Munich Re Group

Investor Day (IFRS 17)

15 December 2022

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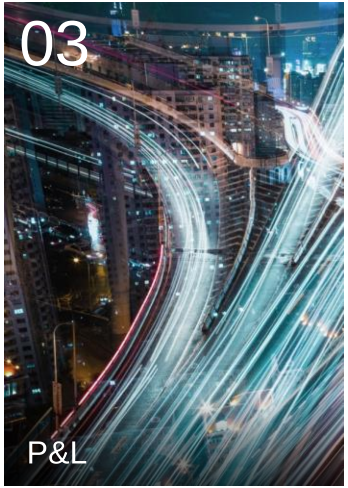
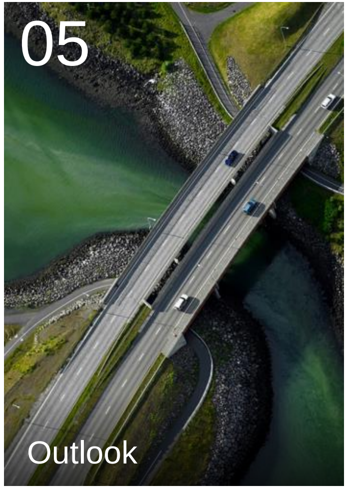
Investor Day (IFRS 17)

Agenda





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Introduction

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Roadmap IFRS 9/17

Munich Re prepared for transition to new accounting regime

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2022

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

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

2023

1 JANUARY
IFRS 9 transition

16 MARCH
Publication of annual report 2022
Opening balance sheet IFRS 17

17 MAY
Publication date Q1 2023
Q1 figures and financial supplement

10 AUGUST
Publication date H1 2023
H1 figures and selected notes

8 NOVEMBER
Publication date Q3 2023
Q3 figures and financial supplement

2024

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

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

IFRS 9/17 is a landmark change

Addressing shortcomings of the former accounting regime

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

CONSISTENCY

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

CLARITY

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

TRANSPARENCY

Disclosure of future profit margins from long-tail business

NO IMPACT ON

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

Accounting changes do not alter Munich Re's DNA

Accounting options to implement IFRS 9/17

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Following our guiding principles, while increasing transparency

Guiding principles

- Alignment with Solvency II and internal steering
- Maintain prudency
- Acceptable P&L volatility
- Show all earnings in P&L

ACCOUNTING OPTIONS

Discount rates
Bottom-up approach in accordance with Solvency II parameters

OCI
Separation of the effect of changes in discount rates between income statement and OCI

Risk adjustment
Cost-of-capital approach based on Solvency II risk capital

Distinction of expenses
All KPIs consistently based on IFRS 17 definition of attributable expenses

Reserving level
Maintenance of current assumptions for loss reserves, ongoing regular reserve releases

Equity investments
Use of “fair value through profit or loss” option (IFRS 9)

Transition to IFRS 9 implies higher P&L volatility

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Munich Re uses OCI option to dampen volatility

Recognition of investments under IFRS 9

OCI

- Fixed income and loans in general[1]

P&L

- Equities, private equity, infrastructure
- Real estate (VFA)
- Deterioration in credit risk
- Derivatives

Impact on Munich Re

- OCI option for fixed-income investments reduces accounting AL mismatch
- Share of fully P&L-sensitive investments increases from 1% to 17% (fair value P&L), for non-VFA investments 13%[2]
- Expected credit loss at transition will be small given the high portfolio quality
- Clear separation of insurance from investment-type contracts, reflected in total technical result

Deliberate acceptance of higher short-term P&L volatility from equity investments to show long-term positive contribution of increasing market prices

1 Most fixed-income instruments pass SPPI test (solely payments of principal and interest). 2 For VFA business volatility offset by CSM.

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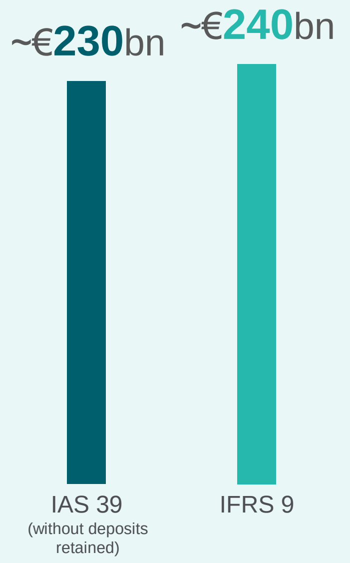
Higher share of P&L-sensitive investments

Increase in total investments due to stronger reflection of fair values

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

Total investments



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

Transition to IFRS 17

Better reflection of Munich Re's economic earnings power

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Key features of IFRS 17

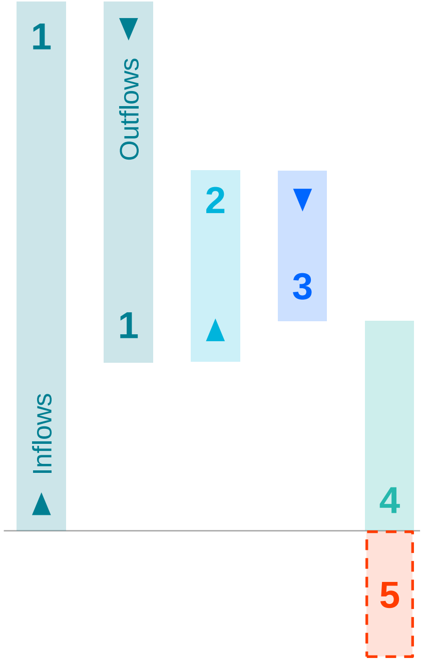
- Current measurement of liabilities, discounting of expected cash flows based on current yield curves
- Explicit reporting of future profit margins from long-tail business
- Immediate identification of (potential) losses by contract group (loss component)
- More adequate reflection of revenues

Impact on Munich Re

- Discounting leads to lower combined ratio
- CSM better reflects value of long-term business
- VFA business of ERGO Life and Health will deliver more stable earnings pattern
- Onerous contracts driven by conservative reserving assumptions and granular grouping, not necessarily indicating economically loss-making business

Insurance liabilities under IFRS 17

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



1	Future cash in-/outflows	Estimation of all future cash flows within the boundary of each contract
2	Discounting	Discount rates adjust cash flows for the time value of money
3	Risk adjustment (RA)	Explicit estimate of the effects of uncertainty about the amount and timing of future cash flows
4	Contractual service margin (CSM)	Quantifies the future profit (in excess of the RA) the insurer expects to earn as it fulfils the contract – elimination of gain at inception
5	Loss component (LC)	In the event that the discounted cash outflows and risk adjustment exceed the cash inflows (onerous contracts) IFRS 17 requires identification of potential losses by contract group with immediate P&L impact

Two types of IFRS 17 insurance liabilities: LRC and LIC

Differentiation between pre-claim and post-claim liability

		General Measurement Model (GMM)	**Premium Allocation Approach** (PAA)	**Variable Fee Approach** (VFA)	IFRS 4 analogues
Liability for remaining coverage (LRC) Relating to coverage that will be provided to the policyholder for **insured events that have not yet occurred**	Cash in-/outflows	✓	Unearned premium including time value of money[1]	✓	Unearned premiums: ▪ P-C business Provision for future policy benefits[2]: ▪ Life business
	Discounting	✓		✓	
	Risk adjustment	✓		✓	
	CSM	✓		✓	
Liability for incurred claims (LIC) Relating to claims and expenses for **insured events that have already occurred**	Cash in-/outflows	✓	✓	✓	Provision for outstanding claims
	Discounting	✓	✓	✓	
	Risk adjustment	✓	✓	✓	

