

# MUNICH REINSURANCE COMPANY ANNUAL GENERAL MEETING

Report of the Chairman of the Board of Management  
Nikolaus von Bomhard, 28 April 2010



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## Key figures

| <b>Munich Reinsurance Company</b>            | <b>2009</b> | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|-------------|
| €m   |             |             |             |
| Gross premiums written                       | 18,322      | 16,495      | 17,562      |
| Investments                                  | 70,204      | 70,763      | 72,080      |
| Net technical provisions                     | 51,791      | 53,252      | 55,289      |
| Shareholders' equity                         | 10,760      | 9,782       | 9,306       |
| Profit/loss for the year                     | 2,458       | 2,987       | 1,443       |
| Dividend                                     | 1,088       | 1,073       | 1,124       |
| Dividend per share in €                      | 5.75        | 5.50        | 5.50        |
| Share price at 31 December in € <sup>1</sup> | 108.67      | 111.00      | 132.94      |
| Market capitalisation at 31 December         | 21,452      | 22,910      | 28,966      |

<sup>1</sup> Source: Datastream



In the lead – 3:0 for Munich Re. In this year's Group Annual Report, you can find out how our business is related to football, what formations we adopt to score in the markets, and which major goals we achieved last year. The report also contains all the important data and facts on the past financial year and our shares. More at [www.munichre.com/report/2009/en](http://www.munichre.com/report/2009/en).

**Embargo: 28 April 2010, commencement of speech**

Check against delivery



Ladies and gentlemen,

On 9 July 2006, the Italian and French football teams met in Berlin to contest the final of the World Cup. The score after 120 minutes was 1:1, and the Squadra Azzura won the trophy after a penalty shoot-out.

*(Slide 2: In the lead)*

In 44 days, on 11 June, the opening match of the 2010 World Cup will take place in Soccer City Stadium in Johannesburg, with the hosts South Africa playing Mexico.

What does all this have to do with us you may ask? There are at least two things.

Firstly, for many colleagues in our Group, "their" team was taking part in the final back in 2006; in six weeks' time, other staff will be supporting either the hosts or their opponents. After all, we have subsidiaries or branches in the four countries mentioned – as indeed we do in many of the other countries participating.

Secondly, we were and will be involved in both World Cups not only emotionally, with our enthusiasm for football, but also in a hard-headed business way. To ensure that such major events do not end in financial disaster, the organisers generally take out insurance against the risk of cancellation. Munich Re had a share in this cover in 2006, and with liability of up to €350 million for complete cancellation of the forthcoming World Cup, we are also one of the biggest – if not the biggest – risk carrier in South Africa.

And so good morning to you here at the ICM and also to those following the AGM on the internet. On behalf of the Board of Management of Munich Reinsurance Company, I would like to welcome you most warmly to the 123rd Annual General Meeting of your Company.

As you will have noticed, the German brand name "Münchener Rück" has been dropped in favour of "Munich Re". This applies both in reinsurance and for the Group as a whole. Our shares continue to be officially listed on the stock exchange under the short German name. Otherwise, we have been operating for a good half year under the Munich Re brand, which the majority of our clients and investors know us by already – but more on that later.

Our shareholders have the opportunity for the first time this year to exercise their voting rights by postal vote and online, without attending the AGM. I am nevertheless delighted to see so many of you here today in person.

This year, our agenda contains 11 voting items. To begin with, you will be asked to vote on the usual resolutions on profit appropriation and the actions of the Board of Management

and Supervisory Board. We will then ask you to approve the remuneration system that has been in place for members of the Board of Management since 1 January 2010 and the appointment of Dr. Benita Ferrero-Waldner to the Supervisory Board. Subsequently, you will vote on capital measures and amendments to the Articles of Association. At the end of my report, I will be explaining the proposals of the Board of Management and the Supervisory Board for the individual items to be voted on.

I will begin with an overview of the past financial year, presenting the result for the Group and considering the influences to which we were exposed last year. I will go on to analyse why we were so successful in 2009. Following this, I will outline important developments and advances we have made in our strategic initiatives in the three fields of our business. To finish, I will give you an insight into the objectives we have set ourselves for the current year and beyond.

*(Slide 3: 2009 – Market's expectations surpassed)*

#### **Munich Re with a successful Group result for 2009**

I take pleasure in presenting another good result to you for 2009. The past financial year was marked by great uncertainty arising from the crisis and a difficult business environment. Despite this, we had adhered to our ambitious target of a long-term return on risk-adjusted capital – RORAC – of 15%. We clearly achieved this target with a RORAC of 15.1%. Translated into euros, that means a profit of €2.56bn, or an increase of more than 60% year on year. We are all proud of this result in the Group, which surpassed the market's expectations.

What is more, over the course of the year, we were able to further improve our strong capital base: our reported equity increased to €22.3bn. We achieved this increase despite continuing the share buy-back and despite the attractive dividend for the financial year 2008. Furthermore, we financed our company acquisitions entirely from our own resources. Our economic capital, which includes the subordinated bonds we have issued, amounted to €28.4bn at 31 December 2009. This compares with a risk capital requirement of €17.4bn calculated with our internal model, which means we have a capital buffer of some €11.0bn. In other words, we are very solidly capitalised, also in terms of rating and regulatory requirements.

Ladies and gentlemen, we have been successful as a Group and we want you to share in this success. I am therefore delighted to be able to propose an increase in the dividend from €5.50 to €5.75 for the financial year 2009.

Our strategy has again proved its effectiveness. We have firm foundations on which to build: our broadly based business model with its diversification effects; the consistently economic and risk-based management of our business; and our fundamentally prudent approach. With our competence in the management of risks, our innovation capacity and our proximity to clients, we have a competitive edge that will continue to make Munich Re successful as a group in the future.

I thank you, ladies and gentlemen, for the confidence you have shown in us. And, on behalf of my colleagues on the Board of Management, I also wish to thank all the staff in the Group for their hard work, prudence and commitment in the past year. In turbulent times, they played their part in ensuring that we were able to grow profitably. Munich Re has delivered; we have created value.

