Munich RE

Munich Reinsurance Company
Annual General Meeting 2017

Report of the Chairman
of the Board of Management
Nikolaus von Bomhard, 26 April 2017

REPORT

WE PROGRESS AS ONE

Key figures (IFRS)

Munich Re at a glance

		2016	2015	2014	2013	2012
Gross premiums written	€bn	48.9	50.4	48.8	51.1	52.0
Net earned premiums	€bn	47.1	48.3	47.4	49.2	50.5
Net expenses for claims and benefits	€bn	-38.5	-38.7	-39.7	-39.9	-41.0
Net operating expenses	€bn	-12.3	-12.4	-12.0	-12.4	-12.6
Operating result	€m	4,025	4,819	4,027	4,398	5,349
Taxes on income	€m	-760	-476	312	-108	-878
Consolidated result	€m	2,581	3,122	3,170	3,333	3,204
Attributable to non-controlling interests	€m	1	15	18	29	16
Earnings per share	€	16.13	18.73	18.31	18.45	17.94
Dividend per share	€	8.60	8.25	7.75	7.25	7.00
Dividend payout	€m	1,338	1,329	1,293	1,254	1,255
Share price at 31 December	€	179.65	184.55	165.75	160.15	136.00
Munich Re's market capitalisation at 31 December[1]	€bn	28.9	30.8	28.7	28.7	24.4
Carrying amount per share	€	200.86	188.40	178.13	146.15	152.34
Investments	€bn	219.4	215.1	218.9	202.2	213.8
Insurance-related investments	€bn	9.6	9.2	8.5	7.3	
Equity	€bn	31.8	31.0	30.3	26.2	27.4
Return on equity	%	8.1	10.0	11.3	12.5	12.5
Off-balance-sheet unrealised gains and losses[2]	€bn	17.3	16.0	17.4	8.7	11.0
Net technical provisions	€bn	202.2	198.5	198.4	187.7	186.1
Balance sheet total[3]	€bn	267.8	268.9	265.6	254.3	258.4
Staff at 31 December		43,428	43,554	43,316	44,665	45,437

Reinsurance

		2016	2015	2014	2013	2012
Gross premiums written	€bn	27.8	28.2	26.8	27.8	28.2
Investments (incl. insurance-related investments)	€bn	88.9	89.2	88.0	79.2	83.8
Net technical provisions	€bn	65.5	65.4	63.5	60.5	61.1
Major losses (net)	€m	-1,542	-1,046	-1,162	-1,689	-1,799
Natural catastrophe losses	€m	-929	-149	-538	-764	-1,284
Combined ratio property-casualty	%	95.7	89.7	92.7	92.1	91.0

ERGO

		2016	2015	2014	2013	2012
Gross premiums written	€bn	16.0	16.5	16.7	16.7	17.1
Investments (incl. insurance-related investments)	€bn	135.4	131.0	135.5	126.7	124.9
Net technical provisions	€bn	133.6	130.3	132.4	125.1	122.8
Combined ratio property-casualty Germany	%	97.0	97.9	95.3	96.7	98.0
Combined ratio International	%	99.0	104.7	97.3	98.7	99.8

Munich Health

		2016	2015	2014	2013	2012
Gross premiums written	€bn	5.0	5.6	5.3	6.6	6.7
Investments (incl. insurance-related investments)	€bn	4.7	4.1	3.9	3.6	4.2
Net technical provisions	€bn	3.2	2.8	2.5	2.2	2.2
Combined ratio[4]	%	98.5	99.9	98.8	98.3	100.2

1 For 2013, 2014, 2015 and 2016, this contains treasury shares earmarked for retirement.
2 Including those apportionable to minority interests and policyholders.
3 Previous years' figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
4 Excluding health insurance conducted like life insurance.

Munich Reinsurance Company
Annual General Meeting 2016
Report of the Chairman of the Board of Management
Nikolaus von Bomhard, 27 April 2016

Check Against Delivery

Dear Shareholders,
Ladies and Gentlemen,

Welcome to the 130th Annual General Meeting of Munich Re. I would like to welcome those shareholders who are here with us today, as well as those of you who are following the proceedings online.

Munich Re generated a profit of €2.6bn last year.

Is that a gold-plated result? No, it is not. It was a normal year – not especially brilliant, but we can be satisfied in light of the difficult environment.

We met our profit guidance – despite low interest rates, despite pricing pressures in reinsurance, and despite a significant increase in natural catastrophe losses. One year ago, I stood here before you and said that our profit in 2016 would be in the range of €2.3–2.8bn. With a result of €2.6bn, we were in the upper half of this range.

