management strategy. But I think it's important to notice on top of that, that all of our growth, which you are planning, which is substantial will be self-funded over the full horizon of the strategy.

On my next slide, I'd like to just make some remarks on our reserving approach also going forward. Key message, our reserving is unchanged. So we continue -- and you know that, of course, we continue to set reserves at the upper end of the range of possible best estimates, and therefore, we expect ongoing reserve releases resulting from this conservative initial loss picks we take for new business. So this is unchanged.

What might change going forward at least according to our learning assumption is the business mix to some extent. So we will have a higher share of personal lines business and short-term business. So higher share of business with generally lower uncertainties connected to it. And given an unchanged reserve prudence, this still might then require to have lower margins on the attritional losses than in the past.

So what we will do is, of course, we will reflect all business mix changes very diligently in our reserving and without changing our disciplined approach at all. The locked-in reserve caution from the past is there anyway. It will continue to be released. So this will, of course, not change. But then, please be aware of the fact that in a growing portfolio, if you measure the release as a proportion of the net earned premium, it could potentially result in lower percentage numbers, just mathematically. However, the four percentage points we had as a guidance in the past, they continue to be also a good and suitable guidance for the future. So, this will not be changed.

My next slide is about the economic view and we see a strong economic value added over the strategy period. So you see here economic earnings of around EUR20 billion and -- I mean, this is a big number. And what you can see is that it fully covers the delta SCR, so the risk capital growth, which is of course related to growth and it also covers capital repatriation. On top of that, there is still a material capital generation, which we see. And this capital generation is good news because it helps us self-fund our strategy. But on top of that, it provides us with ample financial flexibility also going forward. So, I think that for the -- two key messages here in the economic view are: first, we're able to self-fund our growth; and second, financial flexibility will only increase over time.

And the following slides, I'll go into some more details on the economic view. I start on this slide on some aspects with respect to risk management. Over the past years, we were able to strike a good balance between investment and insurance risks. So we refrain from taking additional investment risks to compensate for lower yields even in the low yield environment and we are still convinced that that's the right way forward.

At the same time, what we did, we started to gradually deploy capital into growth on the insurance business in line with our strong risk bearing capacity. And despite the selective



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growth we already saw in nat cut, I think we saw a good balancing effect from diversification benefits from other lines, especially proportional business, personal lines business, which nicely balance then the additional nat cut exposure we are holding.

Going forward, we think this balancing effect will continue and so insurance risks will maybe gradually increase, but our investment risk appetite is unchanged, despite the still high pressure from low yields. As a result, if you put that all together, we do not expect the balance between insurance and investment risk to materially change.

The next slide then more or less shows the outcome. If you take this disciplined approach towards risk, you can see that the Solvency II ratio is expected to gradually increase over time in line with the positive capital generation. At this point in time, I'd like to remind you that the way we calculate our Solvency II ratio is still a very conservative front. So it does not include the already approved transitional measures. We do not use a dynamic volatility adjustment. And also the static volatility adjustment is also used for a small number of subsidiaries.

We continue now, if you look at the numbers, to be in our optimal range of 175% to 220%, which we now also defined as our target range. We might even end up be slightly above that optimal range depending, of course, on our -- multitude of parameters that's going to develop in the future.

The next slide covers our funding structure. And well, what I can show you here is that even after having issued the green bond of EUR1.25 billion, our leverage ratio remains to be one of the lowest in the industry. By the way, the green bond was a clear signal that we are really serious about ESG, and I think, it was a very good momentum, we were able also to generate with that.

Now, coming back to the financial aspect of the green bond from a Solvency II standpoint, obviously, it would not have been necessary to issue the bond. So why did we do it? Well, we started to replace upcoming maturities early on. As in the next two years anyway, there are a couple of bonds callable and we now just are in a position that we have a lot of flexibility what to do going forward. We could call the bonds and replace them or call them and not replace them. So, I mean, there are many, many options available to us. And on top of that, in case we would want to even grow more that -- then what is included in this strategy, of course, there would be additional flexibility given this low leverage ratio.

The next slide is just to very quickly mention also that our strong capital base is also recognized by external parties. What you can see here is that all the major rating agencies recently confirmed our outstanding capital strength and also the outlook was maintained as being stable by all of them. I will not cover and say anything more on that slide.

Next slide is maybe more important that's about dividend strategy. And I think this is a right point in time to highlight that dividends continue to be the core of our capital management strategy. And as you know, dividends have been used by Munich Re to allow for profit participation for shareholders already for many decades. And just to make sure that we are on the same page with conceptual difference, the share buybacks always

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have been the tool to reduce excess capital. So, I think that's not really changed. But just for the sake of clarification, I've noted that on the slide here again.

We continue to be very strongly committed to dividends. And as you can see in the middle slide, that's only the last couple of years shown here, but dividends have been growing quite attractively in the past and our shareholders have been benefiting from the dividend growth substantially over the last years and decades even. So, this is also unchanged. And also, more importantly, maybe even the last 50 years, we did not cut our dividend.

So as you can imagine, we clearly have the ambition after 50 years not to change that. So I think it's an important part of the outlook here on the right-hand side of the slide, saying that we are -- our intention is to grow dividends above 5% CAGR going forward. But the dividend floor of at least previous year's dividend per share is something, which is also really important for us.

Coming back to the dividend growth, I mean, the earnings growth is something we are targeting here in this strategy. And we've been developing the strategy. We thought it would be quite natural to make sure also shareholders would benefit early on from that higher earnings level. Therefore, we set an higher dividend per share growth than what we showed in the past would be an adequate tool to make sure shareholders will benefit in a reliable and predictable way early on when our earnings growth comes in. By the way, that's a remarkable, a bit [ph] outside of the growth scope of the slide, by the way ERGO will continue or will take up dividend payments again for full year -- of fiscal year full year 2020.

On my next slide, some remarks on share buybacks. This is an explanatory slide. So no numbers really on the slide. But what I would like to show you here is that we are looking at share buybacks from a shareholder value creation perspective. So on the one hand, if we find business opportunities, growth opportunities, above our cost of equity, so with margins above our cost of equity. Then clearly value is created. And in this case, we are very happy to expand our balance sheet and to deploy the capital exactly where they are, where we really find these attractive growth opportunities.

On the other hand, if we do not see these opportunities then it's obvious that then its advantageous to pay back the capital and then we will go for share buybacks going forward. Hence the size and the frequency of share buybacks in the future will always have to be seen in the context of the market cycle. And more generally, in the context of growth opportunities, which we have. As I highlighted before I think that we're currently quite positive when it comes to growth opportunities. I think that's to be noted in the context here.

With that, I'm at the end of my tour along the steering dimensions, IFRS, economic view and capital management. And then my last slide, it's about the outlook 2021. And as these figures have been released already a week ago, you all are very familiar with them anyway. So I don't have to comment a lot of them. But let me make a number of very brief remarks may be here.

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First of all, I think it's important to notice that also due to our strong balance sheet, but also due to the business opportunities we are seeing, we are targeting EUR55 billion, of course, gross written premiums next year, which is a record level for us as a Group. And then I would like to point your attention that net result target EUR2.8 billion, there we are back at the pre-COVID -- the pre-COVID 19 level, despite significant corona claims we are still expecting for next year, which is a clear signal that the core profitability is improving, and already this year, we are perfectly in line with our expectation when it comes to the core profitability of our business.

In the Reinsurance segments, I was highlighting already to you last week that our profit target includes COVID-19 impact of EUR550 million before tax. And on the ERGO side, we have EUR100 million after-tax of COVID-19 impact including claims, but not only claims, but also premium and some other effects.

So overall, I think it's fair to say that we are talking here about a very attractive ambitious outlook. This outlook, I also you mentioned that last week already, includes a fair amount of stretch. Thank you again for your attention.

With that, I hand it over to Nick.

## Nicholas Gartside {BIO 4164274 <GO>}

Great, and thank you. Thank you, Christoph and a very warm welcome from all on the investment group at Munich Re. What I thought I'd do today is really, I split my presentation into three parts. We'll talk: firstly, about the investment outlook; secondly, I'll talk to you about my goals, the CIO goals at Munich Re; and then thirdly, I'll talk about our expectation for the return on investment as we go into at 2025.

So on the first of those, in terms of the investment outlook, I think three key challenges for investors as we look forward. Hidden within some of these challenges are I think actually some opportunities that we'll also discuss. The first of those is ESG. As Joachim has already referred to by 2050, our investment portfolio will be net zero greenhouse gas emissions absolutely in line with the Paris Agreement. Second key investment challenge is, and obviously, low interest rates. We'll talk a little bit about how we will mitigate the yield accretion that we're going to face without increasing risk. And then I think the third challenge, as you look out, is capital market volatility. I'll talk about the resilience that we've built within our portfolio, and some of the opportunities that we foresee into the medium term.

So, let's turn to the first of those challenges, which is ESG. Within ESG, there's also, I think an opportunity that we'll get to, but I think the first thing with ESG is that this is an enduring investment theme. ESG is not a fad and integrating ESG into our investment processes and strategy is something that we take very seriously. I think with ESG, it's not just very obviously the right thing to do. Joachim talked about some of the science behind that. But actually, I think it will also provide some very interesting investment opportunities as we start to look forward, whether that's new hydrogen technologies, carbon capture, more renewables, I think there'll be a broader opportunity set from that.



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In terms of what our commitments are, it is a -- to build on existing commitments. For quite a number of years, we've had responsible investment guidelines. We joined the UN PRI back in 2006. And recently we've strengthened those commitment. We joined the UN net zero Asset Owners Alliance, we joined Climate Action 100+. And the way that we will embed ESG and implement it, is very much through engagement with our portfolio companies. And what we have built up is an asset class focused at five-year implementation plans.

So, we regard ESG as critical. It's something that's very much within the Munich Re DNA. And again as Joachim talked about that we've had quite a history in terms of building up that philosophy.

I think the second investment challenge is, low interest rates. Low interest rates, as Christoph talked about, will clearly affect our running yield. I think when you look at the low interest rate environment, it's important to recognize that it's very much a secular trend. Certainly, I'm a big believer in Japan actually, as providing a roadmap. Japan is ten, fifteen, twenty years ahead, but Japan does provide that roadmap for other developed economies. And you can see those similarities when you look at some of the market drivers, whether that's demographics, lower economic growth rates that we've seen in recent years and certainly phenomenon like digitization and globalization do imply lower inflation.

The pandemic accelerates or embeds some of those secular trends, just think of the level of interest rates this year, the low level of bond yields, the amount of debt created, it certainly embeds low interest rates in some of those market drivers. But I think it's important to highlight that just because interest rates are low, it doesn't necessarily mean the market returns will be low.

And again, just think of some of the market returns this year whether it's some of the fixed income market or indeed some of the equity market. And I think some of the other opportunities as we look forward, will be in alternative assets and with certainly a medium-term plan depending upon market environment and valuations to add to our holdings of alternative assets. I think the second area is corporate credit and certainly well researched corporate bonds, we may well increase our exposure there. And the other way that we can mitigate some of the low interest rate environment is through hedging strategies, which can add to our yield a little bit. So I think the important message there that within that secular trend, there will be cyclical opportunities to improve our reinvestment yield.

I think the third challenge, we, as investors, will face that I'd like to highlight is capital market volatility. You look at market volatility today, it's at very low levels. Clearly earlier this year, it was at very high levels. I think though, when you look a little more structurally, a lot of those volatility spikes are getting a lot more regular. And when I look at the shape of our portfolio, I'm very comfortable that the portfolio is able to deal with those future spikes. Indeed, this year, I think was a very good test of that. It showed -- the portfolio showed that we could cushion volatility when interest -- when uncertainty was at very high levels. What helped us do that with some of those hedging strategies, both in equity markets and in interest rates in fixed income market. I think the second reason, if you like, that we've been able to smooth some of that volatility is in the portfolio construction. And



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it's a portfolio, as you can see from the chart, that is very well diversified across assets, sectors, geographies. And we're also able to take a group approach when looking at investment.

And then I think the final part of portfolio construction is when we're adding to positions or indeed taking positions of, we're very aware of the risk that adds within the portfolio context. So those are changes made in a very thoughtful, considered and controlled manner. So I think what we've demonstrated this year is an asset allocation, a solvency ratio that has proven to be robust and that gives us a very good foundation to take advantage of investment opportunities looking forward, whilst at the same time, maintaining the quality and defensive nature of the portfolio, which will help in terms of safeguarding reliable earnings.

