# Munich Reinsurance Company
# Annual General Meeting of Shareholders on 19 April 2006
# Report of the Chairman of the Board of Management
# Dr. Nikolaus von Bomhard

Ladies and gentlemen,

I too would like to wish you good morning and, on behalf of the Board of Management, welcome you to the Annual General Meeting of your Munich Re.

Today is Munich Re's birthday. Of course, it cannot always be a special anniversary like last year's. However, it is 126 years to the day since your Company was founded.

(Slide 1: Munich Re – 100 years after the San Francisco earthquake)

This means that Munich Re was almost exactly 26 years old when, 100 years ago yesterday in the early morning of 18 April 1906, the earth shook in San Francisco. Almost as destructive as the severe earthquake itself – if not more so – were the numerous fires over large areas of the city, which broke out after gas mains had burst and stoves, furnaces and chimneys had been damaged. The San Francisco earthquake still remains one of the worst natural catastrophes ever to hit the United States. For the young Munich Re, it was the greatest test it had faced since its foundation, and it passed with flying colours. Our reputation as an internationally present reinsurer that swiftly meets its obligations to cedants became firmly established back then. And we continue to enjoy this reputation 100 years after that terrible disaster.

(Slide 2: Business year 2005 – Main aspects)

Ladies and gentlemen, my report on the past business year – that of our 125th anniversary – is a pleasing one. It was a year whose outcome was worthy of such an anniversary. We bettered the record profit we had set in 2004, achieving another exceptionally good result. Given that 2005 included events that were certainly testing for Munich Re, this result was not to be taken for granted.

As you know, our anniversary year was also a record year in terms of natural catastrophe claims costs. The devastating hurricanes of late summer, especially Katrina, made big demands on us. But the decisive fact is that, despite the enormous claims burden, we do not have to report decreases in our profit, or in the dividend or in the development of our equity. The natural catastrophes did not hit us unprepared. They were within the range of what we expected as possible losses for our portfolio and thus – partly owing to the provision we had made in terms of retrocession cover – did not impair our core financial strength. Thanks to our broad diversification, with significant operations also in primary insurance and our solid investment portfolio, we were able to more than compensate for the burdens. This cannot be said for some of our competitors.

In reinsurance, particularly in the area of major and catastrophe risks, a certain volatility in claims incidence is part and parcel of the business model. We have made available appropriate risk capital for this on which a return has to be earned – that is one of the main drivers for the high result standards we have set ourselves. It goes without saying that we endeavour to keep the fluctuations on the liabilities side of our balance sheet, i.e. in underwriting business, as small as possible through economically meaningful optimisation of our reinsurance portfolio. At any rate, you may rest assured that we constantly bear in mind our ability to cope financially with conceivable major losses. Cycle management, risk-commensurate prices, terms and conditions, and – in our risk management – limitation of liabilities assumed, are essential pillars of this policy to sustain the profitability of your investment.

This approach, on the other hand, presupposes that we take only controllable risks on the assets side of the balance sheet, i.e. among our investments, and in particular also keep a constant eye on the liabilities side when investing. This is the context of the "derisking" of our investments, where we took the last really big steps in 2005. Our objective was to diversify our investment portfolio more strongly. And in the process, we realised substantial capital gains last year. The excellent investment result in 2005 thus made a significant contribution to the record result we are now able to report. Whilst this was not the purpose of the derisking, it was certainly helpful, given the hurricane claims costs.

Drawing a line under American Re's past was another significant topic in reinsurance last year, which adversely impacted our result. With the measures now taken, American Re is free to focus on advancing its business as our US brand in the large and, for us, important American insurance market.

I would also like to make a few preceding remarks on ERGO. Even today, albeit less often, I am still asked about its future in the Munich Re Group. My answer: There is no question of selling ERGO because that would mean giving up a competitive advantage we enjoy as a Group. In the light of the profit earned by ERGO last year, it has meanwhile become much easier for me to justify this view. For nothing is more convincing than profit, and a well-managed company with a tidy profit is unquestionably an asset for the whole Group. But quite apart from this, the combination of primary insurance and reinsurance – besides the obvious synergies – provides our Group with great strategic opportunities. I will come back to this later.

(Slide 3: Business year 2005 – Positive and negative factors)

Now let me turn, briefly, to the most important figures.

I will begin with the major-loss situation. Here we had to cope with natural catastrophe losses of €2.6bn net. In addition, we incurred man-made major losses – i.e. losses of €5m or more – totalling over €660m net.

In our investments, as stated, we systematically continued our policy of reducing concentration risks, and have now cut back our stakes in Allianz, UniCredit and Commerzbank to below 5% each. The disposal of a 3% Allianz stake in the third quarter had a net result effect of €552m, and the exchange of HVB shares into UniCredit stock yielded €1.15bn. Altogether, thanks to successful portfolio management in other areas, too, we recorded an above-average investment result of €10.8bn. This represents a return of 5.9%.

Profit before growth: this maxim continues to apply unchanged. The fact that our premium income has only grown very moderately, to the current level of €38.2bn, therefore need not worry us. In all areas of the Group, we have achieved an excellent portfolio quality; this is the key to our being able to report good results despite the major losses.

(Slide 4: Reinsurance: Key indicators at a glance)

In reinsurance, our property-casualty business was heavily affected by the windstorms and the reserve strengthening at American Re. Nevertheless, we achieved a segment result which was only €1.4bn or 16% lower than in the previous year, thanks to the strong contribution from investments. The combined ratio in reinsurance is a good 12 percentage points higher than budgeted for due to the natural catastrophe losses alone, and masks the excellent quality of our basic business.

(Slide 5: Primary insurance: Key indicators at a glance)

Let us turn to primary insurance. Here, too, the picture is very pleasing, with a segment result of €1.2bn, or €846m after cross-segment consolidation. ERGO in particular posted an excellent profit of €782m, albeit with €301m coming from the exchange of its HVB shares into UniCredit stock, which can be considered a one-off effect. These good figures are the result of efforts going back several years, not least the reorganisation of ERGO's group management structure and cost savings. At 93.1%, our combined ratio in the primary insurance segment was again very good.

(Slide 6: Business year 2005 – Best year in the firm's history)

If the results of the two segments are taken together, it is evident that the Munich Re Group's set-up – with business in both primary insurance and reinsurance – has proved its worth. For while other reinsurers saw a major portion of their earnings eroded by the windstorms, we can show a very good result owing to our broader business base. All in all, our bottom line was an increased operating result of €4.1bn, leaving a record profit of €2.7bn after finance costs and tax. With a return on equity – RoE for short – of 12.3%, we even slightly surpassed our target. Given this excellent result, we are proposing to increase the dividend substantially by 55% to €3.10 per share.