*(Slide 4: Munich Re stands firm in a difficult market environment)*

#### **Munich Re is well prepared for a difficult market environment**

The last two years have exacted a good deal of us. Let us recall: the banking crisis was followed by the most severe recession for decades. Economies suffered a sharp downturn worldwide. The capital markets hit their nadir in the first quarter of 2009. Governments and central banks responded with massive support measures such as economic stimulus programmes and interest-rate cuts. This prevented the imminent collapse of the financial markets and an even worse recession.

In the meantime, the economy in the leading industrial nations has revived, and the worst appears to have been overcome. However, it will not be possible this year to make up for the economic growth lost in 2009. Nor can we expect to revert to the growth dynamics of previous years in the near future. Some people nevertheless seem to think the crisis is over. And it is indeed quite astonishing how quickly the capital markets have recovered.

Whether the recovery is sustainable remains an open question. An increasing number of company insolvencies could lead to defaults with banks and subsequently to a credit crunch. As far as the real estate market is concerned, we have probably not heard all the bad news yet. Rising unemployment due to insolvencies could adversely affect domestic demand. All this may jeopardise the recovery. The same applies if governments and central banks prematurely withdraw support measures. But if countries miss the right exit point, new bubbles could arise and inflation could rise significantly.

These macroeconomic trends directly and indirectly determine the development of interest rates. They are therefore of great importance for us both in our underwriting business and in our investments. We have naturally prepared ourselves for the consequences. A prolonged

phase of low interest rates has implications for reinvestments – a risk particularly present in life primary insurance. We have hedged against this risk to a considerable degree with appropriate financial instruments. It is also our declared objective to create value in the underwriting section of our balance sheet, i.e. on the liabilities side. Therefore, we only take additional risks on the capital markets to a limited and controlled extent. This does not make us immune to volatility on the capital markets, but it makes us resilient and stabilises our result. We proved this in the crisis and will continue to adopt such an approach in future.

*(Slide 5: Opportunities from the crisis taken)*

Where opportunities arose from the crisis, we grasped them. In the USA, we acquired the Hartford Steam Boiler Group. This leading specialty insurer is an excellent match for our competence profile in reinsurance and fits in seamlessly with our strategy. For our reinsurance clients in life and health, we devised tailored solutions consisting of reinsurance for large portfolios as a capital substitute. A need for this had been triggered by the impact of the financial crisis on our clients' capital base. However, state interventions, a return of the general risk appetite and, following this, the rapid recovery of the capital markets meant that demand was not as high overall as we had expected. Still, clients greatly appreciated our flexible and very individual proposals for solving urgent problems. We therefore expect good business opportunities to come our way again here in the future.

### **Success factors: Consistency gives us flexibility**

If you want to know my personal conclusions for dealing with the crisis, they can be summarised as follows: What is crucial is transparency across all lines of business and exposures. Just as important are a well-developed integrated risk management function that has sufficient say in the Group, and a sensible attitude to opportunity and risk. Munich Re is emerging stronger from the crisis, during which we provided you – our shareholders – with an attractive return. That is an achievement, particularly given the business environment. This success is reflected in absolute figures and, above all, in direct comparison with our main competitors. We show up well in terms of all the usual key balance-sheet figures and also in terms of share price performance.

*(Slide 6: Comparison with main competitors)*

Now some of you may say: "Munich Re's share price used to be €300 and higher". To this I would reply: That was in the days of the New Economy. At their peak, our shares were valued with a price/earnings ratio of nearly 140; the figure for the DAX was around 40. For



many stocks in the “Neuer Markt”, this ratio was even well over 200. And it seemed to be going in only one direction: steeply upwards. Today we know that all this was unjustified. It was a speculative bubble, an over-exaggeration by the market.

Since that bubble burst, our share price performance has been very stable in comparison with most of our competitors and the DAX. In the crisis year 2008, when many industrial and insurance companies – and particularly the banks – suffered huge price losses, we demonstrated our relative strength. While company profits collapsed on a broad front, we continued to deliver solid earnings. This was rewarded by the market.

Our consistency paid off. We maintained our flexibility even in the crisis and were able to drive our strategic initiatives forward. At the same time, we have sharpened the positioning of our fields of business.

We have a wide variety of insurance and service companies in our Group operating in diverse business segments and markets. Together, all these activities form a portfolio that we manage actively and holistically at Group level.

Besides our traditional areas of business, we are resolutely developing very divergent fields of investment. These include ERGO’s international activities and Munich Re Risk Solutions, the brand under which our speciality insurers in the business field of reinsurance operate, with the goal of tapping into new groups of clients in market niches via our risk competence.

The list of these initiatives is long – too long for an AGM. One just needs to think of the host of new ideas for solutions in reinsurance or the activities of Munich Health, which is breaking new ground with many of its ventures.

*(Slide 7: Three pillars of value-based portfolio management)*

This value-based portfolio management, as we call it, rests on three pillars: Our risk management ensures, by means of clearly defined processes, that we adopt a uniform view with consistent evaluation of risks Group-wide. Our asset management is shaped by the “replication” or matching of underwriting liabilities in terms of structure, currencies and durations. For us, investments do not have a “life of their own”: we are always conscious of the fact that a higher return usually entails greater risk. Lastly, with our capital management, we ensure that we deploy capital flexibly where it adds the most value, whilst taking care that we always have an appropriate capital buffer. If, beyond this necessary buffer, we have capital on which we cannot earn the returns otherwise expected in the Group, we return this to our shareholders. Thus, in addition to paying attractive dividends, we have bought back shares with a total volume of €5bn since November 2006.

In this way, we increased the total cash yield (the overall return from share buy-back and dividends) to nearly 10% in 2009. This figure is gratifying in comparison with most of our important competitors and with the relevant indices. In addition, there has been a considerable reduction in the volatility of our shares – the fluctuations in our share price – over the past few years. Today, it is well below that of important indices like the DAX 30 or the Dow Jones Euro Stoxx 50. This reduces the cost of capital and provides you with reliable earnings.

*(Slide 8: ERGO – clearly back in the profit zone)*

### **ERGO grows internationally – New brand architecture to drive business forward**

I now come to the individual fields of business and will start with primary insurance. ERGO held up well in a difficult economic environment and was able to clearly improve its consolidated result to €173m. Our total premium income in primary insurance rose by 5.3% to €19.1bn, thanks to both organic growth and acquisitions in Germany and abroad. As in the previous year, ERGO grew especially strongly in international business and now generates almost half of its new business outside Germany. This underscores ERGO's aspiration to be one of the leading primary insurers not only in its home market.