1 Acquisition costs directly expensed when incurred. 2 Net of deferred acquisitions costs.

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Measurement models according to IFRS 17

Reflecting underlying business specifics of each segment

Share of insurance revenue %

	Reasoning	Group	Reinsurance: Life and health	Reinsurance: Property-casualy	ERGO: L&H Germany	ERGO: P-C Germany	ERGO: International
General Measurement Model (GMM)	Reflects economic characteristics of long-tail business	30%	100		2	59	47
Premium Allocation Approach (PAA)	Simplified approach, application for short-term property-casualty business	56%		100	17	41	47
Variable Fee Approach (VFA)	Used for participating contracts	14%			81	0	6

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Transition approaches under IFRS 17

Depending on availability of historical data

Full Retrospective Approach (FRA) ~10%

DESCRIPTION

Standard transition approach, required data fully available

IMPACT

Historic development precisely reflected

MAIN APPLICATION

Certain parts of P-C reinsurance and ERGO business as well as certain L&H reinsurance blocks of business

Fair Value Approach (FVA) ~40%

DESCRIPTION

Alternative transition approach if full retrospective approach is impracticable, limited data availability

IMPACT

Current market performance based on conservative cost-of-capital approach to determine fair value

MAIN APPLICATION

Reinsurance (P-C, L&H) and ERGO P-C Germany

Modified Retrospective Approach (MRA) ~50%

DESCRIPTION

Simplified retrospective approach if a full retrospective calculation is impracticable, limited data availability

IMPACT

Historic development approximately reflected

MAIN APPLICATION

ERGO L&H Germany and ERGO International

As at transition 31.12.2021.

Balance sheet

IFRS 9/17 implies a new balance-sheet structure

Changing assets and liabilities

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Change due to IFRS 17

Change due to IFRS 9

Assets

A. Intangible assets
- I. Goodwill
- II. Other intangible assets

B. Insurance contracts ceded that are assets

C. Insurance contracts issued that are assets

D. Investments
- I. Non-financial investments
  1. Land and buildings
  2. Investment property
  3. Intangible assets
  4. Biological assets
  5. Inventories
  6. Investments in affiliated companies, associates and joint ventures
- II. Financial investments

E. Investments for unit-linked life insurance

F. Other insurance related instruments

G. Receivables
- I. Current tax receivables
- II. Financial receivables
- III. Other receivables

H. Cash and cash equivalents

I. Deferred tax assets

J. Other assets

K. Non-current assets held for sale

Total assets

Equity and liabilities

A. Equity
- I. Issued capital and capital reserve
- II. Retained earnings
- III. Other reserves
- IV. Consolidated result attributable to equity holders
- V. Non-controlling interests

B. Subordinated liabilities

C. Insurance contracts ceded that are liabilities

D. Insurance contracts issued that are liabilities
- I. Liability for remaining coverage
- II. Liability for incurred claims
- III. Other liabilities

E. Other provisions

F. Liabilities
- I. Derivatives
- II. Non-derivative financial liabilities
- III. Current tax liabilities
- IV. Other liabilities

G. Deferred tax liabilities

H. Liabilities related to non-current assets held for sale

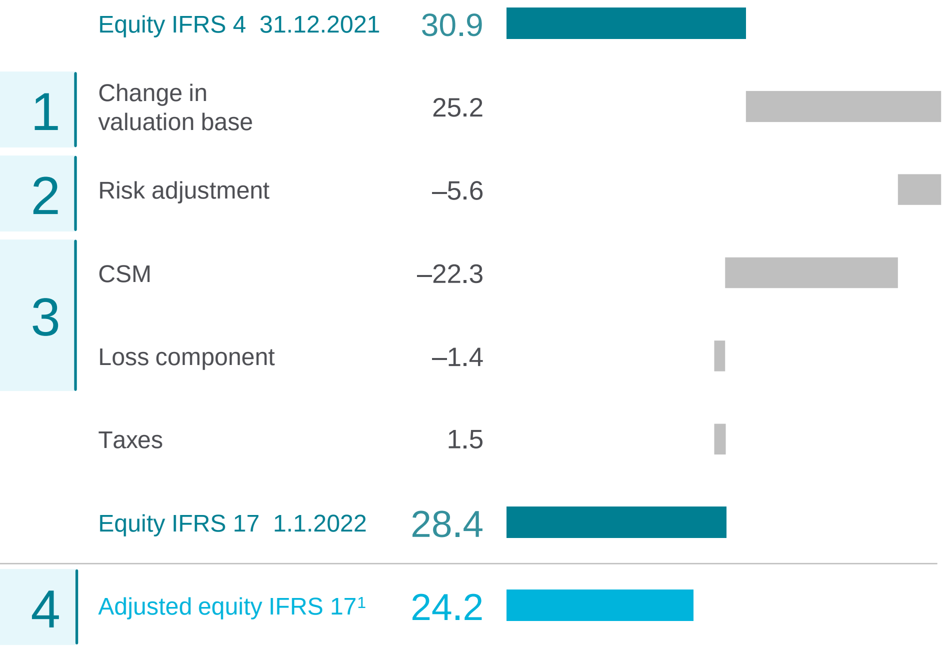
Total equity and liabilities

Preliminary/unaudited

Equity at transition

Shift of unrealised gains from equity to CSM

€bn



Change in valuation base

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

Risk adjustment

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

CSM / loss component

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

Adjusted equity

- Calculation basis for RoE

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

1 Change in valuation base
Interest rates aligned with EIOPA Solvency II rates

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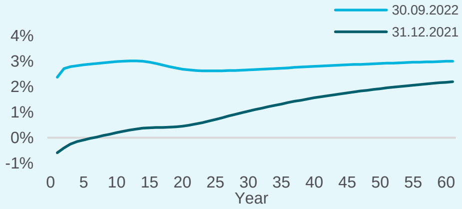
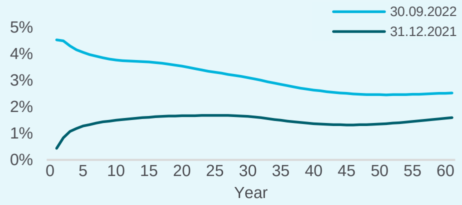
IFRS 17/EIOPA yield curves

Euro



US$

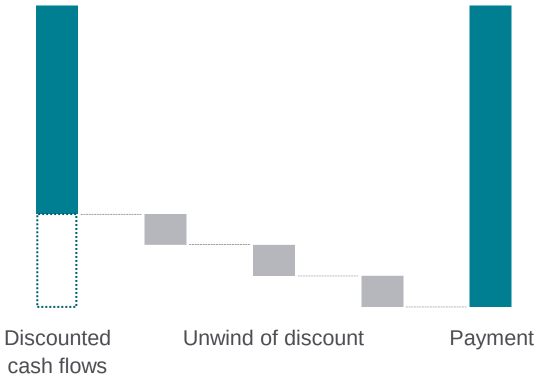


Bottom-up approach applied with EIOPA SII yield curves as risk-free rates

Risk-free rates (EIOPA)

+

Illiquidity premium (VA) for some entities



In general, changes of discount rates will be

- absorbed by CSM for VFA business
- booked largely into OCI for existing reserves

For those entities which also use the Volatility Adjustment (VA) under Solvency II, the additional illiquidity premium is applied, which is aligned with the SII VA

Harmonisation with Solvency II as far as possible

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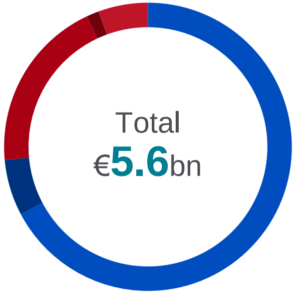
2 Risk adjustment