So the second part, what I wanted to talk about was the CIO goal, my goal as CIO. And in terms of what that goal or aim is, it's to increase our investment return without increasing the relative risk position. So to that end, what we've done is create a new investment structure.

And on the left-hand side, we created a focused asset owner group. That's the group internally we call Group Investment Management. GIM is the short-hand you'll hear for that and that is a group that focuses on those asset owner activities. So strategic asset allocation, tactical asset allocation, and then, of course, that group decides on the asset manager that we will use to actually manage the assets.

On the right-hand side, we've also made some changes, which I'll talk about in a moment to our core asset manager, MEAG. The underlying theme here or philosophy, if you like, is one of simplicity, it's one of Centers of Excellence where we've bundled expertise.

So if we take a look at Investment Management and focus on the specific return levers to increase returns, on the left-hand side, with the strategic asset allocation, there we take a group approach. What that does is ensure we get the full benefits from diversification. It also allows us to embed ESG criteria right at the start of investment value chain.

The second part of the asset owner function is what we called tactical asset allocation. Now this clearly isn't day trading. But if you think of a strategic asset allocation, it's very long run, it's produced on an annual basis, it's very strategic. The tactical asset allocation group are developing common investment views and where we've seen movements in markets that we need to take advantage of this year, would be a good example of that. We can put some of those ideas into our portfolios. It also ensures that the portfolio construction is done at the asset owner level.

Then the final part of our Investment Management Group or GIM group is asset manager selection. And with asset manager selection, the philosophy is to assign investment mandates to the best asset manager. So what that means for core assets, MEAG remains our core asset manager. Where we've non-core assets, we will look to use specialist asset managers, where we feel we can get an improved return and that process of outsourcing some of our assets started over the summer period.

So if we focus on MEAG and the levers to increase investment returns within MEAG, firstly and most importantly, the key priority is to strengthen the investment performance in MEAG, and from that the investment performance to the Munich Re Group. And to that end, we appointed two new CIOs over the summer, one for public markets, one for alternative assets. And they'll focus on implementing best investment practices within their respective units. Core asset classes for MEAG are liability-driven investments, fixed income and also alternative assets. So that's a very good foundation for MEAG to continue to grow the third-party business that they've developed to service institutional investors, have a proven track record within those core asset classes. And both of those initiatives are supported by making the MEAG operating model more sustainable in the future. And the MEAG strategy program will start at the start of next year.

The final goal, I will highlight, and I make no apology for reinforcing our commitment to ESG is again, ESG. ESG is a central goal of the Group and certainly a central goal of mine as CIO. And where I think it becomes very interesting is, as well as clearly being something that is just right, it is also interesting I think from that pure investment angle. And certainly, it's a short data history. But when you look at ESG investments this year, and they've had quite an interesting performance at profile. They've generally had a better performance with less risk associated than some of the conventional strategies.

So, our ESG investment strategy is one that's closely aligned with the asset owner alliance commitments. Internally, what we will do is set asset targets for all the different asset classes and sectors. We've started with corporate bonds, with equities and with real estate. And as Joachim said, by 2025, the CO2 emissions from our portfolio will be between 25% and 29% lower. And in order to help us do that, we will focus in terms of approach on adopting more ESG indices, we will engage with companies and we'll also double our renewable portfolio to around EUR3 billion.

And perhaps what we're talking about, some of the tangible activities. Christoph mentioned the green bond. I was delighted with the green bond issuance. I think, it serves to very much emphasize the commitment that we are showing, a very active commitment to sustainable finance. I think it also though highlights the range of eligible investments and I think as you look forward that selection of eligible projects will grow, and I think ESG investments will be quite an interesting opportunity set, not just into 2025, but also as we go beyond.

So my final slide and the final part of my presentation, is to talk about how all this comes together in terms of the return on investment. As both Joachim and Christoph talked about, low interest rates will clearly persist in the future. That will affect return on investment. We can offset some of that decline in return on investment with the new management measures we've made.

So how do we think of that in terms of numbers? Well, as you know, the starting guidance for our return on investment for 2020 is around 3%. I think as we've noted, there is a risk that's lower and in terms of whether it's lower or higher. And without doing anything, in terms of the yield erosion, we're looking at over the next five years,



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An attrition of the ordinary running yield of over 10 basis points per annum. So how do we offset that? What makes up that green part, if you like of the ROI expectations? It's the management measures I talked about earlier. Group SAA, the TAA, the asset manager selection and then the improvements at MEAG.

What I can say that we won't change going forward is our strategy regarding disposal gains. So we'll just continue our cautious harvesting valuation reserves. There'll just be the normal realization of gains to normal portfolio turnover, ZZR financing, we will maintain the prudent ALM policy that we've had in place for a number of years. So when you add all that together, instead of a much lower ROI, it gives us an expected ROI of around 2.5% by 2025. Added together, all that makes me confident that we can achieve additional return without increasing the risk profile.

And with that, I will hand back to Christian.

## Questions And Answers

### A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Nick. Thank you, gentlemen. Before we start with the first round of Q&As, let me please explain the procedure. For those of you, who would like to ask questions, it sounds more complicated than it actually is, believe me. Please click on the link, you will find in the first tab Q&A session on the bottom left, a new window will pop up. Please enter your details, select your country if it is not already pre-selected anyway and enter your phone number without zero. So for example for Central London, it would be just 207, not 0207. Then please enter your name, your company and the security code. And you will immediately receive a call and you will be connected to this conference via phone. Please mute the webcast on your computer to avoid sound overlap. Once I call your name, you can place your question. Please note there are time delays in picture and sound transmission. So, what you hear on the phone is real time, don't feel irritated by this. When your question is answered your line will be disconnected. Then please return to the webcast and unmute the sound on your computer to continue to follow the Q&A session via webcast.

In case you have problems with a call back function, you can also enter your question in the chat window in the text messages. Please use this function should you experience problems dialing in by phone. If your question is not answered in the first Q&A session due to lack of time, please use the call me function again in the second Q&A session. As always, I would like to ask you to limit the number of questions to a maximum of two per person. And once again, as Markus and Torsten, did not have the chance to present yet, please save your questions on the business fields ERGO and Reinsurance for the second round of Q&A. And now we are looking forward to the first question.

And also, in order to save some time, I will kick it off with a chat question that came in quite early on, which is from Headley Cohen from Deutsche Bank. And I will just read it out. Slide 23 implies EUR12 billion of capital repatriation over the period. Can you tell us how you are thinking about the split of that between dividends and buybacks? My interference would be approximately EUR8 billion dividends and approximately EUR4

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billion buybacks. Is this fair? If this is fair, then I would imply, it would imply your target absolute net income for 2025 is only at least EUR3.2 billion to EUR3.3 billion. So broadly flat compared with your implied underlying guidance ex-COVID for 2021, i.e., no absolute earnings growth over the period 2021 to 2025. Is this correct?

## A - Joachim Wenning {BIO 16273429 <GO>}

Christoph, maybe for you.

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yes, thank you. I'll. I'm very happy to take this question. Actually, I mean, the way I interpret the question, I think it's two questions in one, and so let me elaborate a little bit on the two I'm understanding, and of course, in case something remains open, I can follow up. The first question, I understand is the question capital versus earnings and how do we see it. Now, first of all, the slide you're referring to is an illustration and we included it to explain how we think about it, about the balance between capital on the one hand side and earnings on the other hand. So therefore, obviously, I cannot confirm any dividend or any share buyback number, but only repeat what I said before is that we are -- that our target is to increase dividends with at least 5% CAGR over the five years and that share buybacks will be perceived as an opportunistic -- with an opportunistic view, depending on the business opportunities we are seeing, which means the more share buybacks we do, the less business opportunities we see, and therefore, also the absolute earnings level should be expected lower or in other words, the less share buybacks we are making the higher earnings should be going forward. So that's the balance to be seen in that and this has to be kept in mind.

Therefore, I think the only really reasonable number is the 12% to 14% ROE. Why I said? Because obviously five years from now is a very long time, especially in reinsurance market where we all know that market cycles sometimes can turn pretty quickly, and therefore, the situation in three, four, five years from now might be completely different. What will remain is a 12% to 14% ROE target independently of the development. And therefore, take the graphical [ph] illustration it's one possible path and then again it's an illustration. So it doesn't make sense really to measure in detail how high the different parts are. But it's one possible way forward, not the only possibility.

The second question, I'm reading into your question is that, you ask basically the next year's target, we've been talking about last year how does it relate to what's going on in the later planning years of our five years period. And I think I mentioned last week, but also today that there's quite a bit of stretch in our next year's target incorporated. Why is that? Well, we all think it's of a high value to bring -- to get COVID-19 behind us. And so the signal to be back at the pre-COVID earnings level is something, which seem to be important to us, and therefore we applied, maybe a little bit more stretched than into later playing years. What do I mean with stretch? Well, if you look at the planning exercise, in any case, we have a large number of initiatives in there. And there's always when you run a company, you do not expect everything to work out brilliantly well. You also do not expect everything to go south. You expect to be somewhere in the middle. And a little bit more stretch means that we may be a little bit optimist -- more optimistic with respect to how much of our initiatives needs to go well, to achieve the target than maybe in later

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years. But on top of that, that's also a reasonable assumption, given -- I mean, we are insurers, so the further in the future we are looking, the higher the uncertainties are, and therefore, we might have the tendency to maybe also discount later we'd say, it's a little bit more than earlier results. So may be that also plays a role here.

My final remark here would be that, in any case, a target of more than 5% implies more than 5%. So at least mathematically, there is no upper bound [ph] that we -- for any result going forward or putting it maybe in a less provocative way, there's also upside in the numbers as we have been showing here. So, and then finally, again, you have to look at the earnings level always in the combination with the capital and the capital management measures we are going to implement. So the absolute earnings level in itself, it's also not indicating anything in my view. So I think that's on the first question.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. I think we will now take the first question from the phone, and the first question is supposed to come from Andrew Ritchie from Autonomous. Please, Andrew go ahead.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Can you hear me okay?

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Yeah, we can hear you, okay.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

Great. First question is for Joachim. I guess, it's -- I'll try and get two questions into one. When I look at your slide, there's a bit more emphasis on growth versus margin. And I think, both yourself and Christoph talked about there's more margin in the early phases and then more growth. Is there a lot of flexibility in that balance? I guess, what I'm driving at is, if the margin is more challenging or -- sorry, if the growth is more challenging, is there more scope to extract more margin?

And that relates me also to another related question, Joachim, you seem to sort of say, you finished on reducing complexity. I'm struggling a bit with that. Munich still looks to be a very complex organization and some part of this plan seem to make it even more complex. So is there not more scope when I look at those bars between growth and margin for more margin and a bit less growth or can they compensate each other? And related to that, is this ROE ambition, the floor aren't just an ambition and in balancing those two drivers. Sorry, if that's not very clear.

Second question, just for Nick. Nick, I'm struggling to understand what is new in the capabilities of Munich Re's investment function? In other words, before -- or as you arrived, I mean, did they not have capabilities to go to more alternatives? What have you identified as gaps? I'm still not clear on that. And other opportunities, both in terms of not just adding new asset classes, but, may be taking a different position on duration, on

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credit. I'm still -- I'm just trying to understand a bit more what's really new versus what was there before? And I guess, this is going back a little bit to what you saw in the period of time you've been here.

## A - Joachim Wenning {BIO 16273429 <GO>}

So let me start. Andrew, Hi. So, to your first questions, so growth and margin, you know, the picture that you are referring to is an illustration. We take it serious, but there is flexibility in there. What is a good message is, there is growth potential and the margin part of it is very much cyclical. It's dependent on the cycle. If you asked me, I would prefer only having that growth part because that would mean wherever the cycle is, we don't care, there is a profitable growth orient [ph]. But to be honest, and to be transparent, there is that cyclical part to it and that is mainly the P&C Reinsurance cycle where we are in. But it is by far not the largest, and the only one, that is the message of the picture. So is there flexibility in there? Which path concretely we're going to take? Absolutely, we will flexibly adjust to according to the attractivity of the P&C Reinsurance rates out there.

