Munich Reinsurance Company
Annual General Meeting
Report of the Chairman of the Board of Management,
Joachim Wenning – 25 April 2018

Report

2018

WE DRIVE BUSINESS AS ONE

Munich RE

Key figures (IFRS)

Munich Re at a glance

		2017	2016	2015	2014	2013
Gross premiums written	€bn	49.1	48.9	50.4	48.8	51.1
Net earned premiums	€bn	47.2	47.1	48.3	47.4	49.2
Net expenses for claims and benefits	€bn	–41.6	–38.5	–38.7	–39.7	–39.9
Net operating expenses	€bn	–12.2	–12.3	–12.4	–12.0	–12.4
Operating result	€m	1,241	4,025	4,819	4,027	4,398
Taxes on income	€m	298	–760	–476	312	–108
Consolidated result	€m	392	2,581	3,122	3,170	3,333
Attributable to non-controlling interests	€m	17	1	15	18	29
Earnings per share	€	2.44	16.13	18.73	18.31	18.45
Dividend per share	€	8.60	8.60	8.25	7.75	7.25
Dividend payout	€m	1,290	1,333	1,329	1,293	1,254
Share price at 31 December	€	180.75	179.65	184.55	165.75	160.15
Munich Reinsurance Company's market capitalisation at 31 December	€bn	28.0	28.9	30.8	28.7	28.7
Carrying amount per share	€	185.19	200.86	188.40	178.13	146.15
Investments[1]	€bn	217.6	221.8	217.6	218.9	202.2
Insurance-related investments	€bn	9.7	9.6	9.2	8.5	7.3
Equity	€bn	28.2	31.8	31.0	30.3	26.2
Return on equity	%	1.3	8.1	10.0	11.3	12.5
Off-balance-sheet unrealised gains and losses[2]	€bn	15.0	17.3	16.0	17.4	8.7
Net technical provisions	€bn	205.8	202.2	198.5	198.4	187.7
Balance sheet total	€bn	265.7	267.8	268.9	265.6	254.3
Staff at 31 December		42,410	43,428	43,554	43,316	44,665

Reinsurance[3]

		2017	2016	2015	2014	2013
Gross premiums written	€bn	31.6	31.5			
Investments (incl. insurance-related investments)[1]	€bn	85.8	91.9			
Net technical provisions	€bn	68.1	67.1			
Major losses (net)	€m	–4,314	–1,542	–1,046	–1,162	–1,689
Natural catastrophe losses	€m	–3,678	–929	–149	–538	–764
Combined ratio property-casualty	%	114.1	95.7	89.7	92.7	92.1

ERGO[3]

		2017	2016	2015	2014	2013
Gross premiums written	€bn	17.5	17.4			
Investments (incl. insurance-related investments)[1]	€bn	141.4	139.4			
Net technical provisions	€bn	137.6	135.2			
Combined ratio property-casualty Germany	%	97.5	97.0	97.9	95.3	96.7
Combined ratio International	%	95.3	98.0			

1 Previous years' figures adjusted owing to IAS 8; see "Changes in accounting policies and other adjustments".
2 Including those apportionable to minority interests and policyholders.
3 Previous year's figures adjusted owing to a change in the composition of the reporting segments.

Munich Reinsurance Company
Annual General Meeting 2018
Report of the Chairman of the Board of Management, Joachim Wenning
25 April 2018

Check against delivery

Dear Shareholders,
Ladies and Gentlemen,

I would like to welcome you to the 131st Annual General Meeting of Munich Re – whether you are sitting here in the auditorium, or following proceedings via the internet.

I will start by reporting about the 2017 financial year, after which I will look ahead – talking about the focal points of our work in the coming years, and the positive impact they will have on our results. Finally, I will address various agenda items that you will be voting on today.

First of all – the 2017 financial year:

Global insured losses from natural catastrophes reached record levels of around US$135 billion in 2017. Hurricanes Harvey, Irma and Maria, together with the earthquakes in Mexico, caused misery and destruction across the Caribbean, Central America and the southern USA. Munich Re is paying out €2.7 billion just to cover last year's major storms. This meant that our original profit guidance for 2017 was no longer attainable. The loss of €500 million in property-casualty reinsurance – which is our largest profit contributor – meant that our consolidated result was only about €400 million.