The lion's share of this result was generated in the reinsurance field of business, even though we had to contend with significantly higher natural catastrophe losses. And prices were low because of the competitive environment. So the result was good, but not as high as in the previous year. The result from life reinsurance was above our expectations, as was the contribution from Munich Health.

The units in the Munich Health field of business were reallocated with effect from 1 February; the reinsurance units were transferred to the reinsurance field of business, and the active primary insurance units were transferred to ERGO International. We believe that this new set-up will allow us to better achieve our growth and profit targets in the health field going forward.

ERGO is investing heavily in the future with its Strategy Programme and thus – as expected – reported a slight loss. But the Strategy Programme is on track, and ERGO should be in a position to generate a profit in the range of €150–200m this year. ERGO is expected to make an annual contribution of €600m to our consolidated result from 2021 onwards.

Let us take a closer look at the current financial year. In 2017, we want to achieve a profit in the range of €2.0–2.4bn. Unfortunately, low interest rates are cutting ever more deeply into our regular income from investments, and although the decline in prices in reinsurance slowed, it could not be stopped entirely in 2016 or for the renewals at 1 January 2017. At the moment, profitable growth is not at a level that can sufficiently compensate for falls in income. Against this backdrop, the stated profit guidance is certainly ambitious. A provisional estimate of business performance in the first three months of the year indicates that we are well on track to reach our profit target for 2017.

Today we are presenting you with a rock-solid result. We have not weakened the Company's core. Our refusal to jeopardise sustainable earnings power with fleeting transitory fixes stands firm. Four points underline this:

1. Munich Re is well capitalised. Our equity capital has increased again, even though we returned around €2.3bn to you by way of dividends and share buy-backs last year. With a solvency ratio of over 260%, the Group holds more than two-and-a-half times the capital required of us by the regulators to cover our risks.
2. Our debt ratio is low – extremely low by peer comparison.
3. We exercise healthy caution when measuring our obligations. Our provisions are correspondingly high, in particular the provisions for outstanding claims in property-casualty reinsurance. These are at least as strong as they were a year ago.
4. Our balanced, risk-averse and long-term investment strategy generated a yield of 3.2% last year. At the same time, the valuation reserves on our investments amount to around €28bn. That is far above average. We inevitably have to realise some of these reserves whenever it is necessary to restructure our portfolio.

In short: The balance sheet is strong, and Munich Re is healthy.

The particular strength of our balance sheet produces additional earnings over time, and we are probably better protected against unpleasant surprises than other companies.

Furthermore, we are maintaining our sustainable course. In particular, we are standing by what I have been saying for many years now:

- We will grow, but not if it means writing unprofitable business.
- We will manage our investments in a balanced manner, and we will not use speculative transactions to make up for a shortfall in revenues owing to falling interest rates.
- We will maintain our strong core, and we will not sacrifice future solidity in order to embellish the result today.

In the medium term, our prospects for increasing profits are good. Not only because the price falls for reinsurance cover have already slowed significantly. But also because there is a sliver of hope on the horizon for interest rates – at least in the USA, which has already turned the corner. What is more, we are confident that Munich Re has done the groundwork to ensure further profitable growth. Here I would like to mention the projected rise in profits resulting from the ERGO Strategy Programme, and the gratifying numbers from life reinsurance. Above all, our innovation drive is important for property-casualty reinsurance, as is the systematic implementation of our strategy in traditional business. My successor, Joachim Wenning, will vigorously tap this potential, and I have no doubt that we will see profits climbing again soon.

Munich Re is a Company that is constantly developing. The world is changing, and we all feel this now more than ever. The ability to innovate has been – and remains – decisive for Munich Re's future.

I am wary of the word "proud". But I really am proud of what we have achieved throughout the Group under the label of innovation. Increasing digitalisation gives us the opportunity to offer our clients brand new solutions. Allow me to mention just a few, in order to illustrate the broad range of areas in which we are working.

- Firstly, let us look at Digital Doctor. Policyholders of our Spanish subsidiary DKV Seguros do not have to go the doctor and sit in the waiting room for hours when they are ill. They can speak to the doctor directly via a video link on their smartphone, all from the comfort of their own home, even at the weekend.

- Secondly, I would like to mention “nexible”. In the autumn, ERGO will launch an online insurer called nexible. It has no call centre and no branches. It can only be found online. It is a transparent and intuitive digital service.