Derived with cost-of-capital approach, aligned with Solvency II

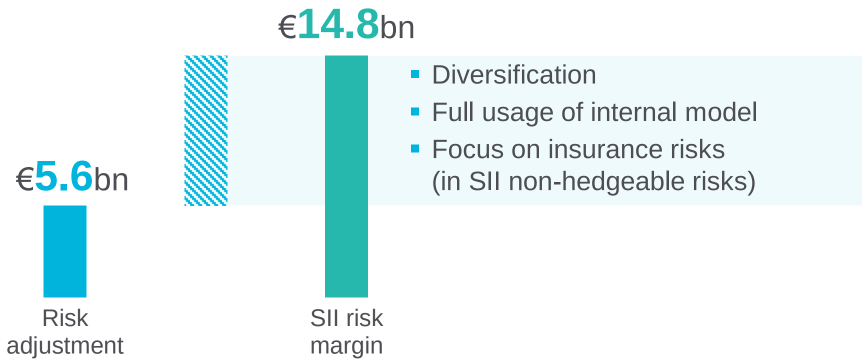
Risk adjustment

€bn



Life and health reinsurance	3.9	(70%)
Property-casualty reinsurance	0.3	(6%)
ERGO Life and Health Germany	1.0	(19%)
ERGO Property-casualty Germany	0.1	(1%)
ERGO International	0.2	(4%)

Risk adjustment vs. Solvency II risk margin



Cost of capital: 6%

Based on SCR calculation with Group Internal Model covering insurance risks

Diversification between entities considered in accordance with internal steering approach

Harmonisation with Solvency II and internal steering to reduce complexity

Risk adjustment and Solvency II risk margin include ceded parts.

3 CSM – Reflects value of long-term life and health business, while loss component reflects conservative reserving in P-C

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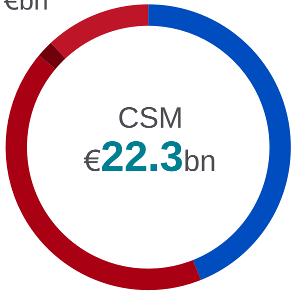
€bn



Life and health reinsurance	9.8	(44%)
Property-casualty reinsurance	0.0	(0%)
ERGO Life and Health Germany	9.4	(42%)
ERGO Property-casualty Germany	0.4	(2%)
ERGO International	2.7	(12%)

CSM contributors

L&H reinsurance	Mortality, longevity and living benefits
ERGO L&H Germany	Health, mortality and longevity business
ERGO International	Medical expense of individual portfolio and life business

€bn

Life and health reinsurance	0.0	(0%)
Property-casualty reinsurance	1.0	(73%)
ERGO Life and Health Germany	0.0	(1%)
ERGO Property-casualty Germany	0.2	(18%)
ERGO International	0.1	(8%)

Loss component

P-C reinsurance	Results mostly from conservative reserving assumptions and granular grouping, not necessarily indicating economically loss-making business

CSM and loss component include ceded parts.

4 RoE calculation based on adjusted equity

Minor impact at transition to IFRS 17

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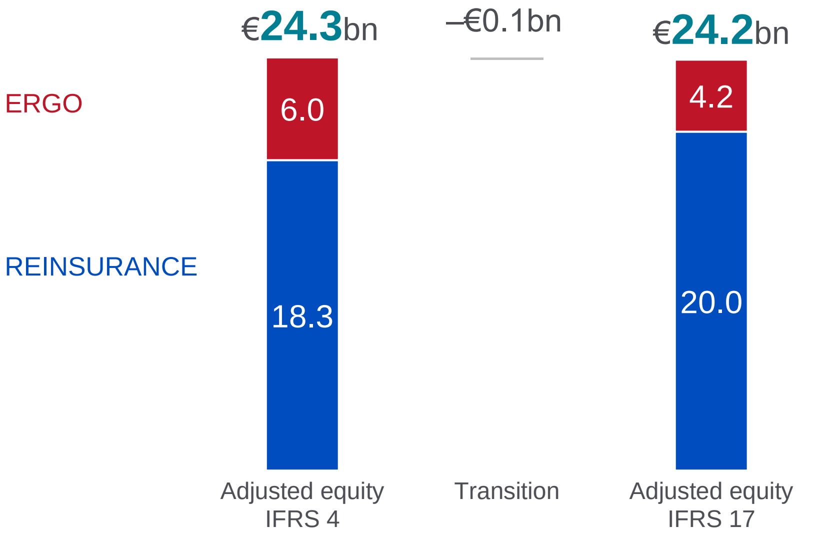

Impact of IFRS 17 transition on RoE

$$\text{Return on equity} = \frac{\text{Consolidated result}}{\text{Average adjusted equity}}$$

ERGO

RoE increase due to slightly higher earnings level and lower equity base (IFRS 17 transition effect, e.g. build up of CSM, change from IFRS 4 reserves to IFRS 17 best-estimate cash flows)

Reinsurance

RoE benefits from higher consolidated result related to IFRS 17 transition – adjusted equity base higher due to market-consistent valuation

Group RoE benefits mainly from higher consolidated result related to IFRS 17 transition

As at 31.12.2021.

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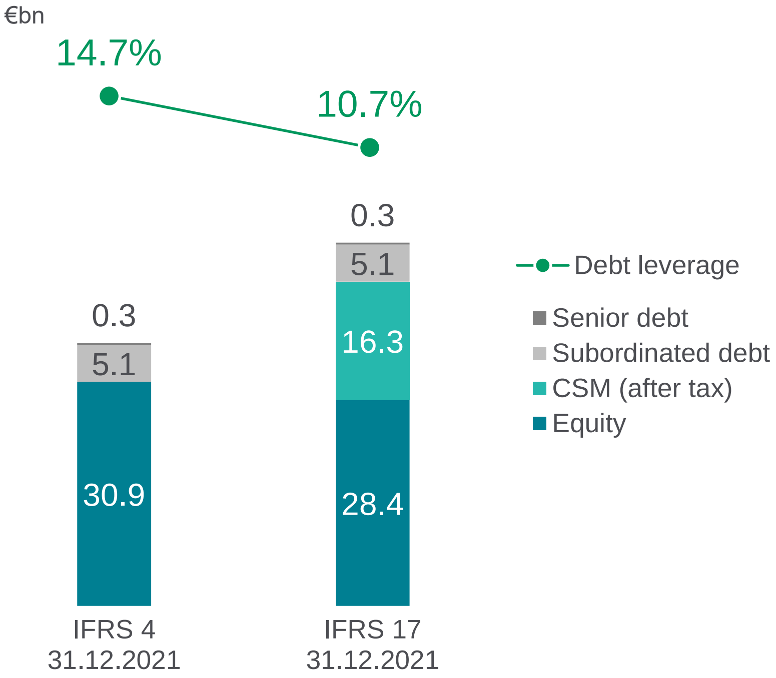
Debt leverage

Remains one of the lowest in the insurance industry



Impact of IFRS 17 transition on debt leverage

$$\text{Debt leverage} = \frac{\text{Strategic debt}^{1}}{\text{Strategic debt}^{1} + \text{equity} + \text{CSM (after tax)}}$$

- Slight decline of equity due to one-off transition effect
- IFRS 17 equity less interest-rate sensitive than IFRS 4 – as at H1 2022, IFRS 17 equity higher compared to IFRS 4
- Inclusion of CSM decreases debt leverage to 10.7%
- Low debt leverage provides high level of financial flexibility

1 Strategic debt: Bonds and notes issued, and subordinated debt.

P&L

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P&L better reflects economic value creation