(Slide 7: Business year 2006)

So much, ladies and gentlemen, for my review of our anniversary business year 2005. I would now like to shift the focus from the past to the future. In the current year 2006, we aim to achieve a return on risk-adjusted capital of 15% at Group level. With present risk-adjusted capital of €17bn and taking into account the – naturally lower – return on our additional available equity, this translates into a net consolidated result of €2.6bn to €2.8bn. You will have noticed that, in expressing this target, I no longer referred to return on equity or RoE, but to the return on risk-adjusted capital, or RORAC for short. I announced last year that such a change was in the offing. More on this at the end of my report.

We are currently on track. Although I am unable today to give you any preliminary figures for our quarterly results at 31 March 2006, which we will be publishing on 9 May, we have so far had no reports of major losses that might give us cause to adjust our target corridor.

In reinsurance, we have laid the foundations for another profitable business year with the very successful renewal of around 66% of our property-casualty reinsurance treaties at 1 January 2006, accounting for a premium volume of nearly €9bn. In the renewals, we took advantage of our opportunities in a positive market environment, whilst adhering to our strictly risk-oriented prices, terms and conditions. This is a hallmark of our underwriting policy, designed to ensure sustained profitability. As expected, the biggest price increases occurred with treaties that had been affected by the hurricanes. Overall, we achieved a rise in rates amounting to over 1.5% for the renewed business; that may seem small but is a considerable amount, given the volume of the business involved. We therefore expect reinsurance to make a substantial contribution to the Group result in 2006. The most recent treaty renewals in Japan and Korea at 1 April also went well. Our premium volume has grown in both countries, too, as we were able to increase our shares in profitable treaties in particular and to acquire promising new business. Munich Re's qualities are more in demand than ever – that is unmistakable.

(Slide 8: Global health market – New business opportunities thanks to significant growth)

Ladies and gentlemen, I would now like to address the first of the two topics which I said I would come back to. It concerns the business initiatives which we can take, or have already taken, as a Group combining primary insurance and reinsurance "under one roof". In this context, I will also consider the parameters for our business in primary insurance – of particular topical relevance is health reform in Germany, and a few words on German life insurance are called for as well in my view. The second topic involves the presentation of our financial objectives – the aforementioned RORAC – and our capital management.

I would like to start with the business opportunities arising for us from the global healthcare market. I have already indicated that the Munich Re Group is in an excellent strategic position here, as we operate in both primary insurance and reinsurance and can thus use the whole "keyboard" at our disposal.

The healthcare market is undoubtedly one of the fastest growing markets in the world. The reasons for this are many and varied: they include demographic trends, medical and technological progress, changing disease patterns, and the fact that growing affluence results in increasingly high demands on healthcare. All this is driving the health market worldwide and creates business opportunities for private providers. Primary insurance and reinsurance have the opportunity to tap this market with their particular business models and specific knowledge in such a way that virtually the entire "value chain" is covered. This includes services related to health, referred to as "managed care services", both in health primary insurance and health reinsurance.

(Slide 9: Life-cycle curves – Utilising opportunities presented by local health markets)

From the perspective of our business opportunities, a clear distinction can be made here between various stages of development, depending on a local health market's "life-cycle curve". In the early stage of a health market's development, the greatest opportunities for us derive from a mixture of services and reinsurance support, as we are currently observing in countries like China or India, or also in the Arab region. Then there regularly comes a phase where the primary insurance market has reached a degree of maturity that enables primary insurance and reinsurance to be successfully conducted alongside each other (as in Germany, for example). And should clients really have no more need for reinsurance, then a provider can switch completely to primary insurance – provided it has the right set-up to do so.

This insight clearly calls for an integrated approach, for strategic and operative coordination of the various initiatives. In the Munich Re Group, we have therefore created just such a coordinating unit – the International Health Board. This body views the activities of the Group in the international health market from an overall perspective, designs an integrated strategic programme for action, and ensures that it is put into practice in operative business.

And our operative implementation of the various initiatives is gathering momentum. In the USA, for example, where we have positioned ourselves through a strategic participation in one of the major disease managers, i.e. companies dedicated to the holistic optimisation of treatment methods for the chronically ill. In Abu Dhabi, where we have a mandate from the government for developing a specialist private health insurer for expatriates. In the UK, where we have entered into a strategic partnership with a specialist broker that is also active in expatriate business. Or in Spain, where we have acquired the concession for the whole public healthcare system in a province on the Mediterranean coast, which includes the building of a hospital. These are examples of a targeted deployment of primary insurance and reinsurance, and I could go on. So you see, as a Group we can tailor our approach to the greatly differing market situations, selecting the solution that is best strategically and offers the better prospects in terms of profitability.

Incidentally – and this just to round off what I have been saying – today we are taking another important step in the area of health primary insurance. A few hours ago, DKV opened an office in Seoul that will pave the way for the development of new business in the Korean health market.

(Slide 10: Business opportunities in reinsurance – Growth from quality, standing and innovation)

Today, I wish to just touch on the business opportunities in reinsurance and go into more detail with regard to ERGO. There are, of course, growth potentials in reinsurance as well. After all, since the beginning of the 1990s, the insurance industry – and also reinsurance – has grown more strongly than the economy as a whole. So we do not need to have any concerns on that score. But we intend to stick closely to our line of "profit before growth", particularly in reinsurance. Premium volume as such is not a goal for us if it is at the cost of falling profitability. We aspire to be the most profitable of the big five reinsurers; that is our objective. That is why we react with equanimity to the prospect of a competitor possibly assuming the position of world's largest reinsurer in terms of premium income. We even see opportunities in this for us, for we will now make particular efforts to win the clients of the two competitors involved – it could be that after the merger there are "too many eggs in one basket".

Growth in reinsurance is fuelled by a provider's quality, standing and capacity for innovation. Moving from a new idea to the development of large business volumes and substantial profits is not something that can be done overnight. Companies that strive to rapidly produce impressive growth figures will soon regret their approach. We therefore primarily intend to develop the growth potential in reinsurance organically. What we do not intend to do, and will not do, is undertake major acquisitions in the reinsurance sector. They are not on our agenda because, given our size, we do not see them as providing any strategic added value in the competitive arena. Conceivable for me is the targeted expansion of our presence in selected markets, as we demonstrated recently by setting up a life reinsurance company in Russia. Also conceivable for me, beyond that, is the acquisition of selected smaller or medium-sized reinsurance portfolios to selectively round off our own portfolio, partly in the interests of diversification.