- My third example is Digital Partners. Digitalisation allows for completely new types of business models. We are developing some of these ourselves in our innovation labs, and we are cooperating with some of the many start-ups that are now attracted to the industry. We set up the Digital Partners unit to work with these start-ups, which often have smart and even ingenious new ideas. Munich Re has the global market expertise and specialist know-how to turn these ideas into profitable business. Together, we are successful.

- Fourthly, there is the Internet of Things. We are placing a lot of emphasis on the Internet of Things, especially on the use of sensory technology. The wealth of data produced here is perfectly suited to risk assessment and risk minimisation. I would like to give you a simple but illuminating example: our American subsidiary, Hartford Steam Boiler, has installed temperature and moisture sensors in churches. Many American churches regularly suffer water and frost damage because the buildings become cold when not in use. The sensors function as an excellent early-warning system, and the number of claims has fallen significantly. Where we previously had to pay out for water damage repairs, we can now be proactive – by making sure the heating in the churches is turned up before damage occurs. With sensors and the Internet of Things, we are increasingly turning into loss preventers. And, of course, we charge for this service.

- My fifth example is cyber insurance. Munich Re is the global leader in insuring cyber risks. And although we moving cautiously in this field, our premium has doubled over the past four years to more than US$ 260m. Cyber is a promising growth market for Munich Re. We focus on the impact and risks of digitalisation – quite a different aspect of innovation.

I could cite many more examples – from all parts of the Group and across the world. Often, the most innovative ideas result from collaboration between different Group units. Our pipeline of ideas is overflowing.

Technological progress requires a deep understanding of technology. An insurer wishing to offer cover for a wind turbine in the North Sea has no access to historical data – i.e. no statistics – because no wind turbine has ever been in operation for decades in salt water out on the open seas. That is why we employ many expert engineers whose job it is to assess these risks – they understand the technology. Take the example of cyber insurance. Computers, software, security systems – and, above all, the methods used by hackers – are developing continuously and in ever-shorter innovation cycles. This means that data and expertise from the past quickly become worthless. Each new system or software update changes the risk; old security vulnerabilities are eliminated and new ones appear. Here, too, statistics can only help to a limited extent. Instead, we ourselves must be in a position to estimate the current and future risk. This is why we are expanding our IT competence and working closely with a number of technology firms.

For decades, we have been working towards establishing technological leadership. This is a term that you might expect to hear at the annual general meeting of Siemens or BMW, but not here. We do not want to be technology leaders in the sense of promoting technological advances ourselves, by developing self-driving cars or the like. Of course not. But we do want to understand the opportunities and risks of new technologies better and more quickly than our competitors, and use this understanding to develop innovative products and business models.

At the same time, digitalisation itself opens up new horizons for our core business. Big data and its analysis allow us to extract findings that would not have been previously possible. The analysis of big data allows us to model the potential impact of an event much more precisely – whether that be a typhoon in Asia or a technical defect at a supplier that results in business interruption – and also to adjust our risk management accordingly. Only if we have a better understanding of certain risks can we insure them at all. We can also record losses more quickly and efficiently, thus optimising our claims management. We can more easily spot signs of insurance fraud. We can identify clients with specific coverage needs and approach them directly. You have probably seen Amazon saying "Customers who have bought this might also be interested in this". We use all the above with respect to our own portfolios. And we sell these analytical capabilities to other insurers, which often do not have the resources to develop modern data analysis instruments for themselves.

The more important knowledge becomes for insurers, the better it is for Munich Re. This is because, on the one hand, we are well on track with our innovation strategy – perhaps more advanced than most of our peers. We receive first-rate feedback – not only from our clients, but also from the technology companies and start-ups we work with. On the other hand, Munich Re has never been willing to limit itself to simply offering underwriting capacity. Risk knowledge has been key for us for 137 years. I am convinced that whoever now leads the field with respect to technology know-how – and is able to find the right answers to the challenges of digitalisation facing insurers – will have a competitive advantage in tomorrow's markets. All signs are that Munich Re will be part of this elite group.

What does all this mean for you? What do you gain from your investment in Munich Re?

Our share price has increased, though not spectacularly. On the screen, you can see the shareholder return, the overall yield from share price performance and the dividend. The higher you are on the chart, the greater the shareholder return. The further you go to the left, the lower the volatility of results. The ideal spot is as far left and high up as possible. You can see that, in terms of return, we have left our competitors behind – with the exception of competitor 3. You will also note that our shareholder return was subject to far lower volatility than that of our peers. As I said last year, an investment with us is not a roller-coaster ride.