You referred to reduction of complexity, is it finished? Andrew, it's never finished. But what we have achieved in the last three years is that complexity that was, if you will, staying a little bit in the way of doing business, of growing business, which was looking attractive to us. Those obstacles, if you like, they are eliminated. If you take that part and say, is there other types of complexities still in the organization? I would say, there always is, but on an evolutionary part, I think we will deal with it, but it's not very fundamental.

The ROE, is it an ambition or is it just the floor? Looking back, it is a very high ambition because in the last decade, the ROE was well below 10%. So now where we are with our underlying earnings in 2020, normalized for COVID, is already 11.9%. So it's a step change. And we believe that we're going to move it further up into the range of 12% to 14% and whether it's 14% or 12%, then it really depends on what Christoph highlighted at the beginning. It depends on how much of the capital we're going to deploy into future ongoing growth opportunities or not. Nick?

## A - Nicholas Gartside {BIO 4164274 <GO>}

Joachim, thanks. Thank you, Andrew. I think just to reference one point you made in terms of ALM policy, the ALM policy is unchanged. We have a longstanding policy there. So it's not about changing the ALM policy. I think in terms of what's new, it quite naturally follows actually from your question to Joachim in terms of complexity. And certainly, the investment structure, which have been developed over a number of years had complexity within it. And the changes we've made, and really I talked about this, the underlying message was simplicity. So instead of having a number of groups to really fulfill that asset owner role, we've now just one group that fulfills that asset owner role. So from that, you get efficiencies, you get, if you like, the idea of Centers of Excellence where it's for SAA, one group doing SAA, one group focusing on TAA.

The other important role we added to our asset owner is that the asset owner selects the asset manager. So that's a big change because that means that we're just more open to using a number of asset managers, particularly for non-core asset classes. So that I think is a change. The other change that we've made, and that I think is new, is within MEAG. And



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what we have done at MEAG in terms of with the new appointment, with our new CIOs is strengthen the investment process and the investment capabilities there.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Nick.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Andrew for your questions. The next question is from James Shuck from Citi. Please, James.

## Q - James Shuck {BIO 3680082 <GO>}

I was on mute. Excuse. Good afternoon, good morning, everybody. So two questions from me. I just want to return to the profit outlook and the EPS guidance, so the 5% of target, for at least 5%. If I approach that from a slightly different way and just think about the potential to grow the absolute level of net income from the starting point, I think you're guiding us with 2020 starting point of 3.8 [ph]. The Life and Health Re technical profit is increasing by EUR300 million over that period. ERGO is going from 9% to 12% to 14% ROE, which implies about EUR1 billion of net income I think in 2025. So that's plus 500, so you got plus 800 from those two. Again for that, you're going to have 50 bps of yield pressure, so I think that's ahead with about EUR1 billion, net of tax. So how do I get to what looks to be a plus 800 number on the 3.8 by 2025? I hear what you say about the balance between capital deployment and buybacks, et cetera. But it does look like you're shaping for net income of around about 3.6 in 2025 give or take. But just given those moving pieces, I can't see that, particularly with the P&C Re combined ratio, which I think you're saying, it's going to be broadly flat to about 95. So, that's my first question.

The second question is on slide 23. I won't draw too much on the capital deployment side of things, which does imply some buybacks in there. But I'm intrigued by the SCR development. So the SCR development is actually very low, it looks like about EUR1 billion [ph] or EUR2 billion [ph] increased SCR, you're talking about the growth opportunities that you have. But that increase in SCR is actually a very low number. And I guess, associated with that, I'd be keen to get your views on what your hurdles are when it comes to deploying capital. So are you looking at a trade up for the kind of return on investment versus the share buybacks for example? And have you changed your view in terms of strategic gaps in group, because it seems to me that your messaging is trying to de-emphasize buybacks a little bit, and a bit more into some of the growth opportunities and potential for M&A? Thank you.

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, James, Christoph. I'm going to take both questions, I think. First of all, again, I think I referred to what I said before depending on what your assumption is on capital and depending also what you think how the margin and growth development goes until 2025,



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you obviously could end up with very different scenarios, what net income figures could be. What are the drivers? The drivers, obviously, are the margin improvement at the beginning with the combined ratio you were referring to also, and then growth. And then ERGO, of course, comes on top of that, and then it adds up basically. So I think there's not really a miracle happening or anything in between. It really just following the slide that we're showing you before, where the ROE improvement is really showing in terms of the drivers, margin improvement, growth and then of course, the investment side.

And then, yeah, it all comes down to capital management to some extent also. And I appreciate your comment that SCR increase looks quite low. Again, this slide is an illustration. But what I can confirm is that we see a potential in growing the business in an efficient way in a sense that we will benefit from diversification between different lines of business such that the -- that on an overall group level, the marginal additional risk is pretty low even if growth is substantial, just due to the fact that we are business model wise in a very good position to benefit from these diversification across different markets, different lines, different business, life, non-life and so on and so forth.

So really that's part of the idea of the growth ambition really to make better use of the capital we are holding by having these efficiency gains. So that's something at least towards strategic perspective, I'm very happy to confirm. But other than that, again, it's really the drivers growth, margin improvement, making the best what we possibly can out of low interest rate environment and capital management and then we end up in the range of 12% to 14%.

## Q - James Shuck {BIO 3680082 <GO>}

And the strategic gaps and potential hurdles to deploying capital into M&A?

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, well, I mean M&A -- I mean, the debt is low and the debt, obviously, comes with opportunities when it -- with respect to financing. I think we have been always open in the past that we would never rule out M&A. But is it part of the strategy? No, it's not.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. Thank you, James, for your question. The next question is from Kamran Hossain from RBC. Please Kamran, go ahead.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. Two questions from me. The first one is just on the plan overall. I guess, looking at the track record you've got on delivering targets, yes, ERGO, the 2016 plan and also the kind of group 2018 onwards, got good record of delivery. What's your confidence in this new ambition in 2025 plans versus those plans? Is it more of a stretch or is this -- do you have the same degree of confidence?

And the second question is, I think, it's around pricing a little bit. I guess, you're giving out messages of growth and balance sheet deployment here. Is this the right time to be

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making those messages ahead of what should be a very good one hopefully? I'm not sure that's maybe a question for the second part, but that talks (inaudible) right now.

## A - Joachim Wenning {BIO 16273429 <GO>}

Kamran, this is Joachim. Good afternoon. I would say your question with regard to the confidence in the future growth, you referred to ERGO starting point 2016. But certainly also Reinsurance. I would just suggests wait to the -- for the second half of the session, listen to the business strategies of ERGO and how the future growth is substantiated ERGO's strategies and the same for the Reinsurance strategy. So I beg you just a couple of minutes of patience for this.

The second question, Kamran, if you can just repeat that because I hardly could hear or understand that, I'm sorry for that.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Sure. From the -- my first question was actually on the -- your confidence in the overall plan. I said, you've got a good track record on delivering everything since 2016, that's actually confidence in the group plan rather than ERGO. The second question is just around messaging of deploying more balance sheets, looking to grow over the next few years, is this the right time to be making that message given what should be in theory a very good kind of January renewals?

## A - Joachim Wenning {BIO 16273429 <GO>}

So Kamran, got it. So with regard to the confidence level, I am -- I think if we look into the five-year period and the five-year plan, then it is realistic to say that next year 2021 is a difficult one, is a stretch year. What is uncertain always, and it was in the past, it will be in the future, is you never know where the capital market is going to go. When that fundamentally goes down, it's going to impact you. And the same holds true for very large losses. But this next year 2021, will certainly still be impact to an extent, difficult to assess by COVID-19. So in this sense, 2021 will be a difficult year. And I think Christoph rightly called it, a stretch year in this sense. But then if you take that out, I would say, the confidence level in terms of we're going to capture opportunities to benefit from the cycle in Reinsurance P&C is high. The confidence in -- beside that cyclical element in capturing growth opportunities on the Reinsurance side and other target segments is as high as it proved to be also in the last three years.

And with regard to ERGO, the confidence level that ERGO is going to capture growth opportunities and its capture -- its target markets is also high. Although achieving growth is, of course, a different thing than cutting costs that's hard, but it's under your control. So confidence is high. And I would say where the cycle then is going to be in 2024 or 2025, nobody knows, we don't know, but no bold assumptions with regard to that are part of this plan so confidence is high. Do we the disrupt the market, do we disrupt the rate and condition environment with our growth ambition? No, we don't think so.

## Q - Kamran Hossain {BIO 17666412 <GO>}

All right. Thanks very much.



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## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Kamran. Next question is from Vikram Gandhi from Societe Generale. Please, Vikram, go ahead.

## Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thank you for the opportunity. I hope you can hear me, all right. I've got two questions be. The first one is, I'd say, going back to slide 23, which shows the expected economic earnings, the figure of around EUR20 billion over the next five years and that's implying about EUR4 billion per annum. I'm aware that is illustrative. But just since the figure is mentioned, the EUR4 billion figure is quite an increase versus the -- about EUR2.8 billion normalized economic earnings, that was set for 2020. So any thoughts on that on what's really driving the significant uplift would be really helpful?

Secondly, I appreciate the focus on ROEs, and the same applies also to the two business engines. Being mindful that we have for the presentation's plan, my question is, since the group does not disclose the IFRS equity across Reinsurance and ERGO, are there any plans to publish those going forward so as to allow us to track the individual ROEs?

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Vikram, thank you for your questions. First, the economic earnings. It's maybe a good opportunity to talk a little bit more around the EUR4 billion plan or about the EUR20 billion. Yes, you said, it's illustrative. But on top of that, I think what I have to mention here also it's not IFRS, it's economic earnings. So it includes, especially for long-term business, future earnings in the present value logic, and therefore, it necessarily needs to be higher than IFRS anyway. And also growth effects in the economic earnings view are in some lines of business, especially Life, Reinsurance, as well as ERGO are much earlier visible in the -- on the economic earnings view than in the IFRS view. So there is a fair shift between -- lot of shifted components of the earnings between IFRS and economic earnings. So that's a major difference.

Compared to the past, obviously, I mean, your rule of thumb calculation was to divide EUR20 billion by 5 to come up with EUR4 billion per year. You could also imagine other trajectories, so that will depend on growth and margin improvement, and so on and so forth, how really the path will look in detail. But I think the major difference to IFRS is really the way we do the accounting here.

Your question on ROE, indeed, we did not disclose equity for Reinsurance and for ERGO in the past. Today, we included a backup slide in the pack, and in my presentation that you can see the split for the first time, and for sure, we're going to update you regularly on that and also update you regularly on where we stand with our ROE also on the business field level compared to our plans.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you.

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## Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you very much.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thanks, Vikram. Next question is from Vinit Malhotra from Mediobanca. Vinit, please, floor is yours.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much. One question for Nick, please and one for Joachim and/or Christoph. So Nick, the question relates to the 2.5%. So, I'm just reading on the slide 42. Now, if I remember right, last week, the 2021 outlook was also 2.5%. So, when we compare sort of zero compression in the ROI over 2021 to 2025, I can say you set a performance uplift from alternative assets, you used the word strong balance sheet, which I presume means also realization of gains. But I mean, I would be just very interested to hear how you think about that kind of zero effect of between 2021 and 2025? So that's the first question.

Second question, just for Joachim and/or Christoph, let's say, the -- I mean, Joachim, the last time you issued targets 2017 were a bit more simple to follow, there was a net income number, there was combined ratio normalized, which later on was changed a bit, but was delivered at the end. But this time, I mean, it's lot more variables and also a longer term. Could you just talk us through, I mean, why it shows a five-year target when there is so much of uncertainty around, so many variables in the world at the moment? A three-year plan would have probably been easier to fathom the market. But I'm just curious to hear your thoughts on how you chose to do a five-year versus a three-year plan. And also obviously, the change in ROE has been commented by Christoph, but -- I mean, the change in focus to ROE has been commented. But I'm curious to hear how you structured this plan. Yeah, that's it, thanks.

## A - Nicholas Gartside {BIO 4164274 <GO>}

Great. Thanks, Vinit. It's Nick speaking. I'll take -- I'll take the first question on the ROI, and certainly, the meaningful decline in the ROI is, this year, you could think of that as the corona effect, Central Bank policy rates are lot lower, a third of global bonds with a negative yield has had an impact on our running yield versus the start of the year also we've less in things like equities.