There are years where profits are low. In some of those years, when we take a critical look at ourselves, we cannot be satisfied with the way things turned out. 2017 is not one of those years. The losses I mentioned fall well within our defined risk tolerances, and they sit comfortably with our tried-and-tested underwriting principles. In light of the severity of the events, they came in at around the expected level. Had it not been for these underlying natural disasters, the 2017 financial year would have been right on target.

It is our business to relieve people of the burden of risk by compensating for their damage when losses occur. Taking on this responsibility is not only meaningful for us and all our staff. In so doing, Munich Re provides strong support and acts as a stabilising influence in the insurance industry and society as a whole.

Unfortunately, the difference we can make varies greatly from place to place. While natural catastrophes in rich, developed countries result in extremely high insured losses, major catastrophes in poorer countries often involve many deaths, but relatively low insured losses. In particular those regions that are hit hard and often by natural catastrophes or pandemics are still largely under-insured. We are working relentlessly to close this gap in economic protection. Our cooperation with the World Bank and the World Health Organisation, for example, has made it possible for developing countries to be financially protected in the case of pandemics.

Adjusted for the exceptionally high level of natural catastrophes, our consolidated result would have been €2.2 billion and exactly in line with our expectations. This gives us confidence that our forecasts are reliable. It also shows that the results from other segments and business units were in line with our forecast. Life reinsurance, for example, delivered a very pleasing result of €596 million, and ERGO –measured against its targets – contributed a remarkable result of €273 million in 2017. This result exceeded the original forecast, and increases our confidence that the investments in the ERGO Strategy Programme – which you know about – are paying off.

Looking at our balance sheet, we have been able to fully absorb the high losses from last year. Our capitalisation remains more than solid. Measured against the risks from our business operations, we hold 2.4 times more capital than is required by the regulatory authorities. And that goes hand in hand with a very low debt leverage of 10%. At €7.7 billion, the Group's claims equalisation provision is the highest in the industry. This provision is made to ensure that we can stabilise our result under German accounting rules (HGB) when we have such exceptional losses – ultimately, it also secures your dividend.

Our strong balance sheet allows us to grow organically and through acquisitions. This applies even in years such as 2017 in which there are extraordinarily high losses. You can rely on our dividend. Provided you agree, we will pay an unchanged dividend of €8.60 per share for 2017. We will also continue our share buy-back programme with a volume of €1 billion until April 2019.

Your total shareholder return (TSR) comprises share price development and dividend distribution. However, it is also important to consider how stable the TSR remains over time – or at least how little it fluctuates. On this basis, Munich Re shares come out on top by peer comparison. This shows – with good reason – that the capital markets have great confidence in our Company, as well as in the reliability and future viability of our business model. The development of our share price since last year shows that this confidence is unwavering. This is very pleasing.

Ladies and Gentlemen, I will now turn to the outlook for the coming years.

We are in a good position, and our reinsurance, ERGO and specialty insurance companies have extensive competences that strengthen our competitive position for the future.

We have set three strategic priorities for the Group:

First: Increase earnings power
Second: Digital transformation
And, third: Reduce complexity

Regarding the first priority: Increase earnings power

After years of pressure on prices, the large losses of the past year have led to prices rising again in traditional reinsurance. In the affected segments and regions prices went up by more than 4%. Across all reinsurance treaties renegotiated in our January renewals we were able to secure an average price increase of 0.8% – or even 1.6% if we include the effects of rising interest rates.

Nevertheless, competitive pressure remains high. We will continue to work hard to develop our business in the markets. We leverage our competitive edge through a combination of size, financial strength, risk know-how and solutions competence. This allows us to profit from attractive business opportunities arising from the continuing demand for large and complex reinsurance programmes. And we will increase our willingness to take on risk in selected areas. We will do that while maintaining our profitability requirements, adhering to our risk policies, and leveraging our underwriting competence. During the January renewals, we were able to increase business volume written by over 18%. And we have taken very concrete measures to drive medium-term growth:

- In mature markets such as the USA, we seek to drive growth of our traditional business in those areas where our market share is still low. We are also offering new cover solutions (such as inland flood protection).