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

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

1 Due to lower unwind of discount.

New P&L structure according to IFRS 9/17

Providing more transparency on Munich Re's sources of earnings

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

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

2 Revenues and expenses
Presented gross and ceded

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

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

5 IFIE
Reflects unwind of discount of insurance liabilities

6 Operating result
Includes all revenues and expenses from business activities

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

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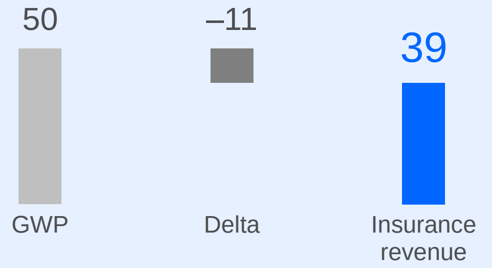
Insurance revenue lower than GWP

Sales performance is unaffected

Reinsurance

€bn



ERGO

€bn

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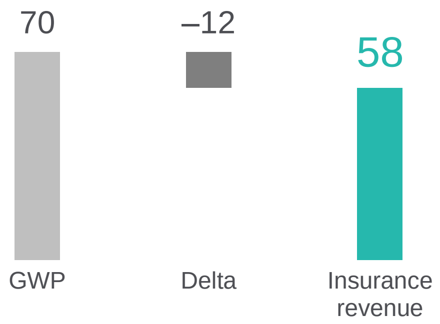
€bn



Main drivers of delta between insurance revenue and GWP

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

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

IFRS 17 measurement models

Different impact on earnings

	General Measurement Model (GMM)	Premium Allocation Approach (PAA)	Variable Fee Approach (VFA)
Change in interest-rate assumptions	OCI	OCI	CSM
Experience variances[1]	P&L	P&L	CSM
Assumption changes (LRC)[2]	CSM	---	CSM
Release of CSM	P&L	---	P&L
Release of Risk Adjustment (LRC)	P&L	---	P&L
Release of Risk Adjustment (LIC)	P&L	P&L	P&L
Affected entities	L&H RI, ERGO P-C Germ. and Inter.	P-C RI, ERGO P-C Germ. and Inter.	ERGO L&H Germ. and Inter.

Interest-rate effects for GMM and PAA

- Changes in interest rates generally booked via OCI, remove interest-rate volatility from P&L
- However, changing interest-rate environment influences the discount at initial recognition of new business
- Unwind of discount of in-force business has regular P&L effect

1 Past and current services. 2 Future services. As long as CSM > 0, otherwise build up of loss component through P&L.

Preliminary/unaudited

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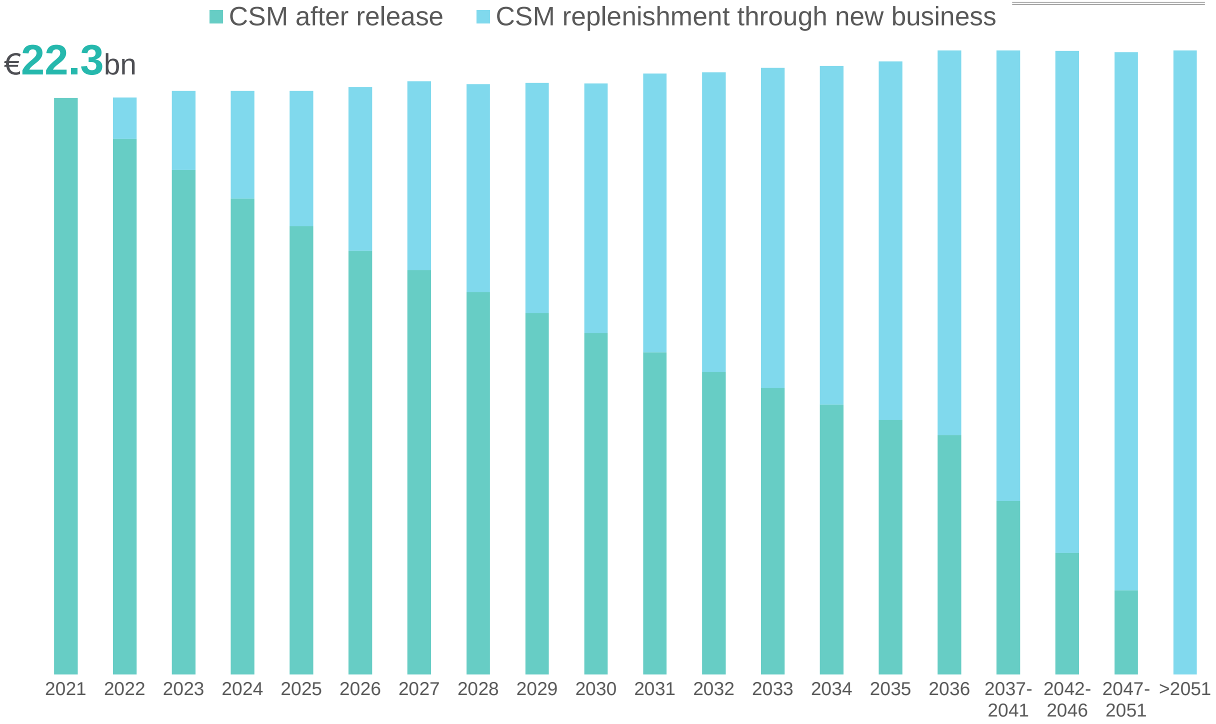
GMM and VFA: CSM release vs. replenishment

New business offsets regular CSM release

ILLUSTRATIVE



- Replenishment of CSM and risk adjustment from new business (for L&H reinsurance partly reported as operating change if there is a contract extension)
- L&H reinsurance: Fee business (IFRS 9) not included in CSM
- VFA business: Additional profit component in the period from over-return above risk-neutral interest rates[1] (not included in CSM at inception)
- Expectation
  - L&H reinsurance: Increase of CSM due to profitable business growth
  - ERGO: Decrease of CSM due to run-off of traditional life business and build-up of short-term health business (PAA)

1 Over-return is systematically expected to occur in each period (e.g. from credit spreads) due to the assumption of arbitrage-free markets in the stochastic simulation.

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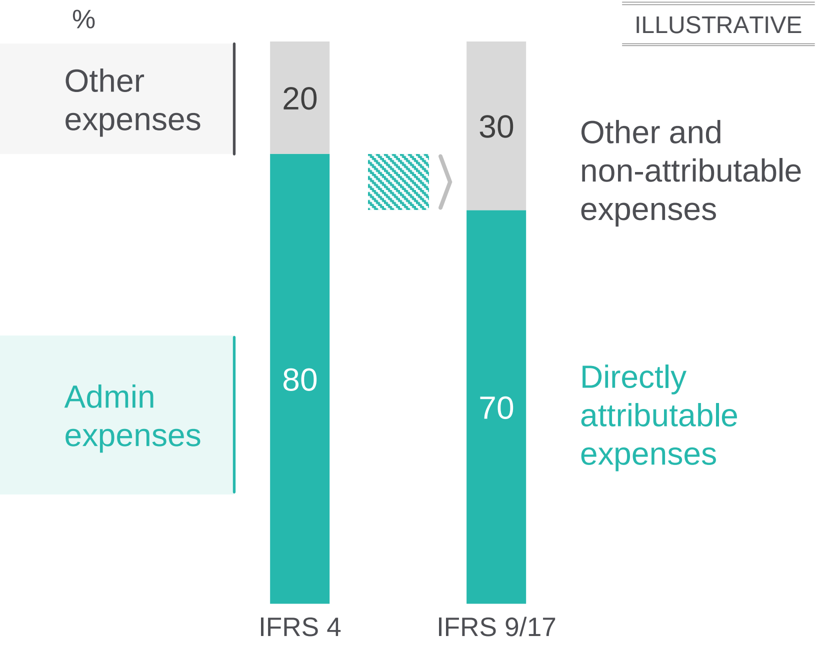
Attributable vs. non-attributable expenses under IFRS 9/17

All expenses will be shown within the operating result



Non-attributable expenses

- More than 10% of former admin expenses are non-attributable – costs that are not directly linked to the fulfilment of insurance contracts (e.g. overhead/project expenses)
- Not reflected in insurance service result and combined ratio

Directly attributable expenses

- Up to 90% of former admin expenses are directly attributable
- Part of insurance service result and combined ratio
- Costs that are directly linked to the fulfilment of insurance contracts (front-/middle-office expenses)

Reduction in combined ratio of each business segment of 1–2%-points

Figures based on H1 2022.