*(Slide 9: ERGO – Expansion in international markets)*

Unfortunately, the pleasing development of some of ERGO's companies abroad is not reflected in our reporting currency. This applies in particular to Poland and Turkey, whose currencies fell substantially against the euro last year. By contrast, a significant contribution came from Bank Austria Creditanstalt Versicherung, which was included in ERGO's figures for a full year in 2009 for the first time and also recorded very pleasing organic growth. HDFC ERGO, our joint venture in India, is making very good progress as well, and its development is above plan.

In the German market, it is evident that, at least in the crisis, the willingness to make private provision through the payment of regular premiums is declining appreciably, even though the situation of the public pension system is well known. By contrast, single-premium business has grown strongly, albeit not nearly as strongly in our case as in the rest of the market. It is worth taking a clear look at the economic parameters of this business: not every piece of single-premium business creates value, which is why we have quite consciously not engaged in writing large blocks of such cover.

Life and annuity insurance stand for the promise of secure, sustainable cover with a guaranteed minimum interest rate and additional profit sharing. Life insurance companies

need to make provision for prolonged periods with low interest rates, such as the one we are currently experiencing. Incidentally, the interest-rate level is a direct consequence of the banking crisis; this extremely cheap refinancing has, ironically, meant certain profits for the banks. The consequences of this government assistance are being borne by insurers and policyholders.

Life insurance's quality as a secure investment and form of provision has been impressively confirmed in the crisis. In the case of investments in funds – most recently property funds – investors have not only failed to receive any return but have often lost large portions of the actual capital they invested. In this context, it is seriously misleading to call a reduction in bonuses by 20 basis points “critical” for the holders of life insurance policies. ERGO, too, has reduced its policyholders' bonuses. I have already mentioned our additional hedging of reinvestments against prolonged low interest rates. None of this makes things easier for us in competing for new clients. But as a result we do not burden our business in force, we spare our contingency reserves and we do not run additional risks by, for example, betting on an interest-rate increase. This is our risk management in practice – looking reality in the eye and acting in an economically prudent way.

Our German health insurance business has been affected by the health reform – I talked about this last year – but not as badly as initially expected. Here, too, social security systems are overstretched, and urgent issues of healthcare financing remain unresolved. Private health insurance, with its funded basis, offers insureds protection against the sort of cuts in benefits required by the financial state of public health insurance and against demographically-induced premium increases.

*(Slide 10: ERGO – Combined ratio within long-term target)*

In Germany, the combined ratio for property-casualty business including legal expenses insurance was again below 90%. Here we benefit from ERGO's favourable product mix. We are much less affected than others by the price competition in motor insurance. In international business, changes in exchange rates made themselves felt both on the premium side and in the combined ratio. Particularly in the eastern European markets, they inflated the prices for spare parts that have to be imported from abroad and paid for in foreign currency. For this reason, and because of the greater impact of the economic crisis in some countries, the combined ratio in international business rose to over 100%. We are taking countermeasures here. Altogether, the combined ratio for the property-casualty insurance segment, including legal expenses insurance, came to 93.1% for 2009. That is higher than in the previous year, but once again well within our long-term target of 95%.

*(Slide 11: New ERGO brand strategy – Impulse for future growth)*

In November, ERGO launched an extensive realignment of its brand profile in Germany. ERGO has been observing for some time that insurance clients are tending to use a whole variety of channels to buy insurance and putting together the cover they need individually. They are now guided to one strong brand and one strong risk carrier for each type of business. Direct insurance is already being sold under the new brand “ERGO Direkt”, the insolvency of Arcandor having required immediate action with regard to the KarstadtQuelle Versicherungen brand. The market response has been exceptionally positive. By the fourth quarter, we will also be operating solely under the ERGO brand in life insurance and in property-casualty insurance. ERGO will withdraw the Hamburg-Mannheimer and Victoria brands from the market. The providers of speciality business – DKV, D.A.S. and ERV – are market leaders in their lines and correspondingly well-known, also outside Germany. They will retain their brand names.

The new brand architecture increases efficiency as well, with resources being invested more effectively by combining advertising budgets to focus on just a few brands. ERGO's competitiveness will be enhanced, and impulses provided for future growth. At the same time, the new brand architecture supports the Group's primary insurers outside Germany, most of which already operate successfully as ERGO.

Without the integration steps taken in the last few years, the transition to the ERGO brand in German business would have been much more arduous. ERGO has already established a common back-office in German business, so the transition should be manageable without major organisational changes. Incidentally, in October 2009, all the staff of the German brand companies except those working in the sales offices were transferred to ERGO Versicherungsgruppe AG – no fewer than 10,000 employees.

You are familiar with ERGO's international strategy, which we are continuing to pursue unchanged. We aim to expand business particularly in eastern Europe and in selected Asian markets. At the same time, through partnerships in Greece and the Baltic, we have extended our use of the increasingly significant sales channel of banks. The insurers we have acquired so far have been integrated into the Group as planned, the most recent example being BA-CA Versicherung in Austria.

As you know, Munich Re – as the parent company – has increased its stake in ERGO from just under 95% to over 99%. At ERGO's forthcoming AGM, a squeeze-out resolution is to be adopted. This will result in a simplification of shareholding structures and save costs. It will also facilitate even closer cooperation within the Group.

I will now turn to reinsurance.

*(Slide 12: Pleasing result in business field of reinsurance)*

**Acquisition of Hartford Steam Boiler demonstrates our scope for action in the crisis**

Ladies and gentlemen, with a profit of €2.56bn, the business field of reinsurance provided us with a satisfying result in 2009. Here we harvested, above all, the fruits of our underwriting standards and our prudent investment policy. Three aspects should be mentioned in particular for 2009. Firstly, an investment result which – after elimination of the intra-Group dividend payment from ERGO to Munich Reinsurance Company – was appreciably improved. We were able to post both gains on disposals and a much better result from write-ups and write-downs.