(Slide 11: Initiatives in primary insurance – ERGO ahead in optimisation and synergies)

And now to ERGO. We are currently engaged in many activities and initiatives through which ERGO aims to achieve sustained profitable growth.

The list is long; therefore permit me to give you just an overview. It begins with the internal measures with which we have been optimising the structures and processes of the ERGO Group for some years now. These include persistent efforts to lower costs in order to further enhance ERGO's competitiveness. There is still scope here, which we intend to utilise. Particularly in its internal structures, ERGO has – in an unspectacular way – already achieved a great deal. We have an operative holding company for the whole ERGO Group with responsibility for the different business segments; we have a joint back office, without having to dispense with the advantages and strengths of different brand companies, and we achieve appreciable synergy benefits as a result. We have invested a substantial amount in this and will continue to do so in future, e.g. for the creation of a joint IT platform for all the German ERGO companies, to be concluded by 2007. And when I speak of large investments in this connection, I mean several hundred million euros. ERGO is well ahead of many competitors in these areas.

We also intend to leave the multi-brand strategy intact. It follows that we will keep the different brand distribution channels, which cover different client segments and which we therefore see as one of ERGO's competitive strengths. This does not mean, of course, that we will not endeavour to optimise our distribution structures from the efficiency point of view, but this will be done within the framework of the multi-brand strategy.

The streamlining of ERGO's foreign business operations is largely completed. We have parted with units that no longer fitted in with our strategic orientation. In future, we will establish or acquire companies where we see promising business opportunities. This is currently the case above all in eastern Europe.

(Slide 12: Business opportunities in primary insurance – ERGO – Example of Germany)

As far as ERGO's "classic" insurance business in Germany is concerned, we have a very favourable portfolio mix in property-casualty insurance. Our market share in motor insurance is around 11 percentage points lower than the market average. In personal accident business, the reverse is true: here our share is a good 17 percentage points above the market average. This means that we are much less affected than other players by current motor insurance trends that have negative implications for profitability; on the other hand, our larger personal accident share gives our business stability and earnings security.

Of major significance in Germany, of course, is provision for illness and old age. In the markets for private health insurance and company pensions, we are the biggest and second biggest provider respectively at Group level nationwide. Thus, the outcome of the current political debate on health reform is of great importance to us. The same applies to developments in life insurance.

The reform of the health system in Germany is becoming more and more of a touchstone for the reformability of our country. So far the structural causes of the problems have not really been tackled. They lie in the nature of the system of pay-as-you-go health insurance and long-term care insurance, and are becoming increasingly acute as a result of demographic change. Just papering over the financial cracks will not get us any further.

It is already the case that pensioners account for 45% of the expenditure in statutory health insurance but provide only around 22% of the income. This means that older insureds in the statutory health insurance system today finance less than half of the benefits they claim. And the limits of what can be demanded of pensioners in times of stagnating or (in real terms) falling pensions have already been reached in many cases. On the other hand, the current working generation cannot be called on to pay higher and higher contributions to make up for earlier political failings. Today we are getting just a foretaste of the future difficulties; the worst is yet to come. When the baby boomers of the 1960s start going into retirement around 2020 and at the same time the number of employees paying into the social security system – and also the number of tax payers – declines further, the ratio of net contributors to net recipients in statutory health insurance will again deteriorate dramatically.

In other words, the need for reform is enormous. Neither a flat-rate health contribution nor a "citizens' insurance scheme" is a suitable way of solving the crisis. Both models attempt to achieve a solution via the income side and are thus merely short-term emergency repairs without sustainable effect. The assumption is absurd that the health system can be put on a permanently sound footing by forcing (as in the "citizens' insurance scheme") 100% instead of 90% of the population into a deficit-ridden pay-as-you-go system. The 10% joining the system would also be entitled to benefits.

The negotiations on health reform in the grand coalition are now reaching the decisive phase. It is good that in the meantime the expenses side is also being discussed in detail.

Less pleasing is that much too often things are simplified in an unacceptable way – sometimes even in a politically calculated manner and therefore irresponsibly in my view – e.g. when private insureds are referred to as the "privileged", who should be required to make special sacrifices. After all, twice as many employees are voluntarily insured with statutory health insurers as with private insurers. And private insureds are by no means all big earners. They have merely chosen a different form of provision allowed for by the state –

quite consciously as a competitor to the state social security system – which has proved itself superior insofar as it is demography-resistant.

The aspect of "sustainability" is still given far too little attention in the debate. Here, I can but appeal to all involved to take sustainable reform steps, without ideological blinkers. Health reform should not be a playing field for new ways of redistributing income – we have the tax system for that. The ideology-free search for solutions should include an unprejudiced consideration of the private health insurers' proposals, which have been on the table for some time and would make possible a successive and socially acceptable changeover to a system fair to all generations, financed on a funded basis – a model already successfully introduced in pension insurance. Why is the talk not of a marked lowering of the earnings ceiling for compulsory statutory health insurance, rather than an increase? Let us give citizens more scope for decision-making. Without more personal provision and personal responsibility, we will not be able to maintain the gratifyingly high level of German healthcare to which all citizens have access. I cannot imagine that in Bismarck's day, when the social security system was being established, anyone dreamt of depriving citizens of responsibility in the way we are experiencing today.

With German life insurance, too, I consider that legislation initiatives are currently going in the wrong direction. Some of the regulations planned in the reform of German insurance contract law undermine essential features of life insurance that distinguish it fundamentally from other forms of provision as a major pillar in private provision for old age. Only life insurance gives its clients temporally unlimited guaranteed benefits and simultaneously covers the biometric risk. This would be *de facto* greatly impaired by the planned reform. Nor can the reform ideas of the ministerial draft can be justified by the judgement of the Federal Constitutional Court on the appropriate participation of policyholders in existing valuation reserves. Indeed, the ideas diverge markedly in places and are particularly worthy of criticism.

According to the reform proposal, half of all valuation reserves would be permanently credited to policyholders within two years, and not only hidden reserves on shares and real estate but also those on fixed-interest securities, without any regard to future developments. That would mean valuation reserves are no longer available to life insurers for an active investment policy, because the value of the permanently credited valuation reserves could no longer be allowed to fluctuate – with the consequence that they could only be invested on a risk-free basis and thus without a reasonable return. Taking this to its logical conclusion, there would naturally also be an impact on the guaranteed benefits, which could not be maintained at the customary level.