If you think of the trajectory of the ROI from 2021 to 2025, that's largely unchanged and then the sort of composition of that is likely to shift a little bit towards the end of that period, we get more of an impact from the management changes and the portfolio re-allocations. And of course, the yield erosion in the ordinary running yield is that sort of 10 basis -- over 10 basis points per annum. But over the time period, we're talking, it's a largely flat ROI of around 2.5%, 2021 to 2025.

## A - Christoph Jurecka {BIO 17223019 <GO>}

Okay. Vinit, I think I'll take your second question, and that was the question on what are the KPIs we are applying and the planning horizon, I think three years versus five years. I'll start with the KPIs. I mean, as soon as you give out an absolute earnings target, you have the clear disadvantage that that this is in no relation at all to any capital measure you're applying. And therefore, the longer your planning horizon is, the more you want to have some flexibility because depending on how the market continues to evolve, if the market cycle continues to be positive or not, this will all impact your capital management strategy, and an absolute earnings target in the context of very different environment, not necessarily would make a lot of sense. And therefore, we thought then let's look for a combination of capital with earnings, which gives us some flexibility to be an adequate measure in various circumstances and we thought it would be particularly important given the five years' horizon.

Now the second part of the question is why did we choose a five-year horizon in the first place? Well, we -- the question is a little comfortable a little bit along also when you have investments in your -- and in your strategy sometimes you need a couple of years in order to really realize the full benefit from these investments, and in that regard five-year seem to be more -- the more adequate timing to fully then see also the benefits of the investments we are having incorporated into that strategy, be it in the Reinsurance side as well as on the ERGO side. Therefore all in all, we came to the conclusion that a five-year horizon would be the best fit to really adequately reflect what our intentions are going forward. And then with the five years in mind, a relative measure, so a capital productivity measure is much better than just having a planned earnings figure.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. We will take the next question from the chat now, and I will read it out. It's from Darius Satkauskas from KBW. Could you please explain why the Solvency II ratio is flattish during the beginning of the plan and then rising more steeply on slide 25? Secondly, could you please explain why you expect economic earnings to be much higher than the IFRS earnings during the plan period?

## A - Joachim Wenning {BIO 16273429 <GO>}

Yeah, Darius, thank you for the question. I'm going to take that. I start with the second one, because I think that's something I just covered, so I can only very quickly repeat that in IFRS, especially long-term business is not adequately reflected, whereas in the economic earnings, you have a present value kind of view on future earnings. So you have the present value of all earnings related to a long-term contract already in the initial year when you write the business in your economic earnings. So that makes the difference. If you want the difference between IFRS and economic earnings in a very simplified way, you could look at it as the part of the earning, which will evolve over time only, at a later point in time into IFRS earnings, but that's very simplified. You have to be careful with that.



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The first question, it's the trajectory of Solvency II we have been showing in the slide. Well, the slide is explanatory. So don't over interpret it. But your question gives me the opportunity to highlight one technical effect we are having in our economic earnings, and this technical effect is that when we grow our business substantially in our economic earnings, we -- in the first year, we include the fully loaded reserves, so the reserves including the, let's call it, 4% reserve prudence we're putting in. And then only over time the 4% releases over the duration of the contract until the liability as a one-off and therefore there is a pre-financing effect of growth also in the Solvency II figures and the economic earnings figures, and this pre-financing might play a role in the phenomenon you are seeing there.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Christoph. I think it's time to wrap up the first Q&A session. And thanks for your questions. May I please ask those of you who I just saw on my screen interested in asking questions to dial you in again for the second round of Q&A, which is supposed to begin after the next two presentations.

Ladies and gentlemen, welcome back from the break. Let's move on with the second round of presentations, and Markus, the first floor is yours. Please.

## A - Markus Riess {BIO 1835270 <GO>}

Thank you very much. Good afternoon, everybody. I'm very happy to report on ERGO's contribution to the Munich Re Ambition 2025. Please follow me on slide 44, and I think the headline says it all, ERGO continues to deliver. Let me may be show you this route very briefly, you all have been part of it, you have been covering it and obviously, I'm happy to read that you look at the track record as being some favorable, and we consider this track record to be responsibility for the future as well.

If you then take a snapshot of 2021, I think we can present comparatively outstanding CRs, especially in the corona crisis situation. I'm happy to report that the hybrid customer business model in Germany is successfully established. I give you some numbers. We have now 1.2 million customers in our customer portal. There are more than 250,000 leads that we generate online and we give to our agents to costs and upsell and the online available products out of the new products are already close to 70%, 7-0 percent, up from less than 50% in 2017. And that shows how the seamless integration of on and offline channels is proceeding in Germany. And lastly, I'm also very happy that the international portfolio is optimized. Now, we all know it's not totally finalized yet, but managerially, the most important part is done, and I think we can now look at a very stable and low volatile international portfolio, I'll come to that in a minute.

So that's, I think all extremely positive and I also believe that in 2020 in this year of this outstanding, I think really tragic pandemic situation for so many of us, this is a very good basis of resilience that we have achieved, and we consider this the basis, but also just the basis for our part into the Munich Re Ambition 2025.



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Page 45 shows the KPIs, we set them in 2016. And I'm proud to show that all of the KPIs are more or less achieved. What I find interesting is on the combined ratios, we have now 92% in Germany. We did realize the 4 percentage points decrease in expense ratio that I promised when I started, and we, in addition, have also achieved another 1 percentage point reduction in the loss ratio even though traditionally the loss ratio of the ERGO German (inaudible) has always been very competitive.

On the ERGO International side, you see an improvement of 4 basis points in the combined ratio, which is pretty equally positively influenced by a reduction in loss ratio and the reduction in expense ratio.

Without stressing the past too much, I'd like to basically, for the last time, report on the 13 workstreams that you know. And just, allow me to show you some highlights. Workstream number one, we have 41% productivity increase of our tied agents, which I think is extremely positive. Workstream number 4, we have 39% production increase of life new book. We actually believe that by 2025, the production in life new book will outweigh the loss of the classic book in Germany.

We have in workstream number 5, 12% of our legacy systems are already being replaced, another 18% will be replaced during the course of the new program. And the automation rates in workstream number 7 are now partially up to 90% already. Basically all automation KPIs have increased by 20 percentage points and more over the last five years.

Workstream number 9, we have worked on the ERGO brand, which is now at record numbers being recognized in Germany in terms of NPS development and our digital player nexible has ensured more than 100,000 risks and will grow another roughly 10% this year by the end of the year.

And lastly, in mobility, workstream number 12. I'm happy to report that we now have established contracts and cooperation models with BMW, Great Wall Motors, Volvo, Emil Frey, which is one of the largest automobile dealers in Germany, and Hyundai. So that is all looking very positive.

And with that, I close the book on ESP one on the ERGO Strategy program, and I'm happy and thankful for your critical support of this program. And from now on we talk about the ERGO contribution to the Munich Re Ambition 2025.

And with that, I turn to Page 47, and you see here the same logic that Joachim has introduced in his introductory remarks. Munich Re Ambition 2025 is about scale, shape, and succeed, and that holds true for ERGO and you will see it in Torsten presentation for Reinsurance as well. Now what does it mean? It means on scaling that we try to secure our profitability and we basically do that to first get customer experiences. We want to increase the net profit contribution of the international portfolio and build digital projects and technology. And the main thing here is that we really look at profitability and the RoE is our most important target. And I'm saying that, because we will have discussions over the next couple of years of market share and growth initiatives, let's assure that profitability is the key KPI. And that means that we obviously look in growth and profitability, but the emphasis is on profitability.

The shaping part is really about some people like to call it disruption, other call it evolution, but it is about changing things we do business in insurance. Some things will be smaller, some things will be larger, the only common denominator they have is, they need to make a positive contribution to profitability by 2025 and that builds on the time horizon question that you asked before.

In Germany, everything is about the hybrid customer model, and let me repeat this. This is very co-operative approach where we believe digital disruption and technology is not a competitive element to our existing traditional distribution channel, but it's a harder and enabling factor for them in the future. That is very important for us philosophy wise, but that requires a totally seamless integration of on and offline customer journeys. For those of you who deal with retail distribution, you all know that this is a huge Herculean task to completed and we will take until 2025 to fully be able to accomplish it.

On the international side, this is all about cross-border synergies and cross-border positives. And a lot of discussions with you over the last years, I always had the question, why are you the best owner for the ERGO companies in some other provinces or regions? And the answer is that, we really run this as an integrated portfolio and that means that not only do we have technical standards and underwriting competencies and control mechanism that we hold out throughout the ERGO world, so to speak, but we also want to look into cross-border synergies and I come to that in a second what this clearly means.

And lastly on the technical and digital side, this is about two things. I think, first of all, in the shaping scenario, there is an opportunity in establishing a footprint in those ecosystems, especially mobility and travel, which goes beyond just selling primary insurance products. And I think if you're honest, most people who talk about ecosystem, just look at them as an opportunity to sell more primary insurance products. And I think that we need to explore over the next five years if an insurance company can go further than that, and I guess you get some impulses of that on the reinsurance side too, and we try to strive for that at ERGO as well.

The second element is that we really committed to digital first. To me, digital first means that each and every product that is newly launched in the ERGO world needs to have a digital appearance and that includes explicitly the opportunity and possibility to buy a product online. Currently, the number of new products that meet this criteria are a little less than 70%, up from 40% when we began, and I think we need to come close to 100%. This all only works if the succeed dimension, i.e., the discussion with the stakeholders, it's something which is to the mutual benefits and I don't want to read out all of this, we can discuss it in the Q&A session. But I would like to use this opportunity to stress again what Christoph has said, ERGO will become a significant dividend contributor for the next five years to the Munich Re Group and rightly so.

We have talked about track record, and I believe there are two KPIs by the ERGO Strategy program number one, until 2020 has been so successful. First is the passion and the

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know-how of people, obviously. But then there's also the question how we systematically see and monitor it. And you might remember we showed in a picture with 13 workstreams, we had a very structured approach, and we try to do the structured approach now again. So all of our managers have come up with 150 detailed measures and business cases, out of which we have selected 90, and then categorize those 90 measures into scale, shape, and into growth and margin. And came out and we chose the best ones that we have 51% of the measures being on scale, 49% on shape.

More importantly, each and every measure has a business case, has a clear responsibility, and his monitored in a full eye principal, both by especially created office and by the finance function. That gives the management a very good tense on view on where we currently are with the measurement and the execution of our program and that gives me a lot of confidence that at least we know deviations so early on that we can take measures against that and that is so important in a project that has a five-year horizon and it has a very significant growth impetus, as Joachim said that as opposed to overwhelmingly cost cutting impetus.

What does this mean in terms of growth and margin? You see here and there is no coincidence that the ERGO version of this chart, you saw it before and you will see it again with reinsurance. Clearly, makes it visible that the underlying growth assumption is more important. I used to say for ESP1, this is was about two-third cost cutting, one-third growth. This program is about one-third, cost cutting or cost discipline, and two-third growth. That is important to understand going forward, and I'll come to that in a second.

The drivers, I think, they are pretty straightforward for professional communities such as yourself, so I don't want to get into that. Maybe just an example on margin, when it comes to customer oriented processes and efficiencies, we have now started to E2E optimize -- end-to-end optimized the most important -- the most relevant process, which is the motor claims process in Germany, and I can report this is now fully digitally enabled, you can submit your claim digitally, it's evaluated digitally, and you can obviously also get your reimbursement digitally.

Not that everybody is taking that. Have you already have a participation and acceptance rate of 70% and higher when it comes to claim submission, and that I think is a very good start for automizing and making this process more customer-friendly, and at the same time, more efficient for us. That is the general idea for our -- that is also valid for a lot of other processes in other countries, in other sectors.

With that, I jump to Page 50, and show you the overview for Germany. However, so Germany should tell you that Germany is still very much in the focus of our home market that we believe a combined ratio of 90% is achievable. Again, the improvement is plan to be 50% loss ratio, 50% expense ratio, and we believe that is doable and that would put a sustainably on an even better level than where we are now.

You see, what we try to do, this is about digitalization it's about new products, it's about more underwriting discipline, it's about for prevention and we can discuss that in the Q&A in any more detail where you like to be informed.