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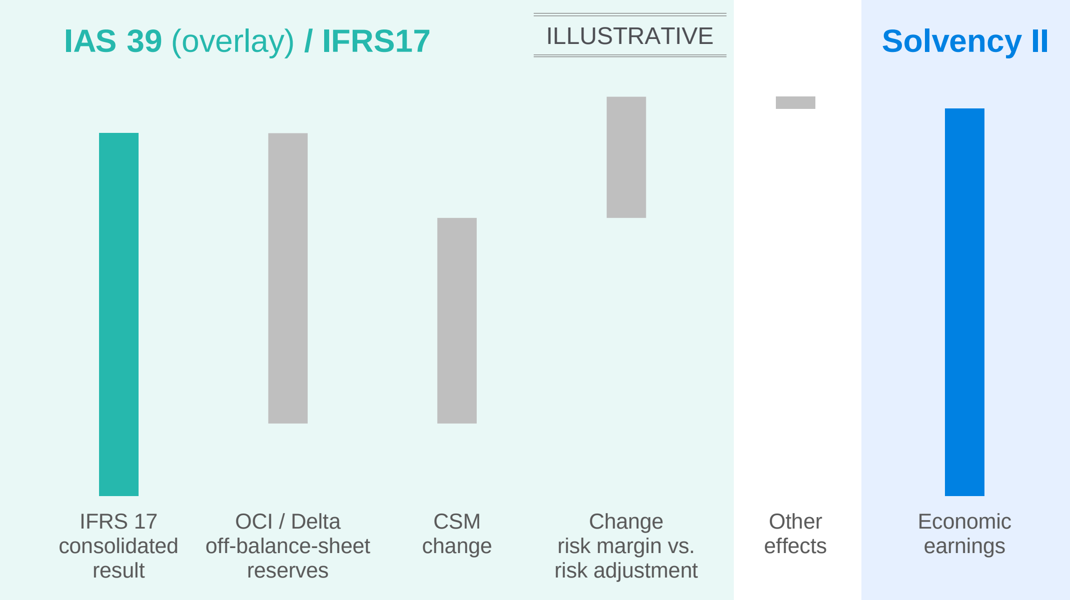
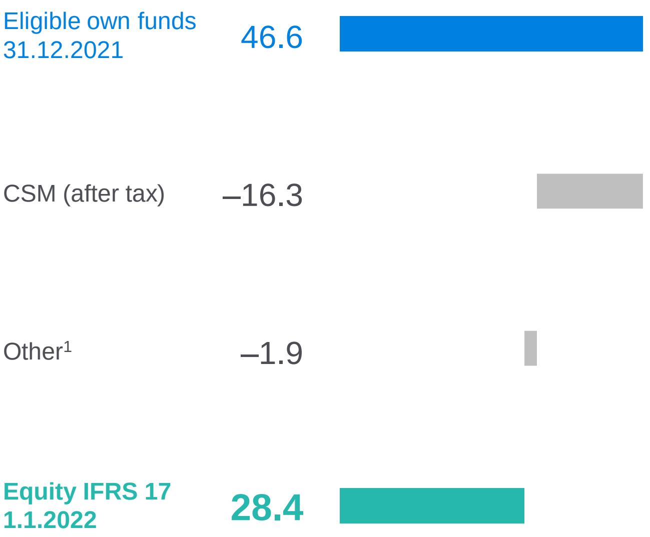
IFRS 17 vs. Solvency II – Sum of equity and CSM (after tax) approximately equals SII eligible own funds, despite methodological differences

Methodological bridge IFRS result vs. SII economic earnings



SII/IFRS balance-sheet reconciliation

€bn



1 Cumulative effect from countervailing methodological differences between Solvency II and IFRS 17.

Reinsurance

Segment specifics

Garsya Getty Images/iStockphoto

P-C reinsurance: Operating result generally stable

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Currently benefitting from increasing interest rates

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

Major earnings drivers

1 Insurance revenue
Significantly lower compared to IFRS 4 earned premiums due to deduction of fixed commissions and NDIC, e.g. profit commissions

2 Insurance service result
Impact from discounted cash flows and different allocation of admin expenses. Major earnings drivers comprise insurance revenue, incurred claims and costs. Unchanged reserve prudency reflected in conservative assumptions when recognising new cash flows, risk adjustment and loss component (slides 34 and 35), largely offset by their respective release, dampening P&L volatility over time.

3 Investment result
More volatile due to higher share of fair value P&L investments

4 Net insurance finance income or expenses
Impact from unwind of discount depending on interest rate level

5 Operating result
Influenced by difference between interest rate levels of discounting of new reserves and discount unwind of existing reserves

1 Insurance service expenses summarise by and large incurred claims, acquisitions costs and administration expenses.

P-C reinsurance: Reconciliation of combined ratio

Declining noticeably under IFRS 17

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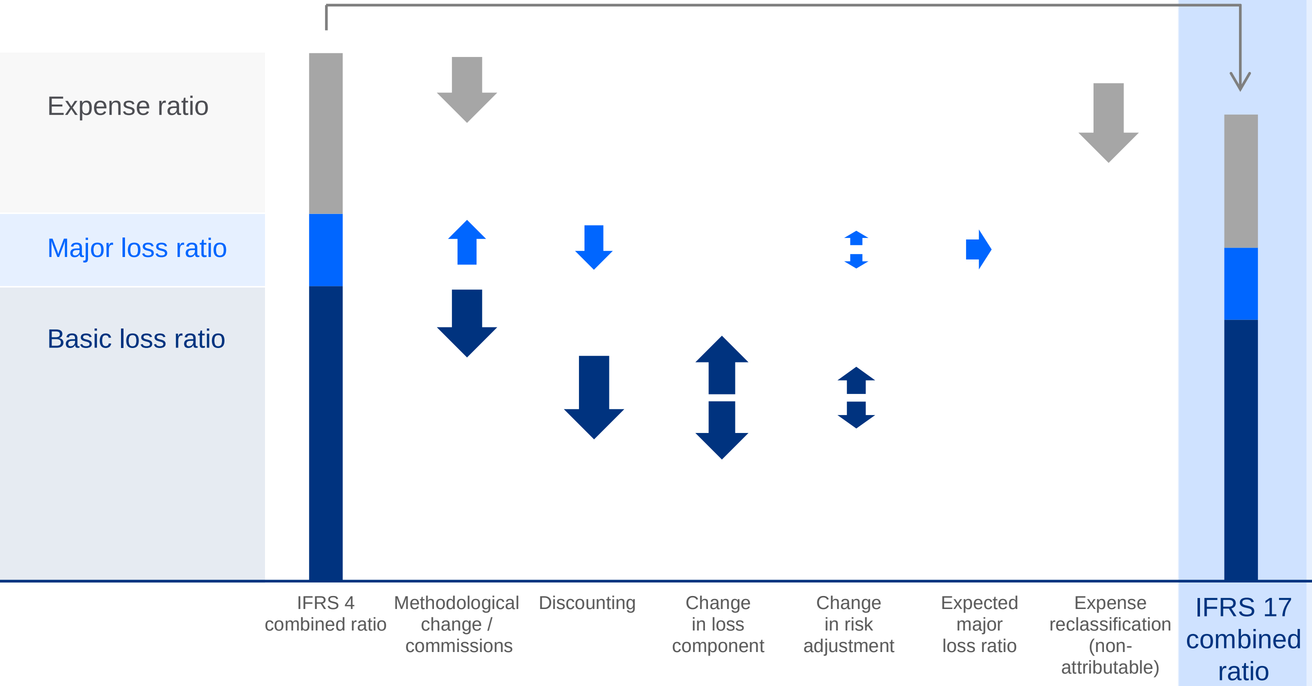