Policyholders' entitlements in the event of premature policy cancellation – so-called surrender values – are also to be revised by the insurance contract law reform, in the light of the judgement of the German Federal Supreme Court. They are to be guaranteed in such a way that the client can at any time demand an unscheduled repayment of the policy reserve set aside for the maturity of the policy. All well and good for the individual policyholder who wants to get out of a life insurance policy prematurely, but it would massively impact the economic interests of loyal policyholders, undermining the principle of solidarity. This is because the payment of guaranteed surrender values, not adjusted to the return development, is financed with an outflow of capital that is really needed for the originally promised benefits at the end of the policy period. Consumer protection is important, but the rights of the individual should not be overemphasised at the expense of the insured community – and I sometimes suspect that the complex economic consequences of individual proposals are either recognised too late or not at all.

In both examples taken from the ministerial draft for insurance contract law reform, a seeming advantage for policyholders turns out to be the opposite. "Well meant", ladies and gentlemen, appears to be the opposite of "well done" in this case.

The Association of German Insurers, incidentally, has submitted its own concepts in both instances. They are fully consistent with the highest court judgements, without impairing the functioning of life insurance to the detriment of all insureds. Here, too, I can but appeal to those politically responsible to base their decisions on what makes objective sense.

(Slide 13: Capital management – Risk-based capital as the key steering basis)

Ladies and gentlemen, I will now leave the field of current politics and come to the presentation of our financial targets and capital management.

The core questions here are: How do we steer our business? How do we measure our performance? How can we find a common denominator for our internal business management and our external target communication? And how do we succeed in keeping our capital as lean as possible without depriving ourselves of the chance to exploit future business opportunities? These issues are far from simple.

Last year we gained a pleasing amount in substance, with the Munich Re Group's equity rising by around €4bn to €24.7bn in 2005. This is the equity calculated according to methods and standards of international accounting. It fluctuates with the market values of our investments, which means that if it is used as the basis for our return targets, these will fluctuate accordingly, even though our business portfolio itself has not altered. Even more important, though, is the fact that our equity does not build a bridge with the risks we have assumed. It does not change, for example, if we double our liabilities from natural hazards, even though its exposure clearly increases dramatically. Therefore equity in this form says nothing about whether it is sufficient as "safeguard capital" for our risks.

How much capital do we need for our business? The answer is provided by calculating the risk-based capital. We use the term "risk-based capital" to refer to the funds we need to carry the risks of our current business, i.e. our active portfolio, and to ensure our claims-paying ability even after extremely large losses or crashes on the capital markets. In my view, risk-based capital is the only meaningful basis for measuring our business performance. That is now the undisputed opinion in the capital markets, among supervisory authorities and also among the rating agencies.

The yardstick we use in this connection is net income for the year expressed as a percentage of the risk-based capital – in financial jargon, the "return on risk-adjusted capital", commonly abbreviated to RORAC. The regulating mechanism is actually very simple. If we write risky business, we need more risk-based capital than if we write less risky business. We then have to achieve a nominally higher profit in the first case than in the second, in order to achieve the same RORAC target expressed in per cent. Particularly for reinsurance companies, it is crucial not to create any false incentives for assuming high additional risks. We avoid this by steering our business on the basis of RORAC.

According to our calculations at the beginning of this year, the Munich Re Group's required risk-based capital is €17bn, i.e. markedly lower than the equity shown in our financial statements. Therefore it will not surprise you that the RORAC return target of 15% is higher than the RoE target of 12%. On the basis of a risk-adjusted capital of €17bn, we aim to achieve a RORAC of 15% in 2006 which, taking account of a "risk-free" return on the additional available equity (I will spare you the details here), corresponds to a consolidated profit for the year of €2.6bn to €2.8bn.

We want to use the scarce – and expensive – resource of capital as efficiently as possible. On the one hand, we want to deploy capital – the risk-based capital – where we find an optimum relationship between risk and earnings prospects. On the other hand, we do not want to hoard risk-free surplus capital that our shareholders wish to see "working", i.e. earning a higher return than a risk-free interest rate. In other words, we have to find the right measure for efficient capital provision, with the risk-based capital we calculate internally forming at least the lower limit of capitalisation.

(Slide 14: Cornerstones of capital management strategy)

In determining our definitive capitalisation, we have to bear various objectives and requirements in mind. These embrace our strategic alignment and growth objectives – for which we need a capital buffer – as well as the demands of supervisory solvency regulations and the criteria of rating agencies, which also necessitate a capital buffer, as our internal requirements are currently lower. Last but not least, there are your expectations as Munich Re shareholders.

Within the framework of this "magic pentagon" of external requirements and own targets, we aim to achieve an economically reasonable capitalisation with our capital management strategy. It should give us sufficient free funds – beyond the risk-based capital committed in our business – for the further expansion and development of the Munich Re Group, but at the same time be scarce enough to also have a disciplinary effect internally. As you may conclude from the range of aspects that need to be considered, there is not a single, correct figure that can be universally calculated here. Rather, we have to do the fine-tuning based on a comprehensive assessment of the situation and, going forward, constantly review this with reference to changes in our business parameters.

And now to the practical implementation of our capital management strategy. This includes our dividend policy but also the possibility of a share buy-back.

(Slide 15: Comments on the agenda)

In this context, I also refer you to agenda item 2, "appropriation of the balance sheet profit from the business year 2005", on which you are called to vote. You will find the agenda among the documents you were given today at the entrance to the meeting.

As we announced some time back and already implemented for the business year 2004, we have departed from the policy of paying dividends virtually regardless of results, which we had practised over a long period up to the business year 2003. In connection with a more active capital management approach, we are now pursuing a more flexible dividend policy that reflects the result of the respective business year and takes into account our capital requirements. We again want to deliver on this promise for 2005, as we did for the previous business year: given the outstanding result for 2005, the dividend proposal of the Board of Management and Supervisory Board is the payment of an increased dividend of €3.10 per share, €1.10 higher than last year. Altogether, ladies and gentlemen, we will thus distribute a record amount of €707m to you as shareholders.

As things stand at present, I do not rule out a return of capital going beyond this, via a share buy-back at a later juncture. It depends on the outcome of our planning and thus our capital requirements for the next few years; this planning is just starting. We will also talk with the rating agencies, as hitherto, and keep an eye on our active business. The time horizon for the conclusion of these considerations is less than a year.