- In the growth markets of Asia, Africa and Latin America we are developing our business – particularly in the areas of specialty risks, cyber risk, agricultural insurance, and additional services for our clients.

- In established and emerging markets we are also observing an increasing demand from our clients for capital-relief solutions, earnings protection and growth financing.

- In risk solutions, we are primarily expanding our commercial business, cyber insurance, and special product covers (hedging of trade credits, covers for war and terror losses, and specialty insurance solutions for high-net-worth individuals).

Let me emphasise this: our traditional reinsurance business – our core business and profit contributor – still has sustained growth potential.

In the ERGO field of business, the Strategy Programme is progressing well:

- In the Life and Health Germany segment, apart from improving overall profitability the main focus in 2017 was on the traditional life insurance portfolio. ERGO decided not to sell this part of the business, as running off the business ourselves is more profitable. ERGO has set up a partnership with IBM for this purpose, and we have developed a modern IT platform to manage the portfolio more cost-effectively. This platform can also be used in the future to manage third-party portfolios for the benefit of all stakeholders. In new business, ERGO Vorsorge is concentrating on capital-market-oriented savings products, and products to provide financial protection for events such as death or occupational disability.

- In ERGO's property-casualty segment we achieved a positive result above our expectations. On the one hand this was driven by growth in fire and property insurance, and in marine insurance. On the other hand, lower costs for claims, overheads and sales also played a part.

- ERGO's international business is developing a clear focus. While growing our market position with resolve in target markets such as Poland, Greece and India, we are divesting ourselves of smaller business operations, for example, in Switzerland, Luxembourg and Slovakia. At the same time, we are integrating the primary insurance business of our former field of business "Munich Health". The implementation of our international strategy is still at an early stage, but developments to date have been positive – also in terms of profits.

Our goal remains unchanged: ERGO will contribute at least €600 million per year to the consolidated result from 2021. Two years ago, we were concerned about how ERGO would cope with the substantial cuts, changes, and pace of transformation. But 2016 and 2017 have shown that it is doing well so far. That increases our confidence. But let us not deny that we still have a lot of work ahead.

In 2017, our investment portfolio delivered a solid return of 3.2%. As Munich Re invests heavily in fixed-income securities, decisions made by central banks are very important for us. Unfortunately, we are still not feeling any tailwinds from the eurozone. But at least interest rates are gradually picking up again in the USA where a large portion of the reinsurance assets are invested. In this field of business, we should therefore see an end to decreasing returns in 2018.

MEAG and our investment functions in primary insurance and reinsurance provide stable and competent asset management. This has proven invaluable in crisis years. Nevertheless, we are systematically seizing opportunities that arise. For example, we are cautiously expanding our investments in shares and illiquid assets, such as in infrastructure projects like motorways. However, we will remain a conservative investor and continue to adhere to our liability-driven investment policy.

Now for our second priority: Digital transformation

Digital transformation is our second strategic priority and will enable us to secure our earnings power for the future. Munich Re is pushing forward at full throttle. And we are investing with a clear focus. Munich Re currently employs over 200 data specialists worldwide. We have over 300 employees working in innovation – all on a full-time basis. And this figure is rising.

In addition, we have already invested in over ten partnerships and companies focusing on InsurTech, the Internet of Things, and data analysis.

In reinsurance, we are concentrating our transformation efforts on three areas: reshuffling the value chain, expanding the boundaries of insurability, and developing data-driven solutions. This enables us to strengthen our existing business, and to open up new business opportunities. Allow me to give you a few examples:

In traditional insurance business, you pay a premium in exchange for indemnification in the event of a loss. We can no longer limit ourselves to this model. The Internet of Things will substantially change our value creation. By interconnecting all sorts of objects and using multiple kinds of sensors, we obtain valuable information for forecasting and preventing incidents. Risk avoidance and loss mitigation are becoming more important, which allows us to expand our business in this direction.

Digitalisation simultaneously puts us in a position to push back the boundaries of insurability. An obvious example of this is insuring cyber risks. Munich Re is already a market leader in this area.