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More details you find on Page number 51, and here we have examples from P&C, Health and Life, and let me just give you little background to this on the growth side. For example, on the P&C premium side, we really try to come up with one singular closing process and single policy for private property lines and the price advantage over buying the product separately together with one state through processing element in that. We want to overhaul on the commercial side all of our products. We have pretty comprehensively and successfully improved our private retail loan products, we will now do the same for commercial and the digitized processes I already discussed with the motor insurance, there is an automated case control and payment processing times to increase customer satisfaction, we measure all of that and try to be better in each and every area.

On the health side, we will come up with more dental products, we try to establish (inaudible) as one of the leading (inaudible) in Germany. And on the life side, this is all about the new capital-light book which has been growing double-digit. I believe that even in this year 2020, we will be able to achieve an increase in the gross working premiums even do you know life is pretty much hit in the COVID crisis in terms of new businesses.

And on the margin side, I think the most important here is the life classic IT migration, which is progressing well and the clear commitment, especially in health, because they I think are the most profitable application cases to implement AI, robotics, and end-to-end processing. And I come to AI in a minute when I have a second slide.

But first let we have a look at the international portfolio. Again I repeat, because it's so important for us that the international portfolio is now comparatively stable, the volatility has dramatically decreased, and I believe that the international portfolio will make a significant contribution. I would actually hope that by the end of '25, we would be -- in an area, we have 50% of the net income comes from the international portfolio, I'm not sure whether we will be able to achieve that, but that's the general direction. And here we have a situation where India and China, I do talk about them in a minute will really be one of the or two of the most single contributors in this context.

The story, what we do is always the same is about derisking and growing products, it's about on the customer side, sales channel digitally on and offline, and it's always about process and cost efficiency. And as just as different application on a country-by-country level.

Also on the shaping side, the cross-border synergies, like I told you, they are very important. They are classical things like procurement, for example, but it has also reinsurance, technology transfer, and underwriting standards that we export even more externally and internationally in the future.

And on the IT side, if you look, for example, at Poland and the Baltics, the Polish back office system will find its way into the Baltic back office system over the next couple of years that even customer front ends, which are now being jointly developed between Poland and the Baltics, and we have now 280 digital IT specialist based in Warsaw and Berlin, which help us to build customer interfaces. And once we have and we always can

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try to look at them international and see where we can apply them. This digital asset deployment is a systematic progress and a very important element of our future in the next five years.

On the combined ratio side, we see that we commit to 91%, which would also be a very, very positive result. Like in the first part of the program, this is even more about underwriting standards and underwriting discipline that it is about cost savings or cost cuttings. So we believe that the 91% can be achieved by a further reduction into the loss ratio and not necessarily in the expense ratio. However, we are obviously very careful that the expense ratio remains on the competitive competitive level that it already is.

Again, two example slides. They are pretty much self-explanatory 53 and 54. So I'll just touch on some highlights. The Poland and the Baltics, which as you know is, our most contributing region in Europe. We have a further derisking. You see the further shift from traditional annuity business into unit-linked business. I'm happy to report that we have been able to accomplish a shift of more than 30% towards the unit-linked business, which now make up half of the APES, the annual premium equivalent and sales, and I think is a huge success in this regard. We can also talk about Austria. In Greece where we have bank assurance is the basis and then build or have our own distribution around that. The bank assurance distribution in Greece has just been prolonged for another 10 years with the market leader in Greece bank, Piraeus, you know, we are the number one player in P&C insurance in Greece.

And I'm happy to report that in the cooperation with Bank Piraeus, they even achieve growth in the COVID pandemic in the Bankasurance channel, which I think speaks for the quality of our partner our Bank Piraeus, and also for the way we have been interfacing with them. So Bankasurance remains one of our core pillars in some of our countries.

Also, we actively work on getting more broker connections and trying to diversify our sales channel atmosphere and sales channel infrastructure. So wherever we have, let's say, a special emphasis on function and only we try to build the other channels, we have enough expertise in the group to be able to accomplish that.

On the margin side, this is about artificial intelligence and automization. It's about digital capabilities. There is no specific cost cutting program being envisaged. So it's really bits and pieces on a country-by-country level.

I'd like to spend two minutes on India and China, because they are so important. You know that roughly half the population of this world lives in India and China, so in and by itself, these are already very important market. Given the effects, what the underlying growth assumptions are, they become even more important. We have adjusted those growth assumptions after COVID, and we now believe that in terms of a CAGR 21, 25, we were talking about roughly 17% in India and 33% in China. So you see there is a lots of dynamic in there. These are joint ventures, as you know, we as others do not see the premiums in our GWP, but they are contributing on an equity level, very much on a net income basis.

We have now consolidated the health part of our business in India with the P&C part, now we have the same partner HDFC. There are lots of synergies. There are hundred, thousand sales affiliates that we have that we can use for cross-selling health and P&C respectively. So there are lots of growth opportunities which why we believe that both in India and in China we will be able to grow higher than the market.

And also in China, we have a situation in which we very much focused on the digital opportunities, especially in the life insurance. Also, we want to enlarge our footprint in China, it's already large in India. But in China, we have two strategic initiatives. One is the cooperation with Great Wall Motors which is one of the leading automotive production companies in China. They primarily do SUVs and we have set out a service company and we have set up a company already, and the fourth -- for the first six months, there are roughly 40,000 contracts already being channeled through this service company, so this is not only theory, but business that is produced on a daily basis. And we look forward to closing our deal with Taishan insurance, which is a medium sized P&C insurer in China in the capital of provinces and we strive for 24.9% ownership, which would be our first foothold in the Chinese market. And obviously, this larger footprint gives us an opportunity to profit from the growth in the Chinese market even more. On the cost savings side, this is about synergy and digitalization like everywhere else.

Lastly, I would like to focus on the digital side of our business. Page number 55 shows you what we do in the various areas. I have discussed lots of this already on the previous slides. Just to give you some numbers on robotics, because I believe it's important, we have now 56 robotic solutions already applied being developed over the last three years and our commitment for the future is to come up at least 150 robotic solutions in nine countries. Here, you can see both the scale, as well as the shaping aspect because this clearly changes the way we work in some of our countries.

In order to show you a concrete example, I ask you to follow me on Page 56 where we talk about artificial intelligence. We have 27 full-time employees working centrally on artificial intelligence solutions. We have an open source infrastructure that we can apply to our other countries and to our own lines of businesses. We have already 10 use cases in production. This is primarily about pattern recognition in health and health claims in order to recognize irregular patterns, i.e., fraud or different things where we have to adjust our tariffs. This is immediately accretive to our bottom line and that's something that we can explore and we are committing ourselves to have at least 20 more projects in at least eight more countries of the Ergo Group over the next five years.

This sums up to Page 57. We will have a sustainable ROE of 12% to 14% in order to achieve that. We believe that we need to continue the homework that we have started in ESP1, i.e., finalize the legacy system replacement especially in Germany, continue the who to digitalization. We need to further apply strict cost discipline, lean organization, and very efficient E2E optimized processes. And lastly, we really want to execute hard on growth and shape the business model, because as I said, two-third of what we believe is going to be our future, value creation will be based on growth and one-third will be on cost discipline and cost management.

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Our KPI ROE 12% to 14%, up from 9% as I told you on my first slide, and to explain it totally KPIs, because we committed them also in the past, we believe that the combined ratio of P&C Germany could be 90% and the CIO of international could be 91% and the most of which would be I think very competitive combined ratio underlying the sustainable strength of the Agro Group also in the future.

With that, I hand over to the Reinsurance part of the business segments. Thank you.

## A - Torsten Jeworrek {BIO 5724439 <GO>}

Thank you very much. Markus. Hello, ladies and gentlemen, welcome. I would like to lead you through the business plan and the expectation in the Reinsurance segment of the Group. And before I go into the details, let me start to give you a short summary and feedback, how we see the last three years when we started with our first program. Those of you who have covered and monitored the market over a longer time, since last -- middle of the decade 2015 or so, Reinsurance has been in difficult shape worldwide. We were in a softening and softening market environment, and at the same time, we had a decline in the interest rates, and both of these sectors were eating into our IFRS earnings slowly, but steadily every year.

We committed to a very disciplined underwriting policy and intentionally did not grow in all these years at any time. Some of our peers basically communicated much more optimistic and aggressive growth synergies, grew into the US casualty business, grew into the large industrial business or so. We tried to avoid that. We tried to keep our market share below average at that time.

Nevertheless, looking at our IFRS earnings, we all felt it's the same time where we stay disciplined in the underpriced business, we had to find ways also to generate growth to generate some new business ideas to improve this picture. So, we wanted to find growth opportunity without giving up underwriting discipline, because those who know the market, it's so easy in Reinsurance to grow top line, but it's even easier to method up to be honest.

So, many new business ideas and projects were initiated. Finally, a new strategy was born for Reinsurance, grow, excel, invent as presented in the past, and this led to a clear and clear mid- and long-term picture how we want to develop our segment, our business in the future. The good thing is colleagues were taken along and participated in that development. And I really have to thank our colleagues for their contribution and their passion on that path.

What did we achieve now? And that is here as the next slide what you see now. Over the last three years, we improved in the Reinsurance segment, our IFRS net earnings from EUR1.86 billion to approximately EUR2.3 billion on a normalized basis. That is a plus of about EUR450 million over the last three years. COVID of course and therefore the normalization had a negative -- a very negative impact in 2020. This volatility is part of our business. But nevertheless, and that is a good message, the basis we start from in terms of profitability is now in the region of EUR2.3 billion and that on a sustainable basis. And



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we achieved this improvement without really making use of our reserves. We did not change our prudent underwriting and reserving policy. So, that is all -- still all in place.

On the next slide and that is the path slide of the past three years. That is a picture of the three segments; Reinsurance, traditional; Risk Solutions, our specialty business; and Life and Health. And the good thing is what you see here. Growth was achieved in all three segments. P&C Reinsurance grew by 6% component growth per annum. Life and Health by even 8%, Life and Health on a very sustainable income basis technical result in fee income in the order of EUR500 million. And the most impressive growth came from Risk Solutions 18% per annum. I will go deeper into that when I speak about the future in the -- on the coming slides.

At the same time, we were able to reduce the combined ratio from 99 normalized where we started to 97 where we are now, normalized basis. That is partly achieved by price increases. Joachim Wenning earlier mentioned that started to some extent in '18 and '19, but a bigger development was only achieved in 2020.

What was the part which has not changed? We did not go aggressively in the last three years in the US casualty market. We did not go aggressively into the industrial business and in life. We did not aggressively go into the heavy tail risk. So that was the past. Question is now and that is a similar picture, which was already shown by Markus for Ergo, and for Group as a whole thing, Joachim Wenning. The year, it's a picture of our core strategy. And on the scale, as in the Ergo, we summarize the growth and business development initiatives in all three segments. Core P&C Reinsurance, Risk Solutions in the middle, and Life and Health. And then we have a number of initiatives underway to find new business opportunity both on the product side, but also on the business model side. I will present some of them in my later part of the presentation and innovation very much supports it.

I would not like to go into the shareholders, clients, employees part, because it was already covered by Joachim Wenning on his former slide. What will that ambition mean now for the next five years? The Reinsurance Group will improved salary from 12 -- around 12% where we started already to a range of 12% to 14%. We will stay and be in the range of 12% to 14% in line with the Group ambition. On the other hand, and you will see that from the technical figures later on, we have quite a number of business initiatives underway, which lead to of course an improvement of the absolute figures of the earnings or the technical results.

Main drivers of the office improvement what we will achieve is three-fold. First, we will generate margin improvement and will benefit from the harder market environment in non-life Reinsurance. Second, on top, we will grow in all three segments. And third, and I think Nick mentioned that before, Reinsurance like Ergo will benefit from the higher performance, which will be achievable in MEAG and this will help to -- this partly compensates for the lower yields in the coming years.

So having said that, let me go now into the segments. And I would like to start with P&C Reinsurance and this slide includes Risk Solutions. So that is non-life in total year. On that

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slide, what you see here on the left part is very good growth from EUR24 billion to EUR31.5 billion topline, where traditional Reinsurance expects to grow 4% per annum, but primary solutions and the Risk Solutions here by 10% per annum. And what I mentioned before, we not only increase the topline. At the same time, we have the tailwind from the market and will improve the combined ratio from normalized 97% today to a level of around 95% in 2025.