Following on from this topic, allow me to comment on two other items of the agenda on which you are called to vote.

Agenda item 5 concerns the "authorisation to buy back and use own shares". The authorisation granted at the last AGM will expire in October, and we would therefore ask you to renew it today. The content of the new authorisation corresponds to that of the authorisation you granted last year. More details can be obtained from the agenda in front of you.

In the past business year, Munich Re and MEAG bought back a total of 15,942 shares for issuing to employees. In addition, Munich Re and other companies in the Group bought back a further 580,889 shares in 2005, and sold 67,839. These shares – like those acquired for this purpose in previous years – serve solely to safeguard stock appreciation rights granted to management. Altogether, at 31 December 2005, a total of 1,572,570 own shares were in the possession of the Munich Re Group, representing 0.68% of the share capital. You can find out more about this on page 177 of the Group annual report.

Under agenda item 6, we ask you to renew the capital authorised for issuing employee shares to all staff of the Munich Re Group; the current authorisation expires in July. The scope of the authorisation is to be extended from €3.84m to €5m, a volume that should be sufficient for the next five years. Equivalent to 0.85% of the current share capital, the authorisation remains within moderate limits.

Dr. Schinzler has already provided you with the necessary explanations regarding agenda item 7, under which the Articles of Association are to be amended regarding the powers of the Chairman of the Meeting.

The second amendment of the Articles of Association proposed in agenda item 7 is designed to give the Company more flexibility in the choice of venue for the Meeting. Up to now it has only been possible to hold AGMs at the registered seat of the Company, i.e. Munich, or at the location of a stock market where Munich Re shares are officially admitted for trading, i.e. Frankfurt as well. Given that the AGMs of DAX companies are being held within an increasingly narrow time corridor and that the venues available for these are limited, the proposed amendment to the Articles of Association is a sensible precautionary measure. Naturally, we want if possible to continue holding our AGMs in Munich and in these pleasant surroundings at the ICM.

I would ask you to approve the motions for these agenda items as well.

Ladies and gentlemen, I come to the conclusion.

In our anniversary year 2005, we again did outstandingly well. Under difficult circumstances, reinsurance once more demonstrated the earnings capacity and quality it has shown in basic business for some years now. Primary insurance not only confirmed that the turnaround in results had been achieved but, earlier than expected, made an excellent contribution to our annual result. But we cannot rest on our laurels, nor do we intend to.

With this promise, I would like to conclude my speech and, also on behalf of my colleagues on the Board of Management, to cordially thank all members of staff throughout the Munich Re Group for their hard work and continued outstanding commitment. Without the dedication of our staff working at the Group companies, the success we have achieved would not have been possible.

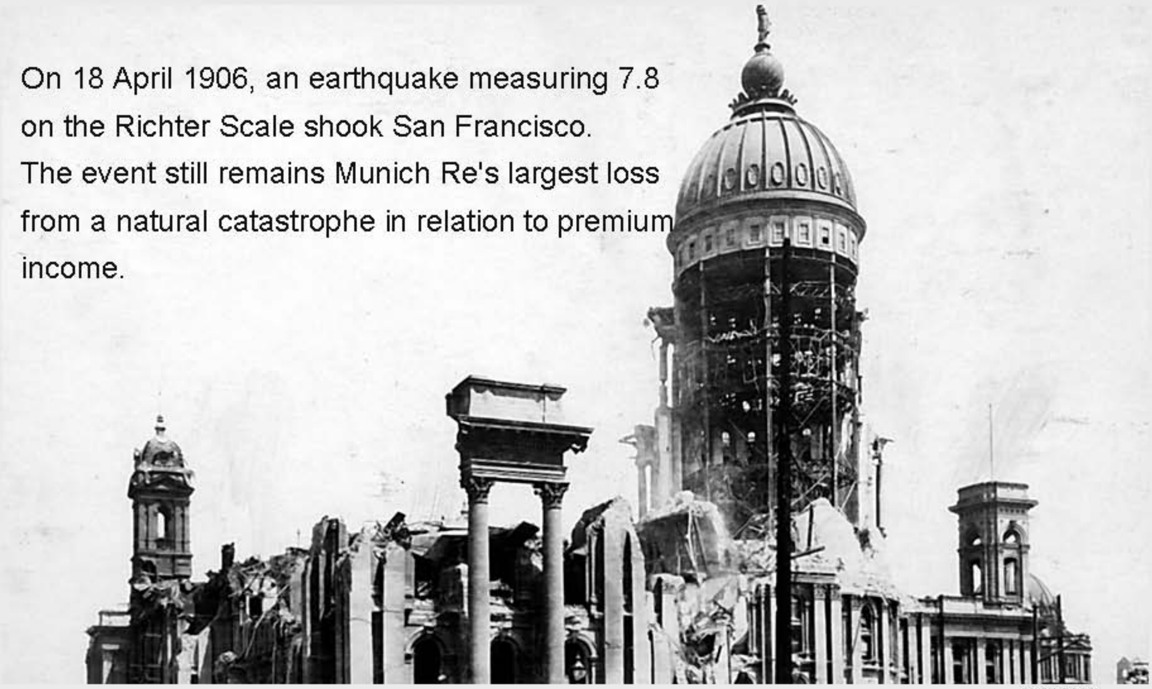
I now look forward to your questions.
Thank you very much.

(Check against delivery)

## Munich Re – 100 years after the San Francisco earthquake

Münchener Rück
Munich Re Group

On 18 April 1906, an earthquake measuring 7.8 on the Richter Scale shook San Francisco. The event still remains Munich Re's largest loss from a natural catastrophe in relation to premium income.