Thanks to our new digital services, we raise the quality of risk and loss assessments and automated processes. With Realytix, for example, by automating the underwriting of risks the time needed to introduce new insurance products is shorter. We can reduce it specifically from one or two years to a mere four months. In return, we take a share in the business.

Digital transformation also plays an important role in the ERGO Strategy Programme.

We are optimising our existing business by offering our clients points of contact, advice and support that are seamless, modern and target-group-specific. By launching nexible, we now have a purely online insurer. Its first automobile insurance product has already been successfully launched in the German market. Further products will follow.

With new business models and partnerships, we are addressing changing demands:

In interconnected technology, for instance, we have entered into a cooperation with Deutsche Telekom regarding our ERGO Safe Home product. Together, we offer an attractive combination of technical security solutions to prevent burglary, water and fire damage, paired with the relevant insurance cover. This product has been named the insurance innovation of 2018 by a leading specialist publisher.

These are just a few examples from the areas of primary insurance and reinsurance. The market rightly sees Munich Re as an innovation leader – as recently affirmed in a survey conducted by Willis Towers Watson.

I would like to invite you to see for yourself what digital transformation means for your Company's business. We have a number of interesting examples to present to you today, so please go and talk to my colleagues at the information stands in the foyer. The work our staff has been doing is really remarkable.

And now for our third priority: Reduce complexity

We have come to realise that we can simplify our structures and processes in reinsurance and the Group – and even do away with some of them entirely – without negatively affecting our business. As a result, we will be able to manage a growing business with fewer resources. We expect to achieve savings of over €200 million per year before tax. As I mentioned before, at the same time we are investing in the expansion of our digital competencies.

As for the potential for streamlining: we will be cutting around 900 jobs worldwide, some 480 of which will be in Munich. We will achieve about half of this headcount reduction by means of natural fluctuation and semi-retirement models. The rest will derive from voluntary agreements with staff.

Ladies and Gentlemen,

As I already mentioned, our business ambitions are considerable. All our efforts – which I could only briefly touch upon given the limited time available today – will have a positive effect on future results. For 2018, we expect a consolidated result of around €2.1–2.5 billion, which averages out at around €2.3 billion. We intend to raise this figure incrementally to approximately €2.8 billion by 2020. This increase of around €500 million compared with our expectations for 2018 will derive in equal parts from reinsurance and the ERGO Strategy Programme. To achieve this, we have launched many concrete initiatives. I want to emphasise this to you: to realise this ambition, our underlying assumptions on the use of valuation reserves on both the assets and liabilities sides of the balance sheet remain at least as cautious as in the past.

Dear shareholders, my colleagues on the Board of Management and I would like to thank you for the trust you have placed in us. Let us take this opportunity to also thank our 42,000 employees throughout the Company for their laudable personal commitment.

Please continue to give us your support.
Thank you.

Information on the agenda items

To conclude, please allow me to explain the agenda items which you will vote on today. The agenda, together with a summary of our motions, was sent to you. The full wording of these motions, along with all the other reports and information, was also made available on our website. You will find the long version of the invitation among the documents you received when you arrived today.

Mr. Pischetsrieder has already commented on agenda items 5, 7 and 8.

As for agenda item 2, “Appropriation of the net retained profits from the financial year 2017”, I would like to add the following:

Since publication of the invitation to the AGM in March, the number of own shares has increased owing to our share buy-back programme. These shares carry no dividend. The Supervisory Board and Board of Management have therefore updated their motion for submission to reflect the number of own shares. You will find it in today’s documents.

Item 6 relates to the authorisation to buy back and use own shares. Following our share buy-backs, slightly over a third of the authorisation granted by the 2017 Annual General Meeting has been exhausted. We are therefore asking you for a new authorisation today, because active capital management is part and parcel of our Company policy.

Under the now-concluded share buy-back programme for 2017–2018, we repurchased a total of 5,489,431 shares at an average price of €182.17, representing around 3.5% of our share capital. As previously announced, these shares will be retired following today‘s AGM – once again without reducing the share capital. Since the last Annual General Meeting, Group companies have not sold any Munich Re shares via the stock exchange. As soon as the shares from the now-concluded share buy-back programme have been retired, there will be no treasury shares remaining in the Group. Further details on the shares repurchased in 2017 can be found in our Annual Report and on our website.