*(Slide 13: Favourable claims experience and higher investment result)*

Secondly, there was a below-average burden from major losses in property-casualty business, with claims expenditure for natural catastrophes lower than the long-term mean. And thirdly, the result was adversely affected by the higher losses that were to be expected in the lines of credit and surety business, which were most strongly affected by the recession. The overall combined ratio improved by 4.1 percentage points to 95.3%.

On the premium side, we were able to record a notable increase of 13.5% to €24.8bn. This was partly the result of company acquisitions but mainly due to organic growth. We achieved marked premium growth in life and health, where reinsurance was particularly in demand as a capital substitute, giving us the opportunity to conclude some large-volume transactions. These treaties have generally been agreed on for a period of several years, so we will not only benefit from them in the current financial year.

At the end of 2008, we announced the acquisition of the Hartford Steam Boiler Group (HSB) as part of our US strategy. We acquired ownership of HSB with effect from 31 March 2009 and have consolidated the group in our financial statements since then. This means that it was included in our reinsurance premium and result for three quarters last year. HSB's result contribution has been higher than expected at the time of purchase – not something to be taken for granted in the middle of the crisis. Earlier acquisitions like the Midland Company and Sterling Life Insurance Company were consolidated in the figures for a whole year for the first time.

The aforementioned companies are now fully integrated into the reinsurance group. We have also been able to achieve the integration of the recently acquired HSB on schedule. You could put it like this: It is not the acquisition and integration of companies that present the main challenge. We have plenty of practice in the Group and can examine the acquisition of interesting target companies in this respect without difficulty. The crucial

hurdle in acquisitions is rather the price, and it does not look as if there will be any change in this respect in the short term.

*(Slide 14: The new Munich Re brand – Important contribution towards profitable growth)*

At the outset, I mentioned that “Münchener Rück” had become Munich Re. This renaming strengthens our brand and our image. Our globally uniform presence benefits all companies operating under the common brand roof. Besides this, a uniform brand is more cost-efficient, is simpler to manage and facilitates the integration of any future acquisitions. The newly positioned brand is the basis for the targeted marketing of Munich Re as a know-how carrier in the insurance industry. The brand thus makes a significant contribution towards driving profitable growth in the Group.

*(Slide 15: Creating value with solutions tailored to markets and clients)*

In this process, we are building on our traditional values such as integrity, financial solidity and reliability. We are investing substantially in expanding our risk knowledge in all areas – essential for identifying and evaluating future risks at an early stage. With the introduction of our client management teams two years ago, we established the structures that allow us to implement this knowledge swiftly and efficiently in the form of individual solutions tailored to markets and clients.

*(Slide 16: Expanding business ...)*

Our objective is to be the first port of call when it comes to customised, all-round risk solutions. Our solutions must add value for clients. I would like to illustrate this with a few examples. Firstly, there are consulting services in connection with the introduction of fundamentally altered supervisory requirements under “Solvency II”. We support our clients in optimally designing their reinsurance programmes with a view to their risk profile and available capital. Our ALPHA consulting concept takes a similar tack. It helps smaller clients without their own asset management to optimise their investment portfolios individually, taking into account the structure of their liabilities. Then there is performance guarantee insurance for photovoltaic systems. This completely novel form of cover was developed by Munich Re specialists and is already considered the market standard.

We expand the borders of insurability and venture into areas that others avoid. Let us take a very topical example. It would be possible for us to offer cover indemnifying airlines for losses suffered as a consequence of flight bans due to the volcanic eruption on Iceland. At risk-adequate terms and conditions and with prudent limits in respect possible accumulations, we would write these covers. Up to now, there has been virtually no

demand, because the risk was regarded by potential clients as insignificant. Today, there is no doubt that the risk is very real and that losses can be substantial. Or let us take life insurance. Here we have devised solutions that allow our clients to cover applicants who were previously uninsurable due to pre-existing conditions. Examples are people with HIV/AIDS, but also significantly larger sections of the population with coronary heart disease or diabetes mellitus.

And lastly, we tap whole new groups of clients who used to be outside the focus of traditional reinsurance – end customers in primary insurance, professional organisations or insurance pools. We want to address all of these with products and solutions whose success depends on competent assessment of the individual risk rather than on sales access.

By the end of the year, all our subsidiaries and branches that conduct reinsurance business will bear the Munich Re brand. Also, the specialised providers and primary insurers that we manage from within the business field of reinsurance will in future operate for the most part under the Munich Re brand, supplemented by the descriptor “Risk Solutions”.

“Munich Re” will stand both for our reinsurance business and for the Group as a whole.

*(Slide 17: Munich Health as youngest field of business with new brand)*

### **Munich Health represents innovative and cost-optimised solutions**

The projects involving our brand started with our youngest field of business, which we initially established in a virtual organisation in 2006. Last May, it was officially unveiled under the Munich Health brand as the Group’s third pillar alongside primary insurance and reinsurance.

Munich Health is responsible for all the business booked under health in reinsurance, and the international health business written in primary insurance. As from the current year, we will be showing Munich Health separately in our segment reporting, starting with the publication of our business figures for the first quarter on 7 May.

All over the world, health expenditure is growing more quickly than general economic output. In many countries, public health systems – insofar as there are any – are reaching their limits or have already been compelled to make substantial cuts in benefits. Population ageing will intensify this trend still further. Increased private provision is the only way of guaranteeing high-quality healthcare in the future. Whilst the aforementioned trends are worrying, they also present us with enormous opportunities. Regardless of whether we are talking about public or private healthcare systems, to remain affordable, they need innovative solutions and cost-optimised forms of service provision.

With Munich Health, we have made tangible the advantages of our integrated business model of primary insurance and reinsurance. The business field unites the global expertise of more than 5,000 staff from a whole range of specialist risk carriers and service providers in the health sector. Alone or with external partners we can cover all the sections of the value chain in healthcare business and offer a wide range of different business models. This enables us to deploy our resources where we can achieve the greatest added value for clients and to react flexibly if market conditions change.

Since its formation, the business field has grown mainly through company acquisitions and greenfield operations. We have invested a great deal of energy in the development of the global organisation, systematically networking the broadly ranging knowledge of our experts so that we can quickly access and deploy it where needed. Thus we devise tailored solutions for individual markets, geared to clients' specific requirements. In the next one to two years, we intend to concentrate on consolidating what we have achieved. In other words, for the time being, we will focus more strongly on organic growth and on increasing the profitability of our existing operations.