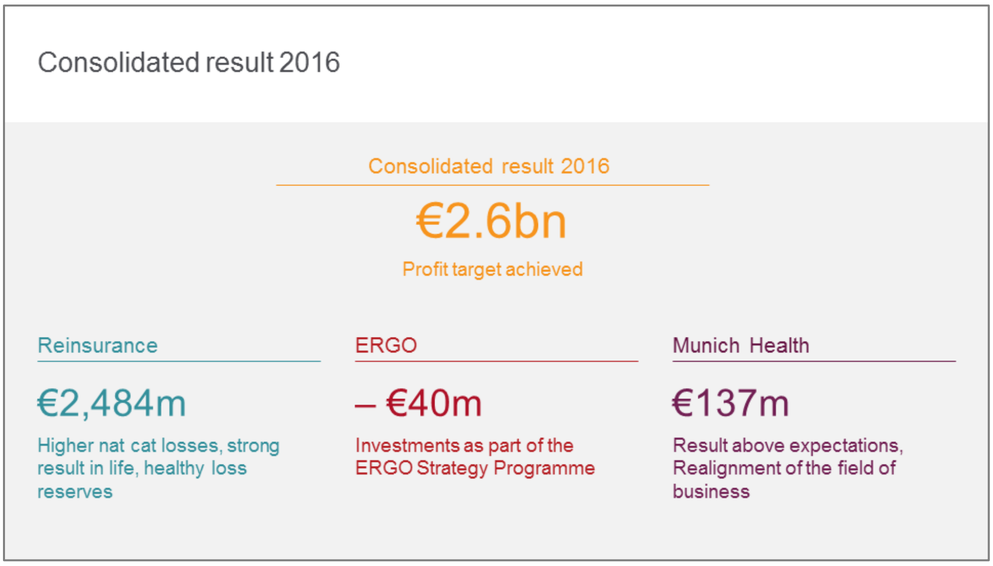
Our dividend is also increasing, and – with your agreement – we will raise it to €8.60. For years – decades even – our dividend policy has been sustainable and shareholder-friendly. We remain true to these two principles. We have not lowered the dividend for almost 50 years, and dividend-cutting is not a concept that we endorse.

In addition, shareholders who hold on to their shares profit considerably and indirectly from our share buy-backs. Your stake in Munich Re and in its future profits grows with each share that we buy back and retire. We see buy-backs as a flexible instrument to optimise capital that – in contrast to the dividend – is not set in stone. Our share buy-back programmes are not unlike Bayern Munich winning the Bundesliga every year: it is not a foregone conclusion, but it does not exactly come as a surprise either. Our current share buy-back programme expires today. We will shortly be launching a new programme, and intend to repurchase shares with a value of up to €1bn before the next Annual General Meeting.

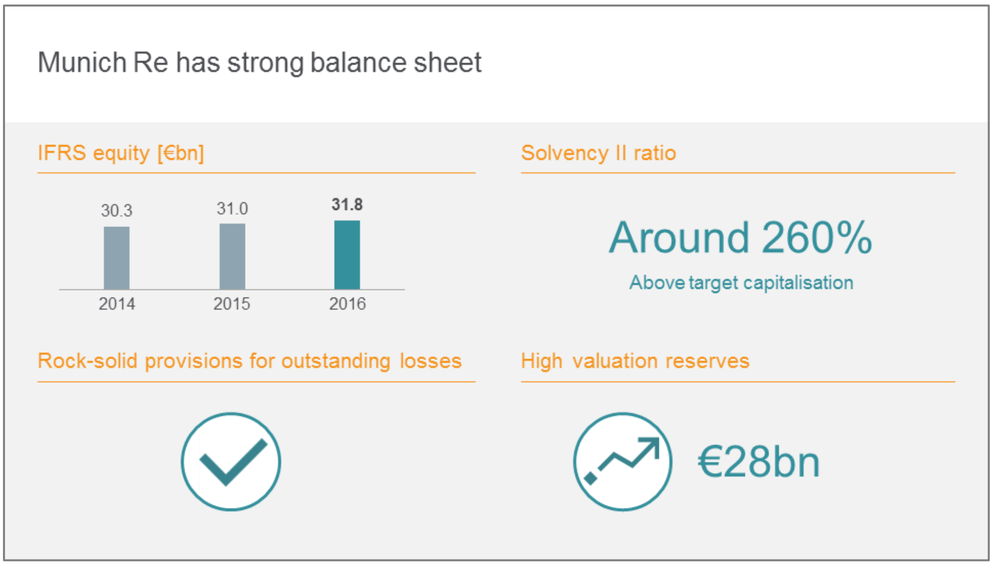
We are reliable. Our share price is more stable than others. Our dividend moves in only one direction – upwards. Share buy-backs round off the package. Our shares are a safe haven in your portfolio. And our 43,000 staff across the world are working hard to ensure that your trust in Munich Re will pay off in the future as well. We hope that you will continue to place your trust in us.