Major drivers

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

IFRS 17 combined ratio = Insurance service expenses (net) / Insurance revenue (net)

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

P-C reinsurance: Conservative reserving approach

Remains unchanged under IFRS 17

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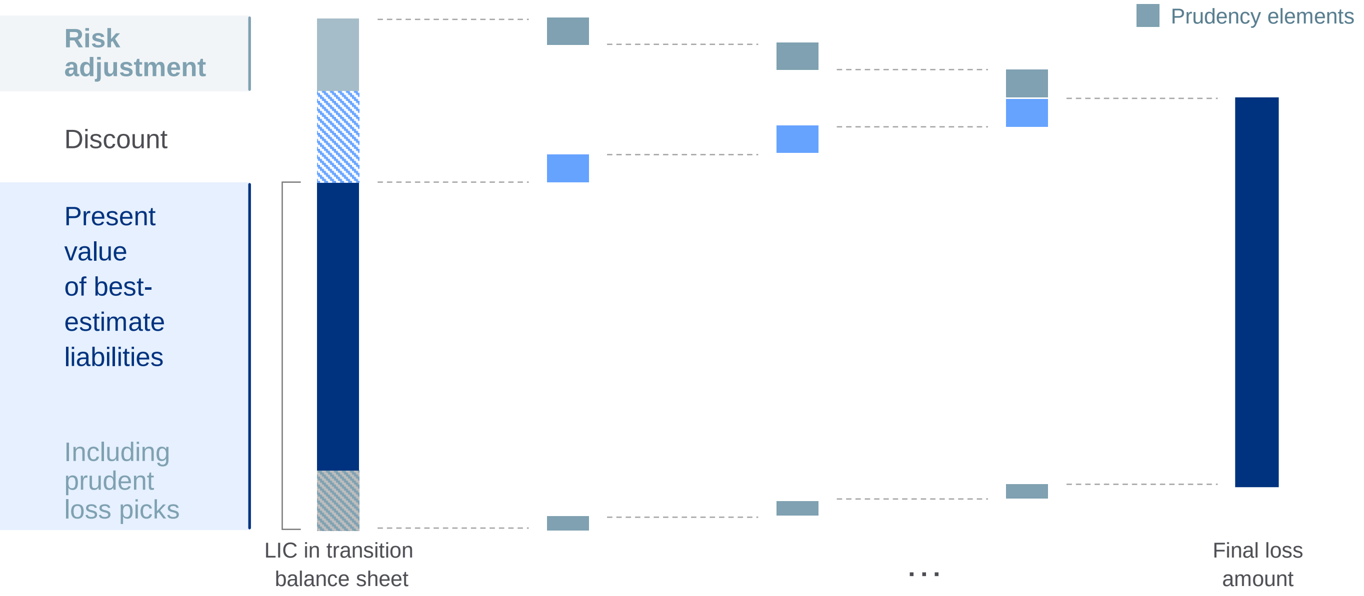
Liability for incurred claims (LIC)



Reserves continue to be set at the upper end of the range of possible best estimates

- Liabilities presented on a discounted basis, reflecting time value of money
- Unchanged reserving approach with usual conservative loss picks for initial assessment of new business, which facilitate reserve releases after clear manifestation of loss development
- Risk adjustment as an additional prudence element which unwinds over run-off period

Maintain current assumptions for loss reserves, ongoing regular reserve releases

P-C reinsurance: Loss component

Results mainly from conservative loss picks and granular grouping

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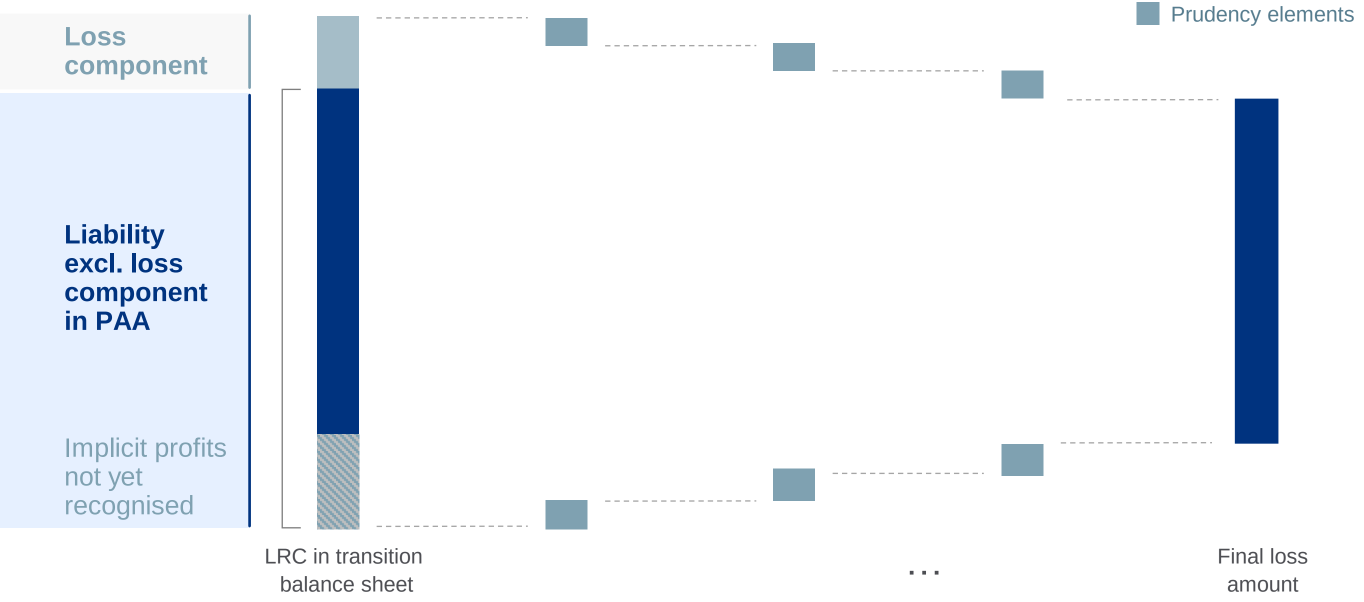
100% PAA used for newly recognised P-C reinsurance business



Sizeable loss component expected

Granular grouping

- Does not reflect high degree of diversification

Asymmetric approach

- Loss component is only set up for onerous business, including bound but not incepted business, …
- … while the much larger offsetting profit margin of the remaining business is not initially recognised and not explicitly visible in the PAA

Seasonality effects

- Recognition depends on level of new business (January renewals leading to high loss component in Q4 of previous year)

Economic view of profitability unchanged

Life and health reinsurance: Overall, very profitable business

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Reflected in higher sustained earnings level

Gross premiums written (Non GAAP)

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

Major earnings drivers

1 Insurance revenue
Similar order of magnitude as IFRS 4, some conceptual differences

2 Insurance service result
Mainly driven by release of CSM and risk adjustment as well as experience variances

3 Result from insurance-related financial instruments
Includes fee income, result from insurance-related loans and derivatives as well as insurance liabilities measured under IFRS 9