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## Business year 2005 – Main aspects

Münchener Rück
Munich Re Group

**Record result of €2.7bn**

### Natural catastrophes

- Year of record claims costs
- **Core financial strength not impaired**

### American Re

- Line drawn under past
- **Free to focus on future opportunities in US market**

### Investments

- Further derisking
- **Excellent investment result**

**ERGO – Indispensable part of the Group**

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## Business year 2005 – Positive and negative factors

Münchener Rück
Munich Re Group

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|---|---|
| **Major losses** | ▪ Natural catastrophes of €2.6bn net<br>▪ Man-made major losses of over €660m |
| **Reduction of concentration risks** | ▪ Allianz, UniCredit, Commerzbank to below 5% each |
| **Investments** | ▪ Gain on sale of Allianz shares: €552m<br>▪ Exchange of HVB shares into UniCredit stock: €1.15bn<br>▪ Investment result of €10.8bn = 5.9% return |
| **Equity** | ▪ Increase of approx. €4bn to €24.7bn |
| **Group premium** | ▪ €38.2bn |

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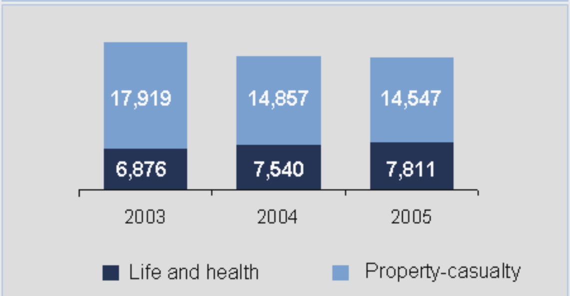
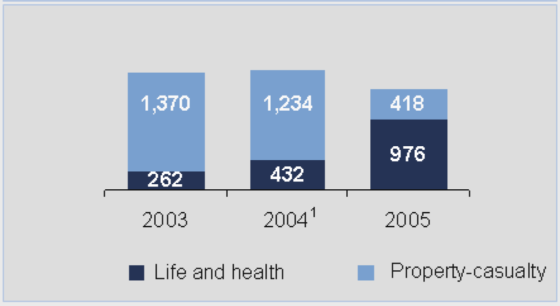
## Reinsurance: Key indicators at a glance

Münchener Rück
Munich Re Group

**Premiums L/H, P-C** (in €m)




**Result L/H, P-C** (in €m)




[1] Adjusted owing to first-time application of IAS 1 (rev. 2003).

**Combined ratio non-life**

| in % | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Loss ratio** | **82.0** | **71.0** | **69.6** |
| **Expense ratio** | **28.5** | **27.9** | **27.1** |
| **Combined ratio** | **110.5** | **98.9** | **96.7** |
| Thereof natural catastrophes | 17.7 | 4.5 | 1.6 |
| Increase of reserves at AmRe (including release of Group IBNR) | 2.6 | 2.5 | 1.9 |

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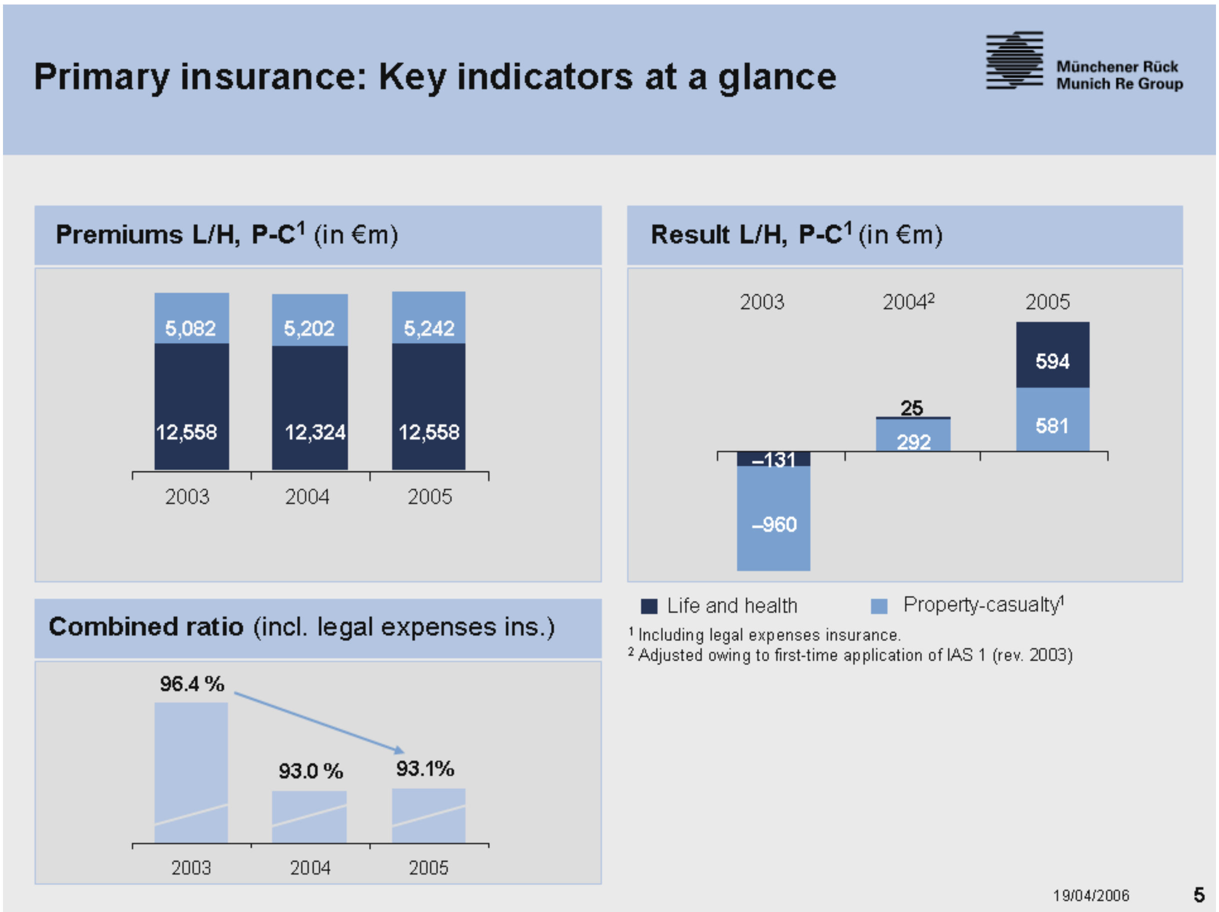
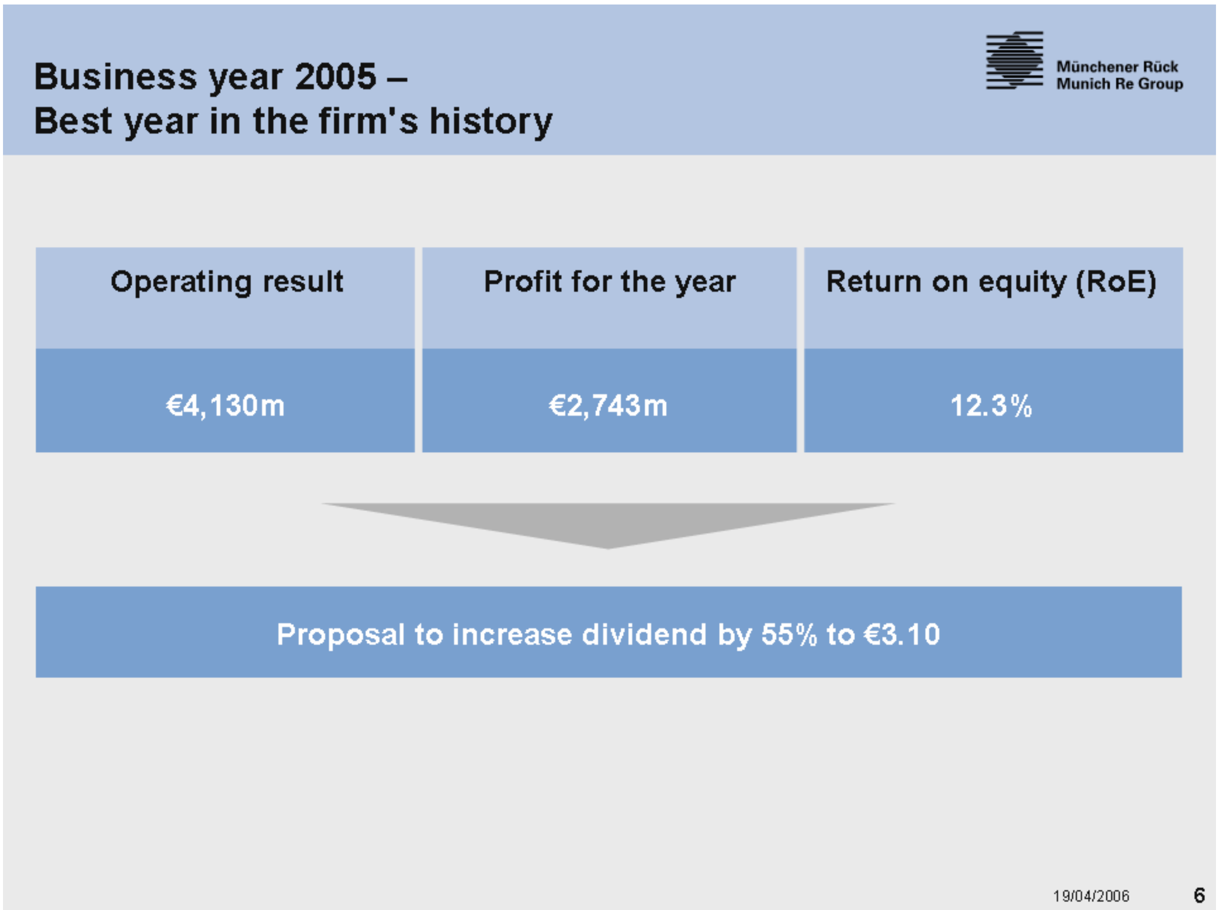