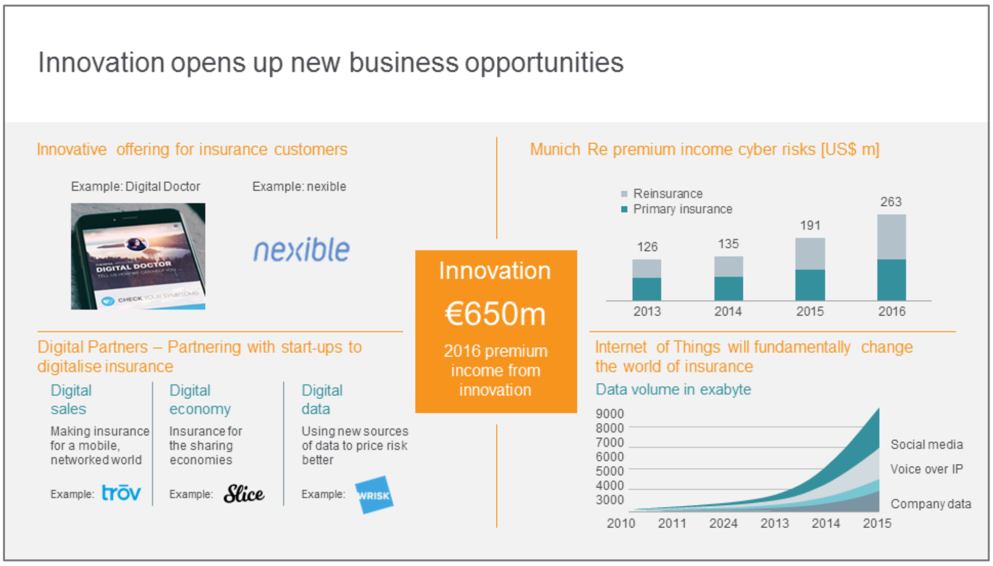
Thank you for listening.

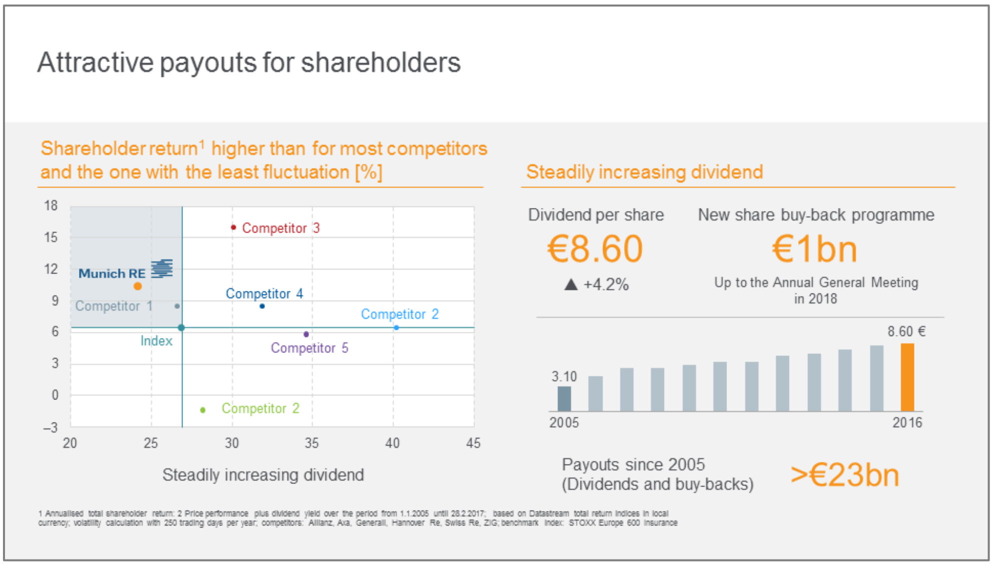

2017
Munich Reinsurance Company
Annual General Meeting 2017
Nikolaus von Bomhard
Chairman of the Board of Management
130th Annual General Meeting
Munich RE