Ladies and gentlemen, the international healthcare market is a growth industry. It is less dependent on the state of the economy than other sectors and offers huge business potential. With Munich Health, we can make things happen in this market. We do not yet have the importance and market position we have reached in our other two fields of business and which we aim to achieve. Munich Health is still young and the business is challenging. But I am confident that Munich Health will make a stable and relevant value contribution to the Group in the medium term.

*(Slide 18: Well positioned for the coming challenges)*

#### **Prepared for the challenges; positive medium-term business prospects**

After this look at our youngest field of business, I would now like to return to the Group as a whole.

The financial and economic crisis reached its peak in 2009: it severely tested governments, companies and private households. The capital markets did not start to recover until the second quarter, with economic prospects brightening from around the middle of the year. As a Group, Munich Re can look back on a successful 2009. We were able to meet our most important financial target – a return on risk-adjusted capital of 15%. We delivered what we had set out to achieve.

2009 was successful because we kept to a consistent and disciplined line. Even in the fraught atmosphere of the financial crisis, we stuck to our objectives and convictions. We



were prepared for the challenges, in particular because we had the courage not to follow every short-lived trend. Especially in the investment area, we did not commit funds unless the risks were transparent. Sometimes you have to resist temptation and leave what appear to be easy winnings on the table. This will continue to be a hallmark of our business policy.

Allow me to briefly list the points that will have a strong influence on our business this year.

To start with, there is the further development of prices in reinsurance. In the treaty renewals at 1 January, prices were under pressure in nearly all markets, the only exceptions being segments that had been affected by high losses. This trend continued in the treaty renewals at 1 April, unaffected by the natural catastrophes since the beginning of the year.

The year 2010 to date has been marked by a high number of major natural catastrophes – the earthquakes in Haiti and Chile, Winter Storm Xynthia over western Europe, hailstorms in Australia, an earthquake in China and, most recently, the volcanic eruption on Iceland. 2009 was comparatively benign in terms of natural catastrophes. 2010 will clearly be a year with claims expenditure that is at least in line with the medium-term average to be expected and possibly above-average in amount.

In the case of earthquakes and volcanic eruptions, we can work on forecasting these events with sufficient accuracy, on supporting loss prevention, on minimising the direct and indirect damage after such an event, and finally on indemnifying at least the material damage via insurance. Occurrence probabilities and intensity, however, are not influenced by man.

This is different with storms and other severe weather events, or with flood and inundation. The higher frequency and greater intensity of weather-related natural catastrophes is attributable to climate change, which in turn is at least partly due to human activity. As insurers and reinsurers we are directly affected by the impact. So it is not surprising that we are involved in developing and supporting adaptation strategies.

*(Slide 19: Munich Re – Driving force and founding member of Desertec Industrial Initiative)*

Ladies and gentlemen, you have all seen the coverage in the media. Munich Re was the driving force and one of the founding members of the Desertec Industrial Initiative, or Dii for short. The aim of the initiative is to generate power from solar energy in the desert regions of North Africa and the Middle East. This is intended to cover the growing energy requirements in the producing countries and up to 15% of Europe's electricity demand.

The Dii is making good progress and has meanwhile acquired further partners in Europe and North Africa. In March, the Dii was able to win Professor Klaus Töpfer, former German

Environment Minister and Executive Director of the United Nations Environment Programme (UNEP) in Nairobi, as strategic advisor.

With our participation in the Dii, we are expanding our opinion leadership in relation to the topic of “climate”. At the same time, we are demonstrating how corporate interests, sustainable development and social responsibility can be reconciled.

*(Slide 20: Well positioned for the coming challenges)*

But now back to the factors influencing our business in the current year. The still uncertain economic environment makes it difficult to forecast short-term demand for insurance cover; private provision for old age and health is also greatly influenced by political decisions. This applies to our health business in the USA, as well as to regular-premium life insurance in Germany.

Our continued prudent approach to investment risks and the present very low level of interest rates will depress our return on investment in the current year to below 4%.

With the realignment of its brand architecture, ERGO has launched an ambitious project, and in reinsurance we will make our sharpened value proposition tangible for clients.

And, finally, I expect the very lively and often heated discussions on regulation and supervision to continue, at least for the time being. In the next few months, some important decisions should be taken. Here we are in the vanguard, for Solvency II conforms to the way we already manage our business.

There will be no lack of challenges, but I view these with confidence. I know that the staff of Munich Re, ERGO and Munich Health can master them. We are well set.

But nothing just falls into our laps in the competitive markets in which we operate. We create value through hard work and great commitment. We advise our clients, jointly identifying their risks, part of which we assume and then actively manage in our portfolio. We advance into new areas still avoided by others. We develop innovative products, thus expanding the boundaries of insurability. All this is naturally done on the basis of detailed analyses and always with a good dash of common sense. Our solutions for individual questions and problems are often unique and novel, but they are financially reliable. They provide us with higher margins and constitute a unique selling proposition for Munich Re.

*(Slide 21: Munich Re – Dependable for investors)*

Ladies and gentlemen, what does this mean for you as investors? It means above all that we aim to be dependable. We have a healthy balance sheet; we do not have any “baggage” from the crisis. We are protected as well as possible against the crisis-related risks that still exist. At the same time, we can exploit opportunities, since we have the financial headroom to react quickly and flexibly.

Our result target of over €2bn for the current year is somewhat lower than the 2009 result. This reflects the current interest-rate level and our risk position with regard to investments. Significantly higher earnings could only be achieved at greater risk. We continue to assess our medium- to long-term business opportunities as positive. That is why we are adhering to our target of a 15% return on risk-adjusted capital over the cycle.

I have already said on several occasions that in your interest, ladies and gentlemen, we only want to take risks where these improve our earnings profile and where we clearly understand more about them than others; this applies in particular to underwriting risks. So sometimes we may miss out on a small rally in the capital markets. Instead, we offer you sustainable and, as far as possible, plannable earnings. For we say what we do and we do what we say.

*(Slide 22: Information on the agenda)*

#### **Information on the voting items**

This brings me to the items on the agenda on which you will vote today. We sent the agenda to you with the invitation. You will also find a copy among the documents you were given today at the entrance to the meeting. I would like to comment briefly on a few of the items.