4 Total technical result
Consistently combines insurance business under IFRS 17 and insurance-related financial instruments under IFRS 9, replacing the concept of "technical result including fee income"

5 Investment result
More volatile due to higher share of fair value P&L investments

6 Other operating income/expenses
Mostly driven by non-attributable expenses of insurance business

Preliminary/unaudited

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Life and health reinsurance: Reconciliation of CSM and RA[1]

Increase of CSM due to profitable business growth

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CSM/RA at opening	9.8 / 3.9 — €**13.7**bn	
New contracts added		New business definition very narrowly defined: Contract extensions recorded in operating changes, IFRS 9 business not included[2]
Accretion of interest		Interest on the CSM and RA, using discount rates as at initial recognition for new business or as at transition for most of the in-force portfolio
Operating changes		Experience adjustments and assumption changes
Change in financial effects		e.g. FX effects
Release (through P&L)		Expected P&L impact of ~8% p.a. CSM amortisation
CSM/RA at closing		

- Business growth to result in increasing CSM as new business is expected to offset regular release
- Changes in future cash flows are offset against the CSM and reduce P&L volatility

1 CSM and RA are “net”, i.e., including ceded parts. 2 Excludes up to 40% compared to SII New business calculation.

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ERGO

Segment specifics

ERGO L&H Germany: CSM as buffer under VFA

Ensuring higher earnings stability

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

Major earnings drivers

1 Insurance service result

Under VFA the main source of income, consisting of CSM release, including allocation of over-return above risk-free interest rates to the period and release of risk adjustment

Capital market parameters and projection changes will not be directly reflected in P&L, as they are buffered against the CSM.

2 Investment and currency result, including unit-linked business

Neutralised by IFIE for VFA business, investment and currency result for non-VFA remaining

3 IFIE

Neutralises the effective P&L impact of investment and currency result

4 Other operating income/expenses

Mostly driven by non-attributable expenses of insurance business

Preliminary/unaudited

ERGO L&H Germany: Reconciliation of CSM and RA[1]

CSM expected to decrease over time

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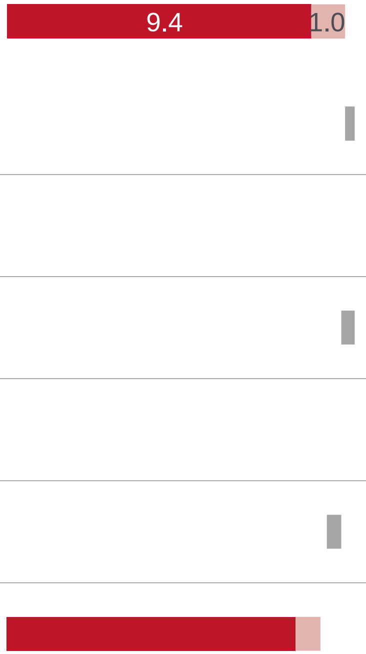

CSM/RA at opening	€**10.5**bn	
New contracts added		Level of new business determined by business growth in health and life new book; PAA new business in health insurance not reflected in CSM
Accretion of interest		Not relevant for VFA
Operating changes		Experience adjustments and assumption changes, includes impact from over-return and changes in capital-market parameters
Change in financial effects		Not relevant for VFA
Release (through P&L)		Expected P&L impact of ~4–8% p.a. CSM amortisation (thereof currently ~50% over-return effect)[2]
CSM/RA at closing		

CSM

- Adjusted for all changes in the fair value of assets that occur within the reporting period
- Expected to decrease over time due to life run-off portfolios and health business growth outside the VFA measurement model

Risk adjustment

- Released over time as insurance coverage is provided

1 CSM and RA include ceded parts. 2 The values of the CSM release and over-return effect depend on capital-market parameters.

ERGO L&H Germany: CSM under the VFA business

Recognition of profits from expected over-return

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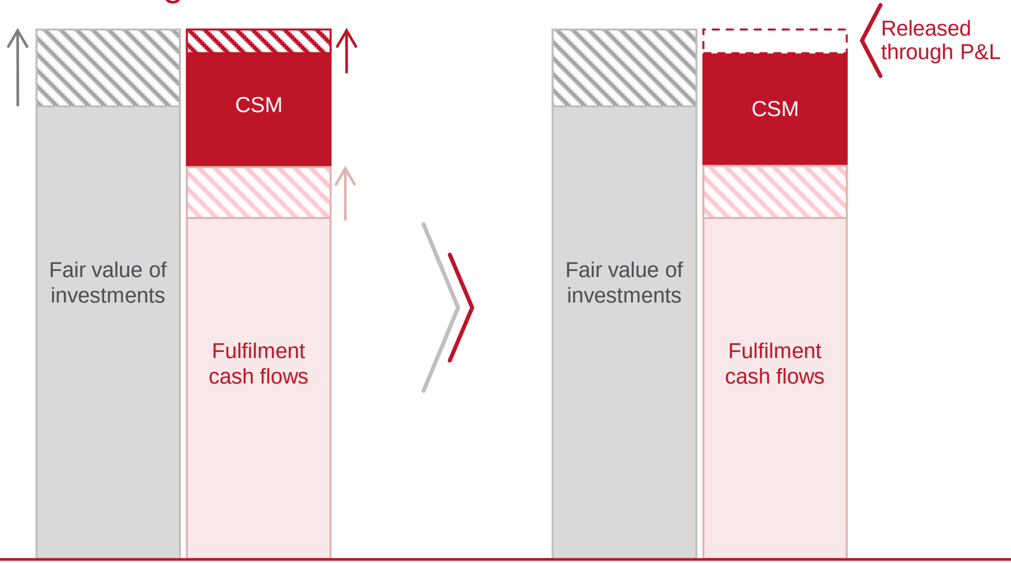
Balance sheet view of the VFA business in case of increasing market values of investments



- Valuation of cash flows based on risk-free interest rates
- Over-return: Difference between risk-free and expected investment return in each period
- The increase of fair value of investments due to over-return is distributed to policyholders and shareholders
  - Policyholder share
    Leads to an increase in fulfilment cash flows and thus a higher policyholder participation
  - Shareholder share
    Released through P&L

Additional CSM release of shareholder share in over-return

ERGO P-C Germany: Operating result generally stable

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Currently benefitting from increasing interest rates

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

Major earnings drivers

1 Insurance revenue
Comparable to IFRS 4 earned premiums

2 Insurance service result
Close to IFRS 4 except for impact from discounting and non-attributable expenses, leading to a positive impact on combined ratio

3 Investment result
More volatile due to higher share of fair value P&L investments

4 IFIE
Impact from unwind of discount depends on interest rate level

5 Other operating income/expenses
Mostly driven by non-attributable expenses of insurance business

6 Operating result
Sensitive to interest-rate development (current discounting impact vs. unwind of prior locked-in rates)