The 2017 financial year: Continuing financial strength

Munich RE

Consolidated result
(IFRS)

€0.4bn

Major losses within our risk tolerance
Diversification paying off

Normalised consolidated result[1]
(IFRS)

~€2.2bn

Solid
earnings base

Distributable earnings
(German Commercial Code, HGB)

€4.0bn

Attractive dividend and
return of capital remain possible

Capitalisation
(Solvency II ratio)

244%

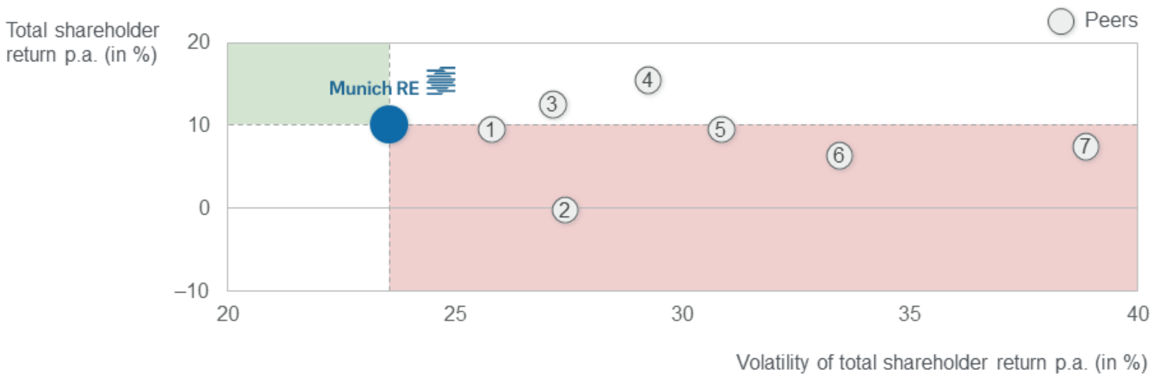
Financial room
for manoeuvre

1 Adjusted for 8%-pts. nat cat expectation.

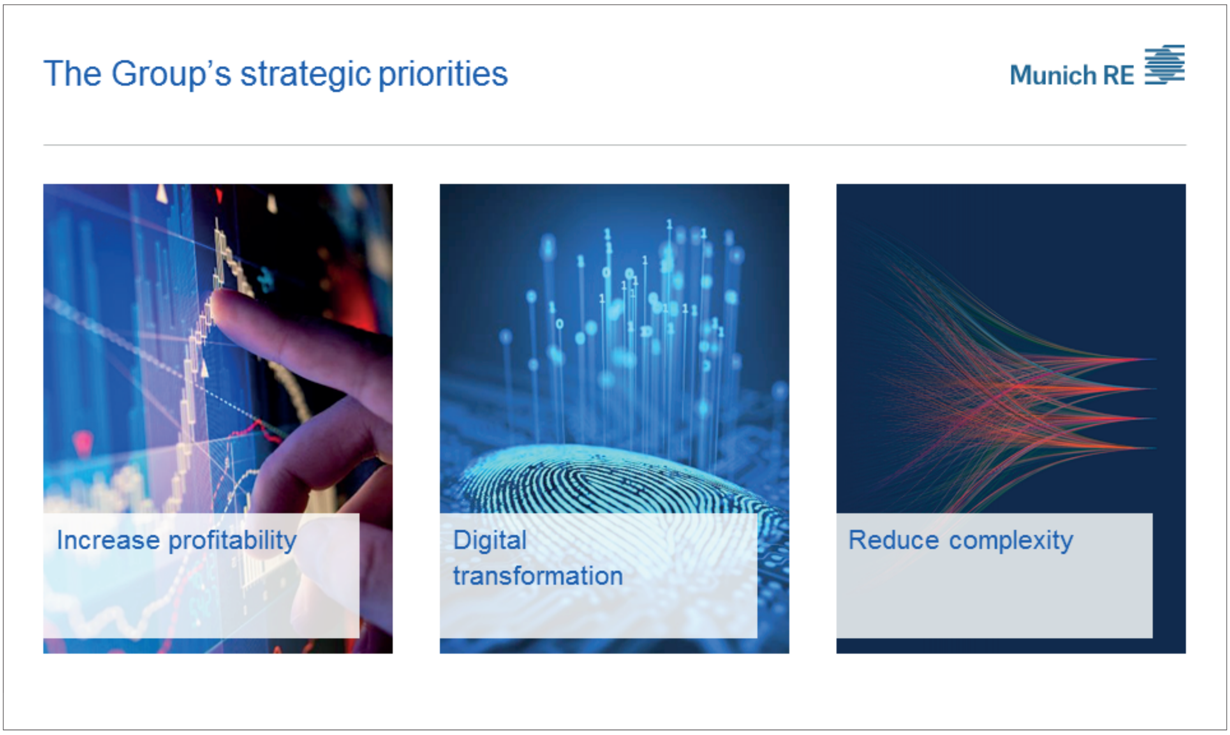
Munich Re has a superior risk-return profile