First, agenda item 2, "Appropriation of the net retained profits from the financial year 2009". We are proposing payment of an increased dividend of €5.75, up from €5.50. In relation to the current share price (€120.50 on 21 April 2010), this corresponds to a dividend yield of around 4.8%. With this payout, we want to make clear that our business model delivers sustained earnings even in economically difficult times. And we want to thank our shareholders for the confidence they have shown in us.

One more remark on the proposal for the appropriation of profits. When we published the invitation to the AGM in March, our most recent share buy-back programme of over €1bn was not yet concluded. The number of own shares held by the Company, and therefore not entitled to dividend, has again increased. Before you today is an updated motion that takes account of the current number of own shares in the items “amount to be distributed” and

“amount to be carried forward to new account”. You can find the updated motion in the brochure you obtained at the entrance this morning. Besides the dividend payout of nearly €1.1bn, around €156m is to be allocated to the revenue reserves.

Agenda items 7 and 8 concern the authorisation to buy back and use own shares, also employing derivatives. The authorisation granted at the last AGM expires in October, so we are asking you to renew it today. Amendments in legislation now make it possible to provide for an authorisation period of five years, as with other capital measures. We would like to avail ourselves of this option so that the AGM no longer has to deal with this agenda item every year.

On the basis of the existing authorisation, we repurchased a total of 8,933,153 shares at an average price of €111.94 under the aforementioned 2009/2010 share buy-back programme, representing 4.53% of the share capital. As previously announced, these shares will be retired – once again without reducing the share capital – following the AGM.

Outside the share buy-back programme, Group companies have acquired a further 32,729 shares or 0.02 % of the share capital since last year's AGM. The majority of these shares – like those acquired in previous years – serve solely to hedge stock appreciation rights granted to management. Since the 2009 AGM, we have parted with a total of 349,938 shares through sales via the stock exchange.

Altogether, 10,929,717 own shares are currently in the possession of the Group, representing 5.54% of the current share capital. You can read more about the share buy-backs in the past financial year on pages 240 and 241 of our annual report and on Munich Re's website. The annual report again also contains an explanatory report on Munich Re shares and your related rights.

Under agenda item 9, we propose that the authorisation to issue convertible bonds and/or bonds with warrants be renewed, since the previous authorisation ended yesterday. There are no concrete plans at this juncture regarding use of this authorisation but, to ensure the necessary flexibility, this instrument should continue to be available to the Company in the coming years. The Board of Management will carefully examine in every case whether it is in the interests of the Company and its shareholders to exercise this authorisation.

Agenda item 10 concerns amendments to the provisions of our Articles of Association on registration for the AGM and the exercising of voting rights by proxies. These amendments are intended to bring the Articles of Association into line with the new legal situation resulting from the German law implementing the Shareholder Rights Directive (ARUG).

Agenda item 11 also relates to a new provision in the ARUG. This creates the possibility of transmitting information to shareholders prior to the AGM in electronic form only in future. As

this method is much more efficient, cost-effective and environmentally friendly than print, we want to make partial use of this option. In future, a concise version of the agenda items and motions will be sent to all shareholders by post, together with the invitation and the registration form for the AGM. The extensive long versions of the documents can easily be accessed on our website and in future will generally only be sent to shareholders who are registered for e-mail delivery. If individual shareholders wish to continue receiving the detailed documents in printed form nevertheless, we will naturally be glad to comply with their requests.

So much for my comments on the items to be voted on at today's AGM. Dr. Schinzler has already commented on agenda items 5 and 6. I will conclude my remarks by asking you to vote in favour of our motions on the agenda.

Thank you very much.





MUNICH REINSURANCE COMPANY  
ANNUAL GENERAL MEETING 2010

Nikolaus von Bomhard

Munich RE 

Munich Re – Group  
In the lead

Munich RE 



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Munich Re – Group

## 2009 – Market's expectations surpassed



### Munich Re (Group)

#### Long-term result target on RORAC basis maintained

At 15.1%, RORAC target exceeded

#### Strong result in a difficult environment

€2.56bn profit represents growth of 60% compared with the previous year and enables the Company to pay a dividend of €5.75 per share

#### Capital base strengthened

Equity increased to €22.3bn

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Munich Re – Group

## Munich Re stands firm in a difficult market environment



### Economic parameters

Most severe recession for decades

Capital markets' nadir in first quarter of 2009

Sustainability of the recovery is questionable



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Munich Re – Group


Opportunities from the crisis taken

Munich RE

Chances realised

Acquisition of Hartford Steam Boiler

Strong premium expansion through targeted solutions for reinsurance clients in life and health



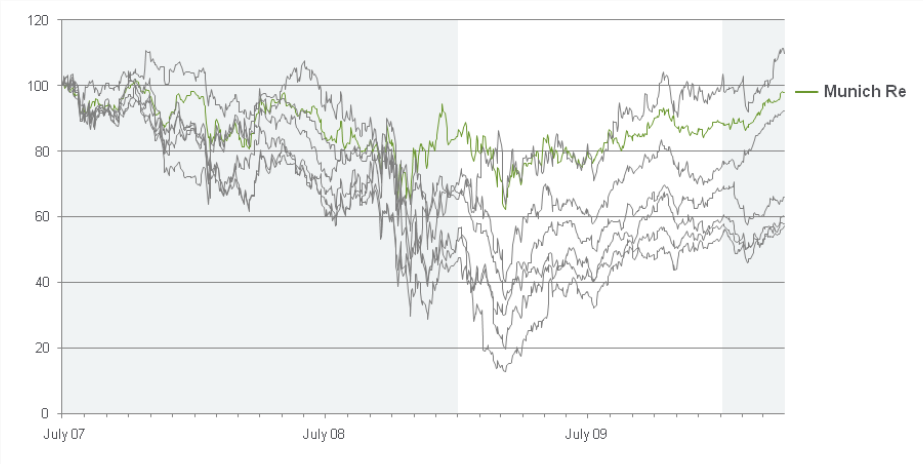
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Munich Re – Group

Comparison with main competitors

Munich RE

Indexed development of the share price compared with competitors<sup>1</sup>



Source: Datastream

<sup>1</sup> Total return (in €) indexed; 1 July 2007 = 100; competitors: Allianz, AXA, Generali, Hannover Re, Swiss Re, Zurich Financial Services.