ERGO P-C Germany: Reconciliation of combined ratio

Slightly declining under IFRS 17

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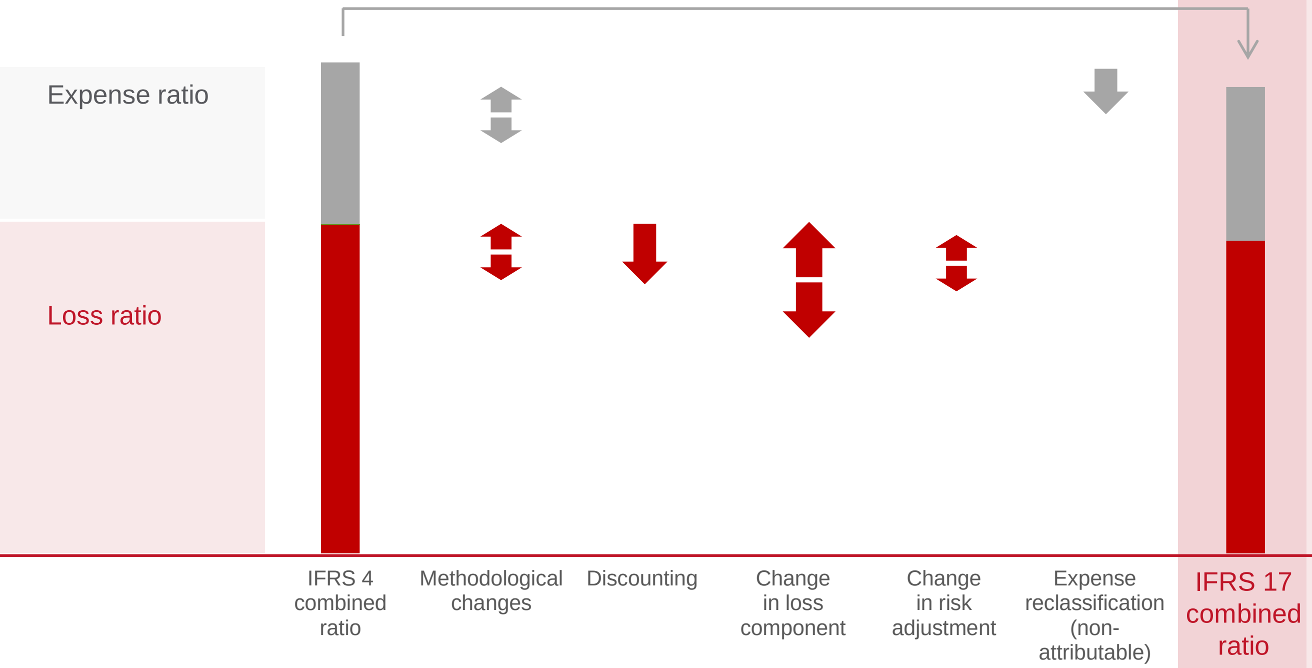

Major drivers

- Methodological changes, e.g. regarding accruals of earning patterns and seasonality of costs
- Discounting of claims
- Changes in loss component and risk adjustment possible in both directions
- Elimination of non-attributable expenses (reclassified to other operating result) reduces combined ratio

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

ERGO International: Major earnings drivers

Influenced by use of all IFRS 17 measurement models

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

Major earnings drivers

1 Insurance service result

Mainly driven by CSM release and PAA business, deviates from IFRS 4 underwriting result especially due to discounted cash flows and different allocation of expenses, leading to a positive impact on combined ratio

2 IFIE

Consists mainly of unwind of discount measured at locked-in rates, while in the VFA it neutralises P&L effects in investment and currency result

3 Operating result

Slightly increased volatility due to fair value P&L investments backing non-VFA business

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Outlook

Thorsten Henn / Getty Images

Outlook 2023

KPIs adjusted to IFRS 9/17

Group	Insurance revenue (gross) ~ €58bn	Net result ~ €4.0bn	Return on investment > 2.2%	
ERGO	Insurance revenue (gross) ~ €19bn	Net result ~ €0.7bn	Combined ratio P-C Germany ~ 89%	International ~ 90%
Reinsurance	Insurance revenue (gross) ~ €39bn	Net result ~ €3.3bn	Combined ratio Property-casualty ~ 86%	Total technical result Life and health ~ €1.0bn

Ambition 2025

Calculation of RoE and EPS adjusted to IFRS 9/17

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

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

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

Appendix

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List of abbreviations

BBA	Building Block Approach	GMM	General Measurement Model	MRA	Modified Retrospective Approach
BEL	Best-estimate liability	GoC	Group of contracts	NDIC	Non-Distinct Investment Component
CF	Cash flow	GWP	Gross premiums written	OCI	Other comprehensive income
CoC	Cost of capital	IAS	International Accounting Standards	OCT	Onerous contract test
C/R	Combined ratio	IASB	International Accounting Standards Board	P&L, P/L	Profit and loss
CSM	Contractual service margin	ICL	Insurance contract liability	PAA	Premium Allocation Approach
CU	Coverage units	IFIE	Insurance finance income and expenses	P-C	Property-casualty
ECL	Expected Credit Loss	IFRS	International Financial Reporting Standards	PI	Primary insurance
EIOPA	European Insurance and Occupational Pensions Authority	ILP	Illiquidity premium	RA	Risk adjustment
FCF	Fulfilment cash flows	IRFI	Insurance-related Financial Instruments	RI	Reinsurance
FRA	Full Retrospective Approach	ISR	Insurance service result	RoE	Return on equity
FVA	Fair Value Approach	KPI	Key performance indicator	SII	Solvency II
FVOCI	Fair value through other comprehensive income	LC	Loss component	SCR	Solvency capital requirement
FVTPL	Fair value through profit and loss	LIC	Liability for incurred claims	SPPI	Solely payments of principal and interest
FX	Foreign exchange	L&H	Life and health	VA	Volatility adjustment
GAAP	Generally Accepted Accounting Principles	LoB	Line of business	VFA	Variable Fee Approach
GIT	Global Integration Test	LRC	Liability for remaining coverage	VNB	Value of new business

Glossary of main terms in alphabetical order

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Contractual service margin (CSM)	A component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future
Fair Value Approach (FVA)	A permitted transition approach as an alternative to the MRA for a group of contracts when FRA of that group of contracts is impracticable or MRA is not applicable
Fair value through profit and loss (FVTPL)	FVTPL means, that at each balance sheet date the asset or liability is remeasured at fair value and any movement in that fair value is directly taken to P&L
Full Retrospective Approach (FRA)	A transition approach to determine the CSM (and OCI) as if IFRS 17 had always been applied
General Measurement Model (GMM) / Building-Block Approach (BBA)	GMM – formerly BBA – is used to refer to the general methodology that applies to the measurement of insurance contracts as opposed to the simplified PAA or the VFA for participating primary business
Group of Contracts (GoC)	Contracts within a portfolio of contracts that are grouped together based on profitability levels and issued no more than 12 months apart
Liability for incurred claims (LIC)	Comprises the fulfilment cash flows for claims and expenses already incurred but not yet paid
Liability for remaining coverage (LRC)	The portion of the fulfilment cash flows that relates to coverage that will be provided under the contract in future periods plus the remaining CSM
Loss component	Part of the LRC and represents the amount of losses arising from a group of onerous contracts
Modified Retrospective Approach (MRA)	A transition approach that allows for certain modifications to a full retrospective approach
Onerous contract test (OCT)	An onerous contract test is necessary to identify and recognise onerous contracts and their respective losses. An onerous contract is a contract in which fulfilment cash outflows exceed the economic benefits expected to be received under the contract
Other comprehensive income (OCI)	The OCI is to reduce P&L volatility by parking effects from changes in interest rates and other market variables in equity (and releasing it to profit and loss over time respectively at the disposal date) instead of showing effects directly in P&L
Premium Allocation Approach (PAA)	A simplified form of measuring insurance contracts in comparison with the GMM, which is permitted if the coverage period of contracts in a group is one year or less or more than a year if the entity can sufficiently prove that the approach does not significantly deviate from the GMM
Risk Adjustment (RA)	Reflects the compensation an entity requires for bearing the uncertainty about amount and timing of cash flows that arise from non-financial risks as the entity fulfills insurance contracts
Variable Fee Approach (VFA)	A measurement model that is applied to insurance contracts with direct participation features and can be understood to be amended version of the GMM

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