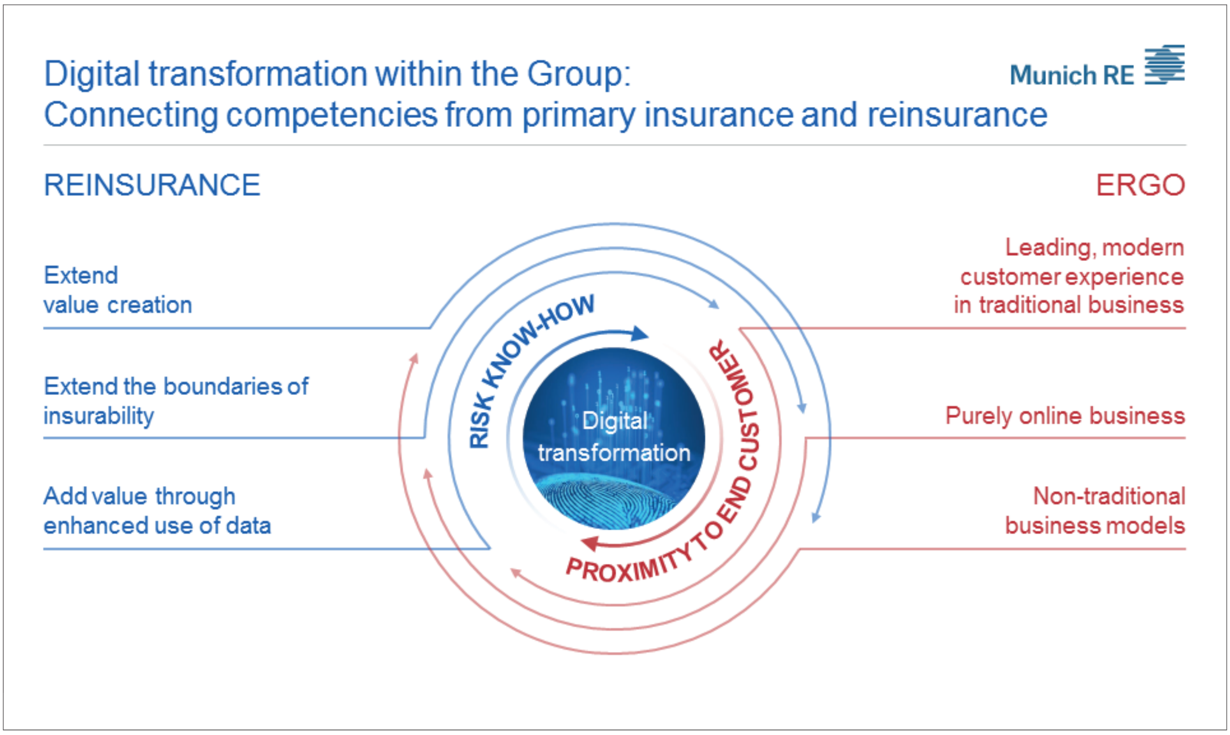
Munich RE