Primary insurance: Key indicators at a glance
Münchener Rück
Munich Re Group
Premiums L/H, P-C1 (in €m)
5,082
5,202
5,242
12,558
12,324
12,558
2003
2004
2005
Result L/H, P-C1 (in €m)
2003
20042
2005
594
25
292
581
–131
–960
Life and health
Property-casualty1
1 Including legal expenses insurance.
2 Adjusted owing to first-time application of IAS 1 (rev. 2003)
Combined ratio (incl. legal expenses ins.)
96.4 %
93.0 %
93.1%
2003
2004
2005
19/04/2006
5


Business year 2005 –
Best year in the firm's history
Münchener Rück
Munich Re Group
Operating result
€4,130m
Profit for the year
€2,743m
Return on equity (RoE)
12.3%
Proposal to increase dividend by 55% to €3.10
19/04/2006
6

## Business year 2006

Münchener Rück
Munich Re Group

### Ambitious objectives again ...

| | |
|---|---|
| **Target** | Return of 15% on risk-adjusted capital in 2006 |
| **Target corridor** | Consolidated result of approx. €2.6–2.8bn |

### ... and we have started well

| | |
|---|---|
| **Renewals at 1.1.2006** | 66% of reinsurance treaty portfolio = nearly €9bn |
| **Rate increase** | Average 1.7% |
| **Renewals at 1.4.2006 Japan, Korea** | Expansion of profitable business |

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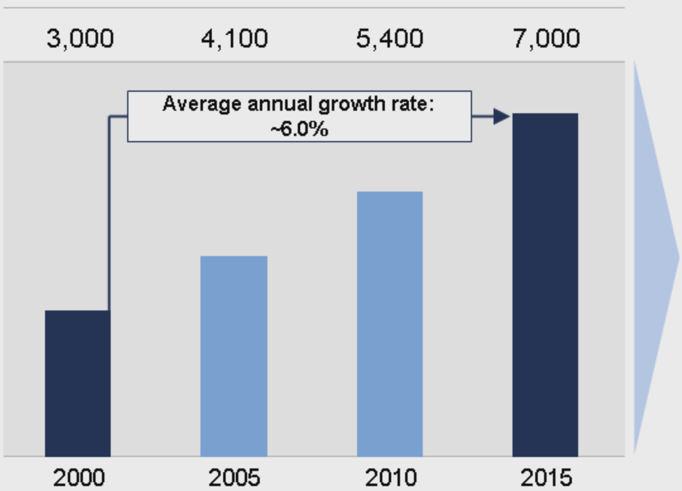
## Global health market – Business opportunities thanks to significant growth

Münchener Rück
Munich Re Group

### Taking advantage of dynamic development

Market volume (in US$ bn)




**Growth drivers**

- Demographic trends
- Medical and technological progress
- Changes in lifestyle
- Growing demands on healthcare