Both parts together, topline growth here and improvement of the relative performance expressed by the combined ratio, help, of course, to achieve a very impressive growth of the technical result, so the product of the combined ratio and the premium development of 17% per annum. It will grow from EUR720 million to EUR1.6 billion in 2025.

What are the assumptions now, which are part of this underlying business plan year? First assumption is, in traditional Reinsurance, we have tailwind from a further hardening market environment and we made this positive assumption for the next year and a year after. So for the next two years, where we think the market is a bit more foreseeable, we assume tailwind from a harder market environment where we grow into higher profitability. Then, from 2023 onwards, for the remaining two to three years, our assumption for traditional Reinsurance is flattening or even softening in traditional Reinsurance. I come to Risk Solutions where because of our niche business approach, the picture is a bit different.

And there was one of the questions before in the first Q&A sessions. Do we disturb some market? Or are we too aggressive with this announcement or with this business plan, which is a basis for this picture? I don't think so. We are known as Munich Re that we take -- we participate in the growth, if the conditions are healthy. We did not participate in each and every market environment, sometimes we were criticized for that in the past. So, the market knows if we are market player and sign a certain share and underwrite a certain share, then it's on the basis of good conditions. Second, as the market shows a certain flight to qualitate -- flight to quality anyway these years, that means we are preferred partner and get higher shares offered in the current market environment.

Here, on the next slide, I would like to drill down a bit deeper, that is traditional P-C only. So that is without our Risk Solutions business. And in this sector -- in this slide, you see the growth -- premium growth over the next five years in traditional Reinsurance. That is a 4% growth, what you see here. And when you look at the portfolio structure, the growth will not be realized by going aggressively into the US casualty or as problematic market segments.

We will participate in hardening market, in short tail -- more short tail lines of business like (inaudible). We will also participate from larger industrial single risk business in that part. Because of this portfolio change more towards short tail, of course, it is one driver for improvement on combined ratio. But on the other hand, it also means that we have a certain appetite to increase our risk appetite into the (inaudible) business as long as the market is improving. If that picture should turn or the market should turn downwards, we at the same time are prepared to cut back our business and to reduce our market capacity. So both of this on our agenda here.



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Here on that slide, I wanted to summarize the drivers for our business plan, the underlying assumptions if you want for traditional reinsurance. First and more important, the market does harden because of the large loss experience over the last two to three years, particularly in the (inaudible) segment, but also on the single risk side and unexpected, let's say, CAT events like the wildfires. Second the retro market is more difficult than in the past. It's hardening and the capacity is tighter than before. So that has an indirect impact on the available capacity and potential for some of our peers to grow in their business now. So that helps to keep some discipline in the current market environment. Third driver, not immediately, but over the time, all of us, including us, but also our peers have seen the negative impact on the low interest rates, how that has eaten into their profitability. Fourth driver, social inflation in the US casualty portfolio, which is a big market for insurance and reinsurance. And only the fifth driver is COVID, which gives some further tailwinds for to speak to a hardening market in total. But it's not decisive of COVID in that regards, COVID response only the top, so to speak. So top part, it also would have happened anyway.

On the next slide, what you see here -- what we show here is to give you some qualitative picture, how we see the market hardening and what's the drivers are and what you can see, in a nutshell is here, the higher the capacity demand for large CAT and single risk businesses and the more the markets have suffered in the past two to three years, more the impact from the hardening market can be seen in the various regions. And that is particularly true for Asia and for North America, the United States, less so to a lesser extent, however, in Europe.

This slide can easily be explained. What to tell you is the following. We compared our growth, ambitioning traditional Reinsurance with the forecast from the economist of the growth in the various regions in the world. And what we show here sort of speaks the growth expectation in the market by continent. And what you can see on the right side of the slide is that our growth ambition as long as the market hardens is in the mature markets in the region of 3% to 4% in the emerging markets. In particular, it's India and Latin America in the region of 7% to 9%, which was not completely outside the market growth, but more on the upper end. So, it's an ambitious growth ambition what we have here, but not completely outside market expectation.

Now, I switch the topics and come to Risk Solutions. Risk Solutions is our primary insurance business, which we entertain under the wings of Reinsurance, and this is our fastest growing segment in the Reinsurance group. Our strategy and our focus is on commercial specialty business that is unchanged. That means it's not retail business what we tried to capture here. It's not core focus on the large industrial segment, which is a very cyclical segment, nor it's commercial specialty insurance.

Our main carriers in business units are American Modern in Cincinnati, Hartford Steam Boiler, Munich Re Specialty Insurance which we founded two years to three years ago under the leadership of Mike Kerner. Our Lloyd's syndicate, our aerospace business, and facultative and corporate business, that is a part which is more cyclical, but is of less dominance in our portfolio.



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Why can we grow this business in the future? And you see here, growth of EUR6 billion today to EUR9.5 billion in the next five years. Where can we grow that? And this business is of course supported by the tailwind in the market by improving rates, but we built some important foundations two to three years ago in various parts of this segment here.

First, we bundled our corporate and industrial business under the leadership of Alex Wettemann, that leads to a harmonized and aligned business strategy, segment strategy in that business, but it's remained cyclical, but the market has never been better before than today to grow into that business because capacity is really short here.

And second, I mentioned that before we built MRSI, Munich Re Specialty Insurance, which was a fragmented picture in the past, consisting of other units in the Munich Re Group, we built in the meantime a completely new IT infrastructure. We developed a new strategy and built the foundations now also to grow into the US' so-called excess and surplus lines market.

So all business units in this segment are ready now to expand their business and to take advantage of this and market environment. And this segment, as I mentioned before, is not so cyclical. They are cyclical sub-segments, but in total, that is a pretty stable segment and that differentiates us from the strategy of some of our peers, because usually when reinsurers go into the primary business, what they do is they grow into the industrial segment, because that is what is available in the broker market.

In terms of profitability, the combined ratio in this segment will in the future be in the order of 92% or so and that explains why we are sort of confident in non-life in total to achieve a sustainable combined ratio in the order of 95% where traditional reinsurance might deteriorate towards the end of this five-year period depending on loss activity, where it's a same time, the share of Risk Solutions becomes bigger and the combined ratio in Risk Solutions in the range of 92% of course helps to stabilize. So, non-life combined ratio in total. Risk Solutions share of non-life part of this development will grow from 25% to 30%.

So, here's one other example. I mentioned that already indirectly, that is Munich Re Specialty Insurance. Munich Re Specialty Insurance in Risk Solutions shows the most significant growth from EUR1.2 billion to EUR2.6 billion. Casualty and property is almost equally split here, 50-50, and we have developed quite a number of good technologies here to participate in that growth. I mentioned only one example. In the meantime, we have so called what we call underwriting engine in the market, which is an active database and artificial intelligence based underwriting tool, where the algorithms permanently learns from the market behavior and becomes better and better in the risk selection and portfolio composition. So, this is a driver, so to speak, which also helps MGAs and the brokers to make use of the Munich Re capacity in the future.

I would now like to switch the topic and the third segment is Life and Health. And what you can see in Life and Health is also a decent growth of the topline, I would say, 4% per annum. But even more important, a reliable and sustainable development of the technical result and that includes our fee income from 550 today normalized to 850. The dent in

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between in 2021 has no structural issues, that is the kind of anticipation of provision what Christoph Jurecka mentioned before and further COVID losses, particularly mortality losses in our US book because the mortality will not be over in January now, so that is anticipated and put into the figures already.

When you ask where do we grow the business, of course the majority of the growth comes from our core markets, that is more and more the Asian markets in the future. Also China contributes to that. And then of course, also North America, particularly the United States and Europe. So, more and more of our traditional business can be generated by providing services, digital services. MIRA is one of the services more and more also predictive underwriting services based on big data.

And then we also have a number of new business initiatives underway on the traditional side. Two are mentioned here on the slide. We carefully expand from the UK into other markets with our longevity approach and we also have so-called financial market business under development set the savings and benefits and products.So, that's it.

And my last part is now innovation. Innovation is more and more important for us. And so to speak, an option for future business generation. In this slide, what you see here looks a bit busy, I admit that. What it should tell you is the following. On the left part of the slide -- in the left part, we summarize all those innovations which are developed and executed in our traditional business, Reinsurance and primary insurance. In the middle part, what we describe here is still insurance or reinsurance, but these are so-called adjacent business models. So standalone business models where on the left part, the innovation close to the business. We will not generate specific fee income also, but we will be reimbursed by reinsurance or primary business participation.

And on the very right part of the slide, we show here completely new business models, standalone business models, which are far away from the traditional core like IoT, what I will show you in the later what we mean here.

In terms of market positioning, Munich Re has become the clear number one in the market according to broker and client feedback. So, we are appreciated. Our service is used by the market and I think we can build on that. And before I go into some examples and details, maybe one comment. We have invested quite some money in the past three to four years into innovation. And the good thing is now there are more and more initiatives which are mature now and where we begin to monetize, where we can generate is the top line or bottom line from such initiatives.

And the first one, which is part of that and that is part of the left side of the former of the previous slide, it's close to core innovation and that is our packages, which we sell together with our cyber products. Munich Re is the market leader in cyber, in the cyber insurance market. We have a market share worldwide in the order of 10% which is significant and we expect to grow this portfolio from today's EUR700 million premium income to about EUR1.4 billion. And this is not an aggressive growth assumptions that is more or less in line with market expectation and the combined ratio development is

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expected to be stable in the regional in the order of 85% to 90% with states today already.

And more and more, we don't not only sell an insurance or reinsurance product to the market. More and more, we built a package and built analytical or digital service around the product, particularly for the SME market. A few examples are mentioned to you on that slide. One of these services is Allysca, for instance. Another one is Zeguro. Allysca is a recovery service, which helps SMEs to recover after an attack. Zeguro is a kind of digital CIO model, which helps to improve the cyber security of SME clients. And we have, in the meantime, quite a number of experts built for this business and we are very proud of it.

Last comment here before you ask the question anyway. Of course, we are aware of the accumulation potential and we are aware of the uncertainty into early development of this market and risk management and prudent underwriting is one of our core topics and we exclude quite some risk, which are of systemic nature like infrastructure as interruption of the Internet, for instance, is one of our key concerns here. And we try to avoid silent cyber in our conventional business.

Second example, I would like to mention, that is one-offs or so-called adjacent business models that is a business model, which we have developed for the Canadian market. It's called New Ventures. And what we do here is we want to go into the so-called Canadian group insurance market, that is health benefits disability and other parts and we have developed an infrastructure and IT platform, which makes it easy for customers, but also for insurance companies to on board and buy our policies and our products because it's a very user friendly and very efficient platform for our business model. What we do here and you see that on the slide, we either approach the market -- the insurance market directly or we build corporations and offer this kind of platform model together with insurance companies to the market.

The business potential -- it becomes to generate business now is a business potential. I would say, three to five years is the order of up to EUR50 million mid to long term, that is beyond the five-year horizon here business potential in terms of annual income, might be in the order of EUR100 million what we think. What we also have planned is we have a pilot underway for the US market. So that is one of the examples where we expect to generate income and top line.

My last example before I finish is in the IoT business model that is standalone and far away from traditional insurance and reinsurance, and it has to do -- has a lot to do with our risk assessment data capabilities. And what I would like to describe here and mention here is the so-called equipment as a service business model. Why do I mention that? Because you might have threat to various press publications in the last weeks when we and our customers published at least two big business cases where we have signed and concluded some partnerships with Trumpf and with Porsche.

What is this business model about? It's very new and it basically means and says in the past, a manufacturer of machines, for instance, which is shown here on the upper left side, in the past he sold some machines to his customers, on the upper left -- the lower left side. In the future, the change is the following. Instead of selling the machines from the manufacturer to the user, these machines will be financed, pre-financed by external investors, shown here on the upper right side. That can be the capital market. That can be MEAG or our Munich Re. These machines are then pre-financed, put into so-called special purpose company, and the user still uses the machines as before, but he has not financed it or pre-financed it and he pays for the machines on a so-called pay per use basis. So that means, it's a very flexible payment model.