Consolidated result 2016
Consolidated result 2016
€2.6bn
Profit target achieved
Reinsurance
€2,484m
Higher nat cat losses, strong result in life, healthy loss reserves
ERGO
– €40m
Investments as part of the ERGO Strategy Programme
Munich Health
€137m
Result above expectations, Realignment of the field of business


Outlook for 2017
Profit guidance for 2017
€2.0–2.4bn
Reinsurance
€1.8–2.2bn
ERGO
€150–200m
ERGO Strategy Programme:
leads to increasing profits [€m]
–40
150–200
530
~600+
2016
2017
...
2020
2021


Munich Re has strong balance sheet
IFRS equity [€bn]
30.3
31.0
31.8
2014
2015
2016
Solvency II ratio
Around 260%
Above target capitalisation
Rock-solid provisions for outstanding losses
High valuation reserves
€28bn


Innovation opens up new business opportunities
Innovative offering for insurance customers
Example: Digital Doctor
Example: nexible
nexible
Innovation
€650m
2016 premium income from innovation
Munich Re premium income cyber risks [US$ m]
Reinsurance
Primary insurance
126
135
191
263
2013
2014
2015
2016
Digital Partners – Partnering with start-ups to digitalise insurance
Digital sales
Making insurance for a mobile, networked world
Example: trōv
Digital economy
Insurance for the sharing economies
Example: Slice
Digital data
Using new sources of data to price risk better
Example: WRISK
Internet of Things will fundamentally change the world of insurance
Data volume in exabyte
9000
8000
7000
6000
5000
4000
3000
2010
2011
2024
2013
2014
2015
Social media
Voice over IP
Company data


Attractive payouts for shareholders
Shareholder return[1] higher than for most competitors and the one with the least fluctuation [%]
18
15
12
9
6
3
0
–3
20
25
30
35
40
45
Competitor 3
Munich RE
Competitor 1
Competitor 4
Competitor 2
Index
Competitor 5
Competitor 2
Steadily increasing dividend
Steadily increasing dividend
Dividend per share
€8.60
▲ +4.2%
New share buy-back programme
€1bn
Up to the Annual General Meeting in 2018
3.10
8.60 €
2005
2016
Payouts since 2005
(Dividends and buy-backs)
>€23bn
1 Annualised total shareholder return: 2 Price performance plus dividend yield over the period from 1.1.2005 until 28.2.2017; based on Datastream total return indices in local currency; volatility calculation with 250 trading days per year; competitors: Allianz, Axa, Generali, Hannover Re, Swiss Re, ZIG; benchmark index: STOXX Europe 600 Insurance

Information on the agenda

Item 2	Resolution on the appropriation of the net retained profits from the financial year 2016
Item 3	Resolution to approve the actions of the Board of Management
Item 4	Resolution to approve the actions of the Supervisory Board
Item 5	Resolution to approve the remuneration system for the Board of Management
Item 6	Resolution on the authorisation of the acquisition and disposal of own shares, the possibility of excluding tender and subscription rights, the retirement of acquired treasury shares, and on the cancellation of the existing authorisation
Item 7	Resolution to authorise the buy-back of own shares using derivatives, as well as the option to exclude subscription and tender rights
Item 8	Resolution to elect a member of the Supervisory Board
Item 9	Resolution to cancel the Authorised Capital 2013, to create new Authorised Capital 2017 with the possibility of excluding subscription rights, and to amend Article 4 (1) of the Articles of Association
Item 10	Resolution on the approval of a profit transfer agreement
Item 11	Resolution on the approval of two profit transfer agreements

Imprint

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Responsible for content
Financial and Regulatory Reporting
Group Communications

The official German original of this report is also available from the Company. In addition, you can find our annual report and interim reports, along with further information about Munich Re, on the internet at www.munichre.com.

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All the facts and figures for the 2016 financial year can be found in our Group Annual Report. More at www.munichre.com/annualreport2016

Important dates 2017

9 May 2017
Quarterly Statement as at 31 March 2017

9 August 2017
Half-Year Financial Report as at 30 June 2017

9 November 2017
Quarterly Statement as at 30 September 2017

Important dates 2018

15 March 2018
Balance sheet press conference
for 2017 financial statements

25 April 2018
Annual General Meeting

8 May 2018
Quarterly Statement as at 31 March 2018

8 August 2018
Half-Year Financial Report as at 30 June 2018

7 November 2018
Quarterly Statement as at 30 September 2018