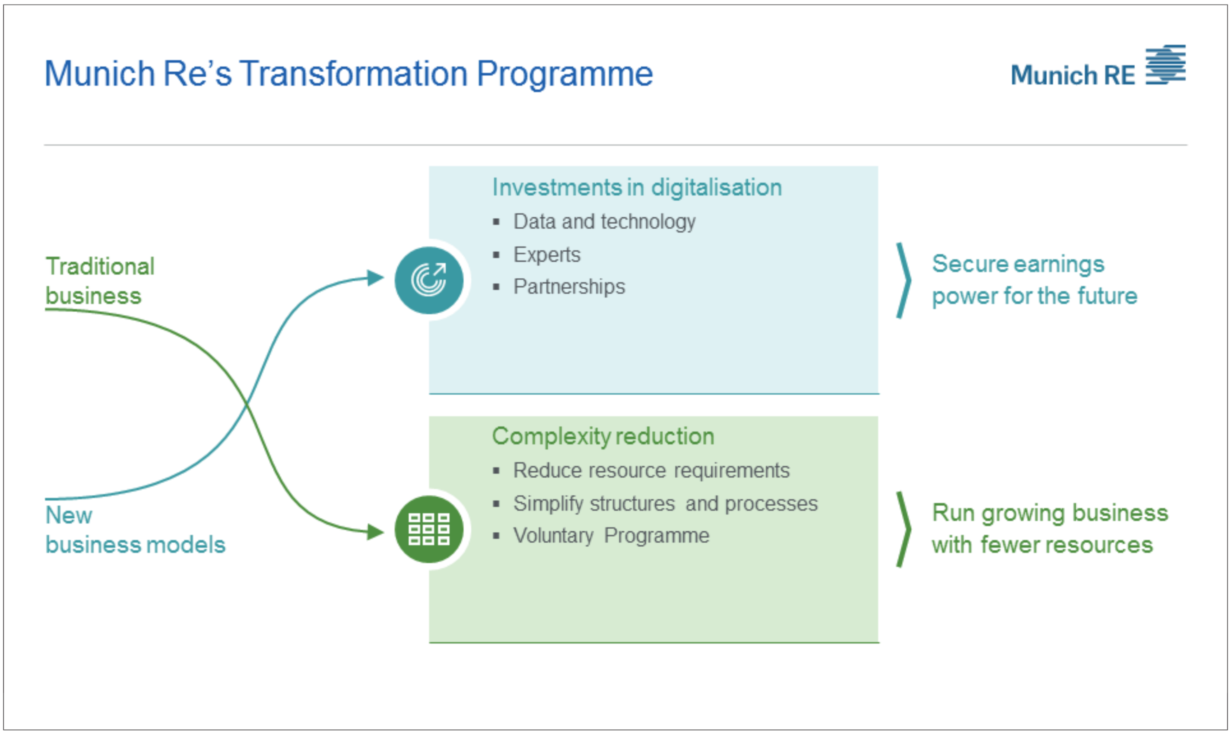
Performance vs. main peers[1]