What is the role of Munich Re in this business model? And why is that the future business model for a broader market? Role of Munich Re is first of all, we have access to capital market, we have own investment capabilities, niche, and our ambition is to orchestrate and bring capital markets to the OEM and to the users or the orchestrates of financing.

Second role is this business model needs digital equipment. We have relayr in place. Relayr is equipped and able to install and to implement hardware and data software for permanent monitoring of the usage of the machines, but also monitoring the availability of the machine and take care of maintenance and all these things. So that is a service for the manufacturer, but also for the investor at the end of the day.

And third, the Munich Re. We can provide insurance products, these are kind of guarantees here, be it for the user of the machines, be it for the investor, where we basically reduce the risk. We reduce the risk for the user. We basically guarantee the availability of the machine when the machine is needed, and we take certain risks out for the investor, which basically helps also to find those investors, which have a lower appetite for certain risk.

Trumpf is one example. That is a machine -- laser cutting machine manufacturer of family owned in Germany, with 35% market share in his business. And Porsche is the car manufacturer. It's another case, which we have -- where we have concluded a firm corporation and they want to use this business model not only for themselves, but also, let's say, to sell it to the suppliers and to other manufacturers in the market.

So, here in this business model, we mainly generate fee income, and for the guarantees, some premium volume, and maybe if MEAG participates, some investment income. That's it with my example.

Summarizing and finishing here, let me repeat what's the core messages are. Munich Re Reinsurance has successfully managed the kind of turnaround in a difficult market environment. In the past years, we have built a solid fundament for future growth, and we are now in a position to participate from a good and more favorable market environment and are able to expand our business in all three segments; traditional Reinsurance, Risk Solutions, and Life & Health. And our return -- our re-contribution will be in the range of the Group of 12% to 14%.

So here, I would like to finish and thank you very much.

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## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Torsten, we will now start with the second Q&A session, and I will briefly explain the procedure for Q&As once more. Click on the link please in the tap Q&A session and please enter your details, phone number without zero, your name, company, and the security code. You will be called back and will be connected to the conference via phone. To avoid sound overlap, please mute the webcast on your computer. Please ask your question as soon as I call your name. And as mentioned before, please note that there might be time delays in picture and sound transmission. What you hear on the phone is real time. So again, don't feel irritated by this. When your question is answered, your line will be disconnected. Return to the webcast and unmute the sound on your computer. In case of difficulties, there's always the call back function. You can use in the chat window, in the tap messages.

Finally, again please not more than two questions at once. And the first question comes from Will Hardcastle from UBS. Will, please go ahead.

## Q - Will Hardcastle {BIO 16346311 <GO>}

Afternoon guys. Thanks for the opportunity. It's a couple of questions. I'm afraid that is linked to the first section. First should be quite concise. Christoph, you like to have the different metrics to move around really clearly. I appreciate this is not an exact science. But within the ROE target, can you give us an idea of what the Group's assuming on interest rate trajectory? One company recently presented a plan assuming pickup in rates in the base case. So, I'm assuming that there is a material pull to par effect on the equity base within the time period. Or perhaps give us a rough idea of what you're assuming that pull to par effect is on the dumping of the shareholders' equity base, that would be helpful.

And the second one, just on investment yield, the 2.5%. I just want to make sure I didn't miss here. I presume it's declining towards 2.5% throughout the period, and the offsetting benefit some more backend loaded, is that correct?

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yes, Will, thank you for your questions. Interest trajectory, so we have a longstanding tradition that we don't take any interest rate views when we decide about planning assumptions. So, generally we use what we call the naive prognosis, which just means we take the interest rates as they are and then plug it into our planning.

What happened this time is that when we started to build planning exercise interest rates and the whole capital market seem to be so much distorted due to corona. At this time, for the first time, we took a view but only until the end of '21. And thereafter, it's again stable, and at end of '21, our assumption currently is that interest rates are a tiny bit higher than where they currently are, but only a very tiny bit. So in the more general terms, and if you allow me for certain simplification, I think it's fair to say that the assumptions overall are pretty much stable from where we are today.

## A - Nicholas Gartside {BIO 4164274 <GO>}

Will, Nick speaking. In relation to your second question on the ROI, again I think I can confirm what you said in terms of the big impact on the ROI, that say 2020 event. I think that is the corona impact in terms of Central Bank activity, the fairly dramatic reduction in deals we've seen, and then we've less equity at the start of the year, so there is a lower income coming from that.

If you look at the ROI 2021 to 2025, it's around that 2.5% level. As I said earlier, the composition of that shifts a little towards the end of that period, we see the full impact of the management changes and the portfolio reallocations if you like coming through, but over that time period, it's in and around the 2.5%. Thank you.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Thanks, Will, for your question. The second question is from Michael Haid from Commerzbank. Michael, please go ahead.

## Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions. Coming back to the first session, can you give us an idea about the targeted payout ratio which you want to achieve over the period 2021 to 2025? You gave us the EPS and DPS growth targets, but can you give us a target for the payout ratio? Second question, 2025, we will have IFRS-17. Some metrics will no longer be defined under IFRS-17 or they will be differently, think about net income or return on equity. Just to shortcut the question, how will we know that in 2025 you achieved your target or are you going to define them differently?

## A - Christoph Jurecka {BIO 17223019 <GO>}

Thank you, Michael. I think again, two, three, four questions. I'm happy to take them.

Payout ratio, yeah, you know, traditionally the payout ratio has been very high for Munich Re. It's -- I mean, we didn't define it as a target on purpose, because we thought the payout ratio would not be the right way to look at our strategy going forward. Therefore, I would rather not comment on the payout ratio going forward. IFRS-17, indeed the way we come up with IFRS figures will change significantly in the course of this program, at least following the current implementation date, which are very much to hope that it will remain unchanged, as the preparations are pretty well advanced.

What we will do then is we will show you the right point in time a mechanical translation of what we have been planning for now into the new KPR world, which people will have later then. I think that's the only way to do it properly. Today would be too early to present targets in the IFRS-7 metrics already. We are not used to looking at our business from that angle. So, we can only do it once the standard is finally implemented and probably a little before that. I will go in detail and explain you how we are implementing the standard, how our figures, how our presentation way and we'll report how everything will look and feel then from then onwards. And then also how our targets should be translated into the new world, but this will be a mechanical exercise.



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## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Christoph. Thank you, Michael, for your question. The next one is from Paris Hadjantonakis [ph] from Exxon [ph]. Please, Paris.

## Q - Unidentified Participant

Yes. Hi everybody from my side. Two questions as well. On the P&C RE side, if I look Ambition 2025, the 95% combined ratio, and I put into the equation what Torsten was giving us with regards to risk solutions, a combined ratio, which is around 92%, I come out with a core P&C, old traditional P&C reinsurance at slightly above 96%.

So I guess my question is, can you give us an idea of where we stand right now in 2020 in these two different ambitions and what is the walk to 2025 for each one?

The second question coming back to the first session, it's a pretty straightforward one. The -- basically -- how is management incentivized to achieve these targets that you hit today. In the past, your incentivization was also based on TSR which was a key driver. How will that be changing to take into consideration the new plan? Thank you.

## A - Christoph Jurecka {BIO 17223019 <GO>}

Your assumption is regarding the combined ratio is right. I mean, it's a bit -- honestly, we don't know how the markets will develop. I only wanted to highlight that our combined ratio development is not the stupid and it wasn't speculation of a five-year half market, that is not the case. We achieve sustainability of 95% because of the sustainability of risk solutions, you mentioned that.

And again -- again, you -- you also mentioned our reinsurance combined -- P&C combined ratio would then -- if you deduct so to speaks 92% combined ratio of risk solutions from the 2025 picture, would then be beyond 95%? That is true, and that reflects, let's say, a prudent assumption that the markets in reinsurance might turn and become more difficult beyond -- after 2022. And internally, that is in line with your figure and we could imagine the traditional reinsurance could then gradually deteriorate up to a combined ratio of 97%. That is our internal assumption at the end of the day. But altogether, still stands in 95%. For that reason, the 95% is sustainable. So that's it, I think.

## A - Joachim Wenning {BIO 16273429 <GO>}

And with regard to your second question -- Paris, good afternoon, it's about incentivization. Just for your recollection, 50% of the remuneration of the board members is a fixed remuneration and the second half is variable, of which 15% points is short-term incentives based on an IFRS earnings target. So concretely in 2021, this would probably be the EUR2.8 billion. This is a decision that formally needs to be taken by the Supervisory Board and the other 35% points are long-term incentive based on the four years peers our performance of Munich Re in comparison with the eight peers in the defined group as you know it.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Joachim. The next question is from Michael (inaudible) from Bank of America Merrill Lynch. Michael. Please go ahead? Michael, can you hear me?

## Q - Unidentified Participant

Can you hear me?

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Yeah, now we can hear you.

## Q - Unidentified Participant

Okay, sorry. The first question is about the first session, and particularly focusing back on the ROI 2.5% and to follow-up from what Will also asked. I do understand correctly that between 2021 and 2025, you basically expect it to be flat over the entire period at 2.5 or is it just stocking and endpoint happen to be the same? That's the first question.

And the second question around ERGO and the combined ratio targets that you have for 2025 of 90% and 91%. It does imply quite good ROEs for those businesses. What gives you confidence that this is sustainable and doesn't get competed away? Thank you.

## A - Nicholas Gartside {BIO 4164274 <GO>}

Michael, just -- Michael, Nick speaking. Coming to your first question, yes, there are rounding errors in it, but you're correct, between 2021 and 2025 for all years in and around the 2.5% level.

## A - Joachim Wenning {BIO 16273429 <GO>}

Markus?

## A - Markus Riess {BIO 1835270 <GO>}

Yeah, I'm just waiting for (inaudible) Hello. My confidence on that regard is comparatively high and the reason for that is that we will have again in Germany, where it is the most concentrated risk. We have cost ratio improvement included there. So the loss ratio is only improving of about 1%. And in the way that we envisage the product mix going forward, we believe that due to product improvements, especially on the legal protection and accident side, which has already been started and will accelerate in 2021, we'll be able to protect our relatively high share of competitively attractive products.

So in Germany, I'm pretty confident, because this is not too much dependent on the underlying growth assumptions, it's difficult for life and health. But here I think we can be pretty confident obviously without being 100% sure.

And on the international side, it really is diversified results of improvements. Very, very small improvements of our international portfolio. I think that is one of the advantages of our approach that we don't have this one single measure that really changes the entire

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reality, but it is really a mix some composite out of lots of small measures that gives me a relatively high confidence.

Now obviously if the market behaves totally differently from what we anticipated and things may change, but we have made this forecast consciously under the assumption that the competitive intensity is by no means diminishing but rather slightly increasing. I hope that gives you some orientation. Thank you.

## Q - Unidentified Participant

Thank you.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Markus. Thank you, Michael for your question. The next one is from Ivan Bokhmat from Barclays. Ivan, please

## Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good afternoon. Thank you. I have two questions please. The first one I suppose for Mr. Markus on the ERGO. Just thinking about the equity of the business of 5.8 billion and the 2.5% premium growth ambition, I'm just trying to think of how -- how much ERGO will be able to contribute back to the group and whether this 5.8 billion would materially change by 2025? Should we -- should we just think of rather unchanged equity base and higher ROE, you know obviously trying to solve out for the contribution to the group?

And the second question, I suppose a bit broader, it's on the digital partners, the business that we have been talking about three years ago, I don't know if you can give us an update of how much those kind of venture investments that you've been making, how would you value them now, whether they are included in the group book value. One of your large competitors has recently tried to put an implied value on their start-up business, maybe you could try to attempt the same? Thank you.

## A - Markus Riess {BIO 1835270 <GO>}

Okay. I understand. I understand Ivan that the question on the Venture was primarily directed towards the reinsurance. Is that correct?

## Q - Ivan Bokhmat {BIO 15378004 <GO>}

Well, it may be just to Joachim more broadly indeed.

## A - Markus Riess {BIO 1835270 <GO>}

Okay. Well, let me take the premium and the dividend question, the capital question. First of all, I think it is very important to understand is the 2.5% premium growth is managerially, significantly understated. And the reason for that is, I have -- I have told you that we have, I think, one detracting factor, which is the classical life book, which has an order of magnitude of roughly 300 million loss in premiums every year, because we don't want to build on this business anymore. And like I said into my introductory comments, it will take until 2025 and the new business from the life new book series will ultimately compensate the loss of the classical book. So there is like a permanent detractor in this.