28.04.20106



Munich Re – Group

## Three pillars of value-based portfolio management



## Value-based portfolio management

## 1 Risk management

Integrated risk management has proved its worth – well equipped for Solvency II

## 2 Asset management

Well-diversified investment portfolio – disciplined asset-liability management

## 3 Capital management

Sound capitalisation – attractive return on equity compared to cost of capital

Total cash yield from share buy-back and dividend increased to nearly 10% in 2009

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Primary insurance

## ERGO – clearly back in the profit zone



## Total premium income

€m

Q1–4 2008 18,130



Q1–4 2009 19,096



Premium income up by 53%

## Consolidated result

€m

Q1–4 2008 73



Q1–4 2009 173



Growth in difficult environment


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Primary insurance  
**ERGO – Expansion in international markets**


Munich RE

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**ERGO in Europe**



**ERGO in Asia**



- Negative currency effects (Poland, Turkey) curb good international development
- Substantial growth contribution from Bank Austria Creditanstalt Versicherung
- Development of HDFC ERGO in India above plan

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Primary insurance  
**ERGO – Combined ratio within long-term target**

Munich RE

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**Combined ratio for property-casualty<sup>1</sup>**

|           |      | %    |      |
|-----------|------|------|------|
| Q1–4 2008 | 90.9 | 90.9 | 90.9 |
| Q1–4 2009 | 93.1 | 93.1 | 93.1 |

**Once again better than target of 95%**

**Combined ratio for Germany**

|           |      | %    |      |
|-----------|------|------|------|
| Q1–4 2008 | 87.3 | 87.3 | 87.3 |
| Q1–4 2009 | 88.3 | 88.3 | 88.3 |

**Advantageous portfolio structure supports very good combined ratio**

<sup>1</sup> Including legal expenses insurance.

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Primary insurance

## New ERGO brand strategy – Impulse for future growth

Munich RE 

## Main reasons for changeover to ERGO brand in Germany

- Adjusting to change in customer behaviour – multiple access to group, offerings under one strong common brand
- Increasing efficiency and competitiveness
- Need for action in respect of KarstadtQuelle Versicherungen brand owing to Arcandor insolvency

## ERGO 2010

| Direct                            | Life        | Property-casualty <sup>1</sup>  | International   | Health     | Travel   |
|-----------------------------------|-------------|---|---|------------|--|
| <b>ERGO</b> Direkt Versicherungen | <b>ERGO</b> | <b>ERGO</b><br> (Legal expenses insurance) | <b>ERGO</b><br> (Legal expenses insurance) | <b>DKV</b> |  <b>ERV</b> |

Objective: Win new clients and enhance growth

<sup>1</sup> Including legal expenses insurance (D.A.S.).

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Reinsurance

## Pleasing result in business field of reinsurance

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## Gross premiums written

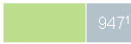
€m

Q1–4 2008 21,869 Q1–4 2009 24,823 

Very gratifying growth of 13.5%

## Rest of reinsurance group

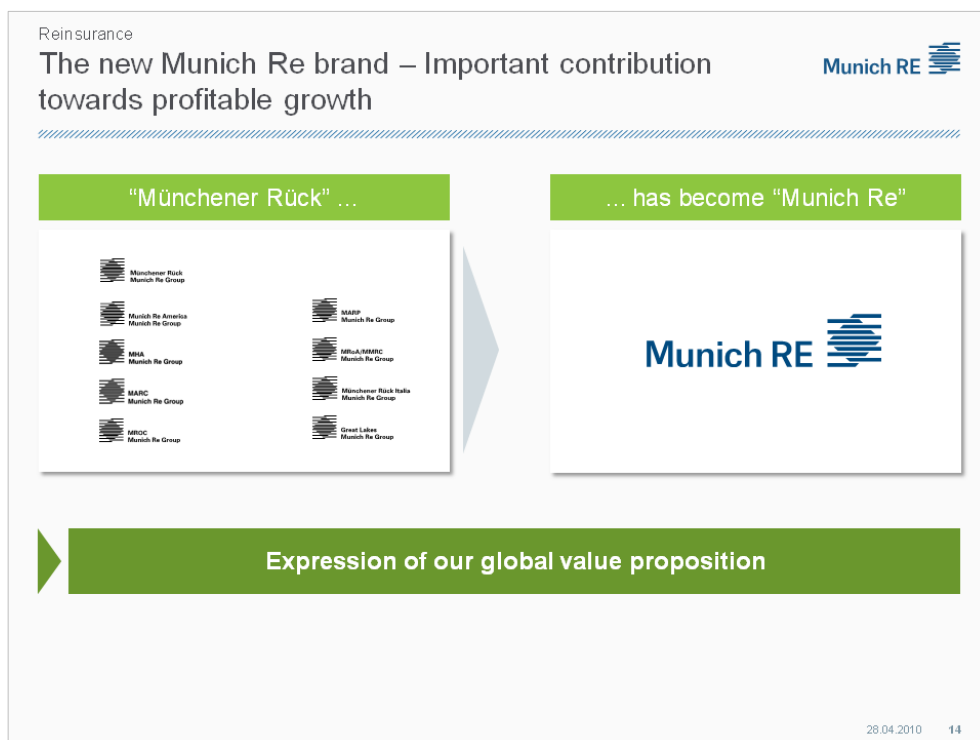
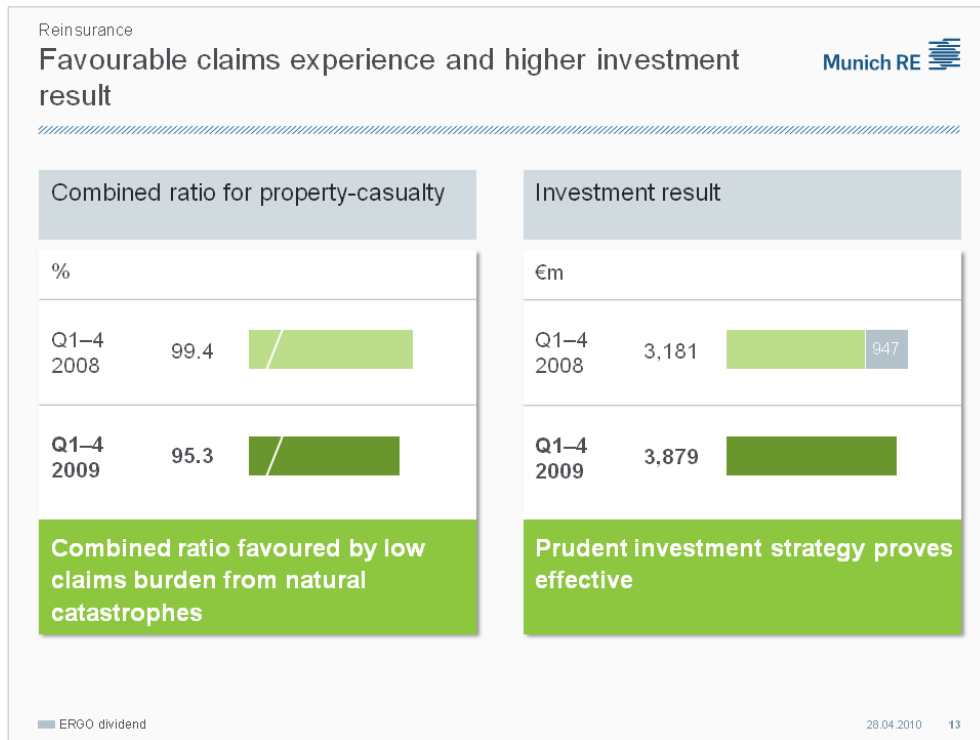
€m