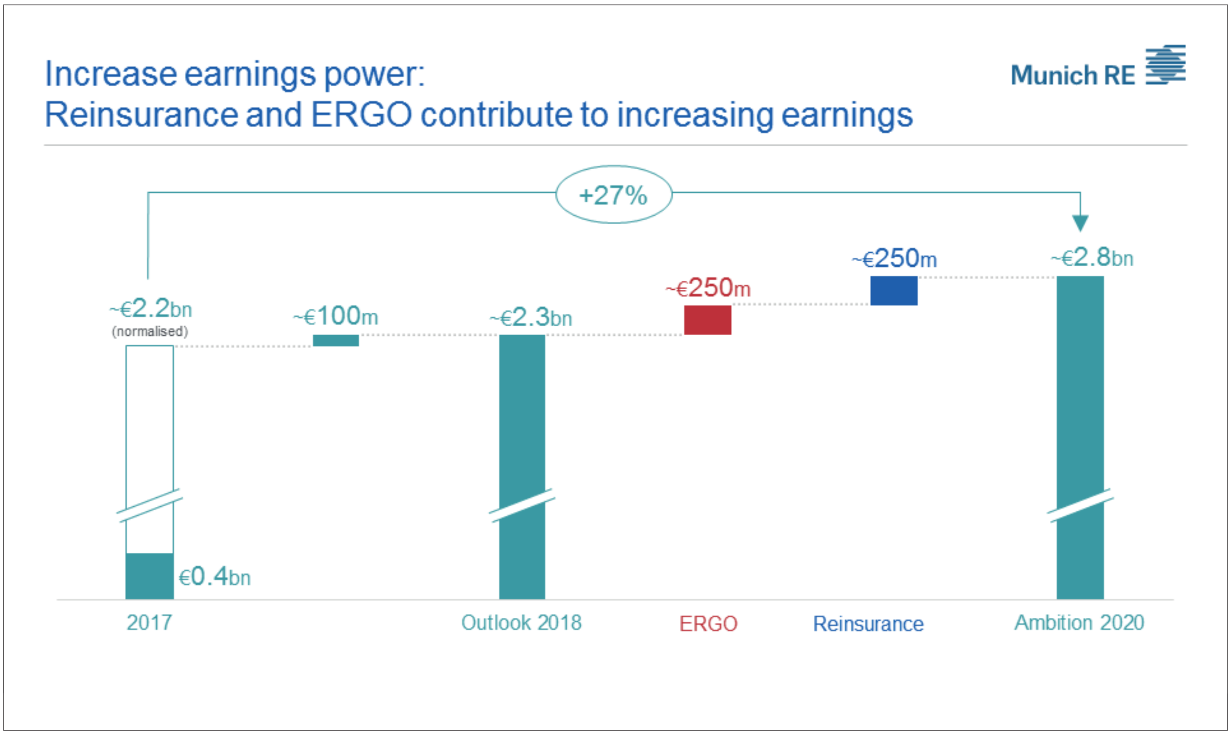


1 Annualised total shareholder return defined as price performance plus dividend yield over the period from 1 January 2005 until 28 February 2018; based on Bloomberg data; volatility calculation with 250 trading days per year. Peers: Allianz, Axa, Generali, Hannover Re, Scor, Swiss Re, ZIG


The Group's strategic priorities
Munich RE
Increase profitability
Digital transformation
Reduce complexity


Digital transformation within the Group:
Connecting competencies from primary insurance and reinsurance
Munich RE
REINSURANCE
ERGO
Extend value creation
Extend the boundaries of insurability
Add value through enhanced use of data
Leading, modern customer experience in traditional business
Purely online business
Non-traditional business models
RISK KNOW-HOW
PROXIMITY TO END CUSTOMER
Digital transformation


Munich Re's Transformation Programme
Munich RE
Traditional business
New business models
Investments in digitalisation
Data and technology
Experts
Partnerships
Secure earnings power for the future
Complexity reduction
Reduce resource requirements
Simplify structures and processes
Voluntary Programme
Run growing business with fewer resources


Increase earnings power:
Reinsurance and ERGO contribute to increasing earnings
Munich RE
+27%
~€2.2bn
(normalised)
€0.4bn
~€100m
~€2.3bn
~€250m
~€250m
~€2.8bn
2017
Outlook 2018
ERGO
Reinsurance
Ambition 2020

Imprint

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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.

Münchener Rückversicherungs-Gesellschaft (Munich Reinsurance Company) is a reinsurance company organised under the laws of Germany. In some countries, including the United States, Munich Reinsurance Company holds the status of an unauthorised reinsurer. Policies are underwritten by Munich Reinsurance Company or its affiliated insurance and reinsurance subsidiaries. Certain coverages are not available in all jurisdictions.

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All the facts and figures for the 2017 financial year can be found in our Group Annual Report. More at www.munichre.com/annualreport2017

Important dates 2018

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

Important dates 2019

20 March 2019
Balance sheet press conference
for 2018 financial statements

30 April 2019
Annual General Meeting

8 May 2019
Quarterly Statement as at 31 March 2019

7 August 2019
Half-Year Financial Report as at 30 June 2019

7 November 2019
Quarterly Statement as at 30 September 2019