Secondly, more importantly, the joint ventures in India and China, while they are totally included on net equity based on the net income side are not included in the gross written premium side. So the 2.5% I believe are significantly understated, where you too correct for this, you basically come with figure -- come up with figures which are twice as high and even more than the 2.5%. So I think that's the first thing to understand.

The second thing is, obviously, I cannot disclose the level of dividend that we're going to pay, but it's very clear and it showed on the picture that we have that active capital management and that obviously includes capital upstreaming to the group is an integral part of our strategies. And what kind of order of magnitude, this we will discuss on an ongoing basis, but there is no indication that I can give you at this time. Thank you.

## A - Joachim Wenning {BIO 16273429 <GO>}

So I take the question on Digital Partners. Digital Partners, as you all know is our special unit in the Reinsurance Group, which is only there to develop relationships which intra-tech sector worldwide, mainly United States and Europe. And what they usually do is, they provide product, the insurance carrier, and take care of all the regulation, but usually the intra-tech start as a company which provides access to market, but they are not a fully fledged insurer at this stage. So that is taken care of by Digital Partners and they are -- there is a very good market reputation for that, but our business at the end will be generated on two pillars, one is via the traditional channel providing carrier and product. Here basically we have participated in the technical result of this intra-tech. And then the second pillar, usually we take a minority investment in the various intra-tech, not in all, but in many, and increase this investment according to the success or performance over time and participate via the valuation on the asset side. That's the business model.

On the insurance side, on the technical side, I look into the figures. Digital Partners expects to generate a premium volume next year in the order of close to EUR300 million. Combined ratio is stood slight -- including own expenses of course is slightly above 100%. So it has to scale more basically to justify the cost which they generate internally and that is underway. And then the second part is a value generation via investment that is something we have not disclosed and cannot disclose yet, because these are parts honestly which I don't have available, but companies like Nextware, which was identified via Digital Partners, and then given -- and brought to the attention of ERGO, there is a potential cooperation and co-investor, so to speak, these are indirect positive outcomes of the investment side or it was a broader cooperation if you want. That's it.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Torsten. Ivan, thanks for your question. The next question comes from Thomas Fossard from HSBC. Thomas, please go ahead.

## Q - Thomas Fossard {BIO 1941215 <GO>}

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Yes, good afternoon everyone. The first question will be regarding to group dividends, so the EPS growth of -- the spread of about 5% over the duration of the plan. I would like to put that in context of ERGO paying dividend back to the Group, which is a change compared to the past. So I think that in the past, the group level input to local GAAP earnings to look at the distributable cash to look at dividends and share buybacks, but now that ERGO is going to dividend stream -- dividend gain, I mean, how is this -- how ERGO is coming into the overall picture?

And the second question will be regarding your 5% EPS growth over the duration of the plan. Here also could you maybe shed some light on the phasing of these 5% average growth over the duration of the plant. I mean, should we expect a double-digit EPS growth up to '23, which would be kind of peak earnings, and that -- and then expect something which will be more flattish or slightly down, yeah, any target carry would be interesting. Thank you.

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, Thomas, thank you. Christoph here again. I'm very happy to take your questions. First one, the dividend per share growth above 5%, clearly our plans include upstreaming from all our subsidiaries which are -- January are contributing to local GAAP earnings on the MIGs [ph] or mother company level. So that's the usual course of business. Obviously, we receiving dividends from ERGO, additionally support funding, but this is incorporated the dividend target anyway. And so, nothing to add from that side. But mechanically, you're right, in local GAAP, this is additional support for MIG local GAAP earnings.

The second question, I'm not sure if I understood it correctly, but I gather, you asked for the trajectory, so how the growth over the five-year is distributed -- the 5% are distributed over the five years. Is that my correct understanding? Could you confirm please?

## Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah.

## A - Christoph Jurecka {BIO 17223019 <GO>}

Yeah, and there again I would -- I'm sorry for that refrain from giving an answer, because it's pretty much also far dependent than we've talked a lot today about potential different where you saw the business could develop, market cycles could deviate from our assumptions. So therefore, I think, it's a clear signal with an average number that we want to maintain a flexibility in order to react on market developments. So it is just -- it's an average number. I can give you nothing else. I'm sorry for that.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Thank you, Thomas, for your question. The next one is from Andrew Ritchie again from Autonomous. Andrew, please.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

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Hi. A simple one, I think, for Markus. You've always suggested in the past that we haven't fully appreciated your -- the potential of your joint ventures in India and China. I mean, looking through website and disclosures, I still can't find what the contribution to net income ERGO is from those two joint ventures. I think it is expected to be depressed in 2020, but can you give us any clue? And I think you did mention a growth rate, I'm not sure if that was for India or China or both, but just a bit of a of a sense of the actual bottom line contribution?

And related to that, I'm assuming any -- you are restricted by the joint venture partners in any ability to increase ownership there. That's out of your control, if you just confirm that.

Third question for Torsten. It's not only about the plan, but it did have a slide on cyber. Could you just give us your opinion Torsten on the commentary we have seen this year about a significant increase in frequency or let's call it attritional type ransomware losses in cyber, some suggestion that in terms of conditions in that whole market need to be radically revised in particular in respect to ransomware. And there is quite a lot of re-underwriting to occur in the whole class, it doesn't appear to be impacting Munich Re (inaudible) suggesting that Q3, but maybe just give us an update on that as well? Thanks.

## A - Torsten Jeworrek {BIO 5724439 <GO>}

Okay. Then -- Andrew then let me start with the cyber topic. And indeed, I mean, it started in the press and it's also part of the discussions in the insurance industry, that's cyber industry particularly after the lock down and, let's say, weaker network security situation when more and more people work from home saw more cyber attacks. And particularly, ransomware was one of the topics which also affected by the way, to some extent, our industry, some of our clients were affected.

That led to -- in the insurance -- come to us in the second sentence. And that let in the industry to a lot of concern now, because particularly in the Lloyd's markets, there were quite a number of losses, which they had to digest and that let then reactivated these question, do we understand risk and what happens in the traditional book is really that book clear and do we only takes the cyber risk via the dedicated cyber policies or how bigger the uncertainty, these are the various questions.

And for our book, we monetize the single losses precisely. And what we do, you might remember that we -- close to 50% generate our cyber premium via risk solutions, in particularly Hartford Steam Boiler, which is our single biggest generator or carrier of cyber business in the group if approximately 30% of everything. And then we also monitor the cyber losses via traditional reinsurance because almost everything what we do is proportional reinsurance. We hardly participate in any excess of loss reinsurance structures for different reasons, because we think the risk is difficult enough. That is what even be more difficult if we go to access and non-proportionate structured and don't have the underwriting under control anymore. That is a reason for that.

So in our portfolio, when we -- and again, we closely monitor that. We see a very small deterioration of the loss ratio, that is about 2 percentage points, 2.5 percentage points, but that's it, as a combined ratio in total, is still approximately 85%, 86% or so. So that has

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not changed. Unless there are further losses in the remaining two or three weeks or so, but on -- as per today and we are aware of these causes, the portfolio still looks good. Nevertheless, we are aware of the offset and what's the market is doing today is three-fold.

The market tries to improve terms and condition particularly also in the non-cyber book to get silent cyber out to make a policy wording and the language clear. Second is, we see a significant reduction in market capacity. We as Munich Re have not reduced our capacity. We don't see a reason because we have not been surprised by losses. And there are certain drivers, there are significant price increase these days. So we think as long as we have good control over the cyber business and our monitoring works and our accumulation controls in place, we don't see an obvious reason basically to change our strategy, and our underwriting policy, it looks good.

## A - Joachim Wenning {BIO 16273429 <GO>}

Markus?

## A - Markus Riess {BIO 1835270 <GO>}

Thank you very much. Hello, Andrew. Yeah, the -- I would like to answer your question as follows. First of all, yes, I always fighting for the recognition of the joint venture contributions, and thank you for giving me opportunity by asking that.

To start, both India and China have this year a better performance than the market in terms of course, which in India, means that we have a small growth, as well as opposed to a market that has a negative growth. And in China, we have a double-digit core which is significantly higher than the growth in China in the marketplace. It shows that we are very positioned in those two markets.

Secondly, both companies are at a different stage of their evolution. The HDFC companies on Health and P&C, they are already in the contributing money-making stage, whereas the Life insurance and you obviously know very well, that life insurance have a lot of lead time until they breakeven. They are still on a small loss making side, but will break even over the next five years.

What I can disclose to you is that the net income uplift of India and China is around EUR100 million. So EUR100 million net income uplift of the entire group comes just from India and China, and I think this tells you how important these joint ventures are for us.

When it comes to ownership structure, you are right to point out that, in India, we are legally bound to limit our ownership below 50%. In China, however, you know there is an ongoing legislation, which has now allowed us to contemplate a thought of acquiring a majority ownership for our life insurance companies. I can't disclose that it is something that we actively looking into that will clearly not happen in 2020, but there we have the regulatory opportunity that we at least contemplate to follow-ups, so maybe this then turns out to be a majority-owned company at some point during our '21 to '25 planning horizon. Thank you.

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## Q - Andrew Ritchie {BIO 18731996 <GO>}

Thank you.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Ladies and gentlemen. As we are running out of time, we have time for one last question. This comes from Vinit Malhotra from Mediobanca. And Vinit, if you could make it a quick one would be even better. Thank you. Please go ahead, Vinit.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. I'll make it very quick one question then.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

So if you don't simulate the risk, the confidence Torsten, let's say, the description you provided of the Risk Solutions, it's a bit contrasting from what I remember from the last few years. I mean, it range from 84 combined to even 105 combined so. And you've reiterated that it's not very cyclical. So how should, I mean, the past used to be 95, sort of, mid-90 sort of combined ratios and now you're looking at 92. If it's not cyclical, then how should -- why should it happen now when prices are going up in the commercial market?

And also, are you confident about the reserving position et cetera, because in the past this has been very volatile line of business for Munich Re group? Thank you.

## A - Torsten Jeworrek {BIO 5724439 <GO>}

Yeah, good point. I mean, we -- I didn't say by the way, it's not cyclical, I compared with traditional reinsurance, which is a capacity play in the market. And here, because we be position risk solutions in the -- mainly in the middle SME market and then the specialized market. This business is cyclical or it's volatile in a way, that it can serve a larger losses and can also, let's say, participate in regional accumulation losses like the wildfires, for instance. So we had quite some contribution from wildfire losses in the past two to three years in the United States. That can happen. We reduced exposure, but this volatility to some extent is still there. However, because it's a business where either the MGAs or our risk carriers, own is a wrong word, but you know what I mean owns a customer, so to speak, and these customers don't go shopping around the world, so to speak. It's much less cyclical than the large industrial insurance segment or the traditional capacity driven reinsurance segment. That is my message here.

And then, let's say, we, of course, positioned risk solutions more into those segments where the cyclicality, let's say, also to some extent volatility, can be reduced in the future. And I mentioned cyber before, what Andrew Ritchie ask, that is one of the examples when you see one-third or 30% of the cyber premium comes from Hartford Steam Boiler.

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So that is Risk Solutions business, the 30%, but Hartford Steam Boiler plays in a very small segment so to speak, in terms of the limits they provide and that improves not completely takes away but improves the distance to the cyclical -- most cyclical markets.

So from that perspective, we are very confident. And to be honest, 92% in the United States in the SME market, in the specialty markets United States, is a good combined ratio, but it's not a exceptional combined ratio from a market perspective, better players in the market to achieve that. So it's not something which we only claim to achieve and we are completely special animal in that game. That is not the case. There are many who are -- which are worse I admitted, but better quarter of the market can achieve that. Thank you.

## A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you, Vinit, for your question. Yeah, that's it. I think, we are done with all questions. Ladies and gentlemen, friends and family, thank you very much for joining us for our Investor Day. It was our pleasure to host you. As always, the Investor Relations team is, of course, very happy to follow up with you. Should you have further questions, hope to hear and even more so hope to see you all soon in person. Stay healthy. All the best to you and your families. Good bye for now.

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