Source: OECD Health Statistics, Compustat, Bloomberg

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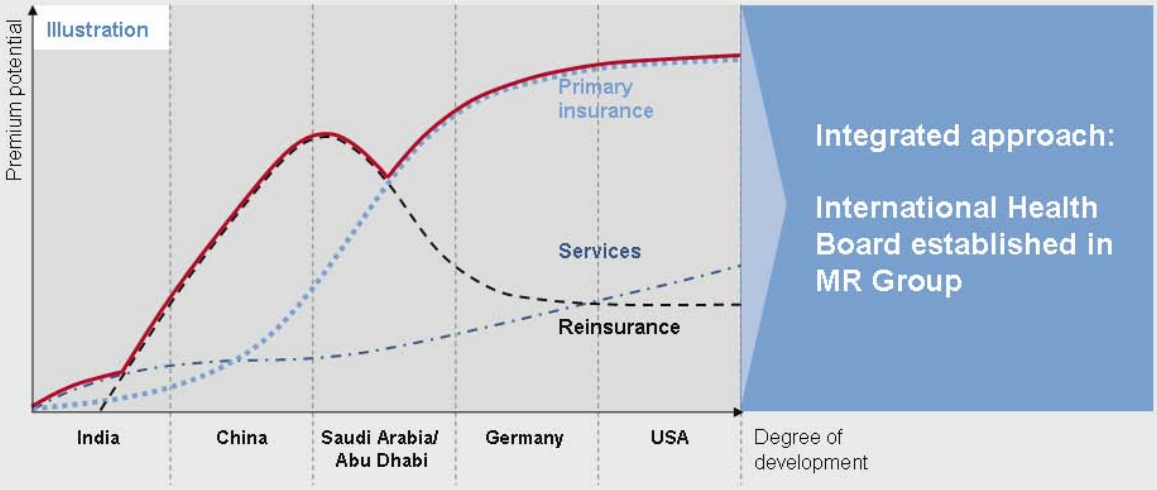
## Life-cycle curves of individual markets – Utilising opportunities presented by local health markets

Münchener Rück
Munich Re Group

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## Business opportunities in reinsurance – Growth from quality, standing and innovation

Münchener Rück
Munich Re Group

| | |
|---|---|
| **Profit before growth** | ▪ Premium volume not at the cost of falling profitability<br>▪ Growth through innovation |
| **Organic growth** | ▪ e.g. formation of a life reinsurance company in Russia |
| **Rounding off the portfolio** | ▪ Acquisition of selected reinsurance portfolios |

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## Initiatives in primary insurance – ERGO ahead in optimisation and synergies

Münchener Rück
Munich Re Group

| | |
|---|---|
| **Optimisation of structures and processes** | ▪ Operative holding company for ERGO Group<br>▪ Joint back office<br>▪ Joint IT platform |
| **Confirmation of multi-brand strategy** | ▪ Brand distribution channels strengthened<br>▪ Different client segments covered |
| **Streamlining of foreign business operations** | ▪ Reorientation and further development |

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## Business opportunities in primary insurance – ERGO – Example of Germany

Münchener Rück
Munich Re Group

| | |
|---|---|
| **Motor insurance** | ▪ Advantageous market position<br>▪ Less affected by current price trend |
| **Personal accident insurance** | ▪ Greater share of personal accident business<br>▪ Ensures more stability and earnings security |
| **Health and life insurance** | Need for reform<br>▪ Health reform: Sustainable solutions required<br>▪ Life insurance: Interests of insured community must be borne in mind |

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## Capital management – Risk-based capital as the key steering basis

Münchener Rück
Munich Re Group

$$\text{RoE} = \frac{\text{Profit for the year}}{\varnothing\ \textbf{Equity}}$$

**Equity**

- Affected by fluctuations in market values of investments
- Does not reflect risks of the business

$$\text{RORAC} = \frac{\text{Modified profit for the year}}{\textbf{Risk-based capital}}$$

**Risk-based capital**

- Reflects risks of the business
- Economically relevant basis for measuring business performance

**15% RORAC with €17bn risk-based capital**

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## Cornerstones of capital management strategy

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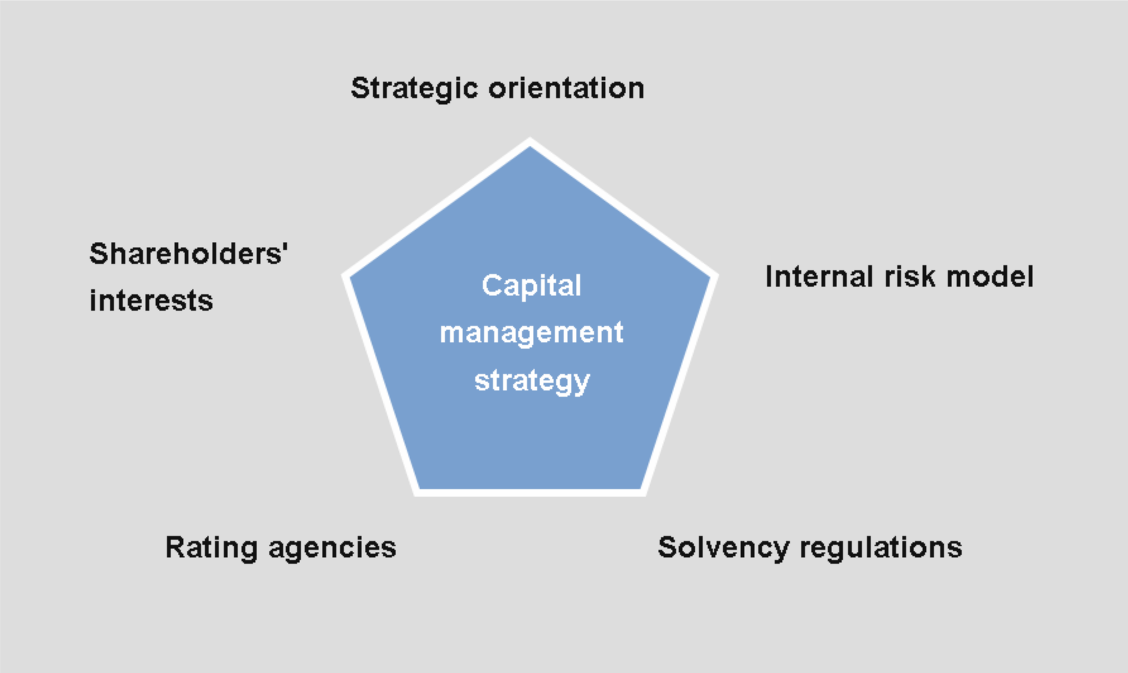
Munich Re Group

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## Comments on the agenda

Münchener Rück
Munich Re Group

- **Item 2:**

  Appropriation of the net retained profits from the business year 2005

- **Item 5:**

  Authorisation to buy back and use own shares

- **Item 6:**
  - Cancellation of existing authorisation for increasing the share capital under "Authorised Capital Increase 2001" and replacement with a new authorisation
  - (Authorised Capital Increase 2006) to issue employee shares and amendment of the Articles of Association

- **Item 7:**

  Further amendments to the Articles of Association

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