Q1–4 2008 1,453  947<sup>1</sup>Q1–4 2009 2,555 

Result after elimination of ERGO dividend increased by three-quarters


 ERGO dividend<sup>1</sup> Without consideration of tax effects.

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Reinsurance

**Creating value with solutions tailored to markets and clients**

Munich RE 

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Integrity and financial solidity as basis

Continually expanding risk knowledge

Devising individual solutions

Understanding clients and markets


➔

**Objective: To be the first port of call for customised, all-round risk solutions**

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Reinsurance

**Expanding business ...**

Munich RE 

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**... via consulting services**



- Solvency II, ALPHA

**... via innovative solutions**

- Insurance for life insurance applicants with pre-existing conditions
- Performance guarantee insurance for photovoltaic systems

**... by tapping into new client groups**

- End customers in primary insurance
- Professional organisations
- Insurance pools

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International health business

## Munich Health as youngest field of business with new brand

Munich RE 

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- Healthcare expenditure rising worldwide
- Benefit cuts in social security systems
- Population ageing



**Munich Health: Innovative solutions and cost-optimised service provision**


**Consolidation phase after acquisitions and greenfield operations**

**Munich Health will make a stable value contribution**

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Summary and outlook for the financial year 2010

## Well positioned for the coming challenges

Munich RE 

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**Munich Re: Successful 2009**

We delivered what we had set out to achieve

We were successful thanks to our consistent and disciplined line

We earned an attractive return for our shareholders

**Challenges in 2010**

Prices in reinsurance under pressure

2010 already affected by severe natural catastrophes

Economic environment continues to be uncertain

Persistently low interest-rate level

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Summary and outlook for the financial year 2010

## Munich Re – Driving force and founding member of Desertec Industrial Initiative



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Summary and outlook for the financial year 2010

## Well positioned for the coming challenges



### Munich Re: Successful 2009

We delivered what we had  
set out to achieve

We were successful thanks to our  
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We earned an attractive return for  
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### Challenges in 2010

Prices in reinsurance  
under pressure

2010 already affected by severe  
natural catastrophes

Economic environment continues to  
be uncertain

Persistently low interest-rate level

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Summary and outlook for the financial year 2010

## Munich Re – Dependable for investors



▶ Healthy balance sheet, no “baggage” from the crisis, financial headroom

▶ Familiar strategy will be consistently and resolutely pursued

▶ Innovations related to “risk” will develop business

▶ RORAC target of 15% over the cycle; result target of > €2bn for 2010

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## Information on the agenda



|                |  |
|----------------|--|
| <b>Item 2</b>  | Resolution on the appropriation of the net retained profits from the financial year 2009   |
| <b>Item 3</b>  | Resolution to approve the actions of the Board of Management   |
| <b>Item 4</b>  | Resolution to approve the actions of the Supervisory Board   |
| <b>Item 5</b>  | Resolution to approve the remuneration system for the Board of Management  |
| <b>Item 6</b>  | Resolution to appoint a member of the Supervisory Board  |
| <b>Item 7</b>  | Resolution to authorise the buy-back and utilisation of own shares as well as the option to exclude subscription and pre-emptive rights  |
| <b>Item 8</b>  | Resolution to authorise the buy-back of own shares using derivatives as well as the option to exclude subscription and pre-emptive rights  |
| <b>Item 9</b>  | Resolution to authorise the issue of convertible bonds and/or bonds with warrants with the option of excluding subscription rights; to cancel Contingent Capital Increase 2005; to create a new contingent capital (Contingent Capital Increase 2010); and to make the relevant amendment to the Articles of Association |
| <b>Item 10</b> | Resolution to amend Articles 6 (registration for the Annual General Meeting) and 7 (exercise of voting rights by proxies) of the Articles of Association   |
| <b>Item 11</b> | Resolution to amend Article 6 of the Articles of Association (information for shareholders)  |

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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](http://www.munichre.com).

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## Important dates 2010

// **28 April 2010:** Annual General Meeting  
// **29 April 2010:** Dividend payment  
// **7 May 2010:** Interim report as at 31 March 2010  
// **4 August 2010:** Interim report as at 30 June 2010  
// **4 August 2010:** Half-year press conference  
// **9 November 2010:** Interim report as at  
30 September 2010

## Important dates 2011

// **10 March 2011:** Balance sheet press conference  
for 2010 consolidated financial statements  
// **20 April 2011:** Annual General Meeting  
// **21 April 2011:** Dividend payment  
// **9 May 2011:** Interim report as at 31 March 2011  
// **4 August 2011:** Interim report as at 30 June 2011  
// **4 August 2011:** Half-year press conference  
// **8 November 2011:** Interim report as at  
30 September 2011