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Press release

Munich Re targets profit of €2.3–2.8bn in 2016

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After the pleasing result in 2015, Munich Re targets a profit in the range of €2.3–2.8bn for the current year – despite persistently difficult conditions. Munich Re also announced a further share buy-back programme: shares with a volume of €1bn are to be repurchased before the Annual General Meeting in 2017. As already published, the proposal to the Annual General Meeting will be to raise the dividend to €3.25.

CEO Nikolaus von Bomhard said: "Although 2015 was not an easy year, Munich Re was able to generate a profit of €3.1bn, thus beating the announced target for the year. Thanks to our capital strength and conservative underwriting and reserving policies, we are able to post gratifying results even in a difficult market environment."

On the outlook for 2016, von Bomhard – who, as already announced, will leave the Board of Management and also step down as CEO on 26 April 2017 – said: "We are aiming for a consolidated result of €2.3–2.8bn for 2016. On account of continuing low interest rates and intensive competition in reinsurance, this is an ambitious target – especially because we cannot expect to see a repeat of the below-average expenditure for natural catastrophe claims that we had in 2015."

At the same time, von Bomhard stressed that over the past year Munich Re had made considerable progress with numerous innovation initiatives. Munich Re is offering its clients customised solutions for new, changing or previously uninsured risks – such as in the areas of cyber and reputational risks, non-damage business interruption, or terrorism. The digitalisation of the economy unlocks potential for innovation – not only on the product side, but also in dealing with clients. "As a Group, Munich Re wants to take advantage of these opportunities. So we have not only set up teams across the Group for these purposes, but have also established contacts throughout the world with start-ups and large and small companies that offer specific know-how. Working in partnership with these companies, together we will tap digital business opportunities," explained von Bomhard.

Munich Re announced a further share buy-back programme: it will repurchase up to €1bn in shares by the Annual General Meeting on 26 April 2017. This buy-back is also conditional on no major upheavals occurring in the capital markets

or in its underwriting business. On the basis of the current share price, Munich Re would repurchase around 5.4 million shares, or approximately 3.2% of the share capital. The buy-back currently in progress is to be completed by the Annual General Meeting on 27 April 2016, and the acquired shares will be retired, as with the previous buy-backs. So far, around 5.2 million shares with a value of approximately €890m have been purchased under this programme.

Proposals for election to the Supervisory Board

Also at its meeting held on 15 March 2016, the Supervisory Board of Munich Reinsurance Company decided on its motions for submission to the Annual General Meeting on 27 April 2016. The Supervisory Board proposes that Clement B. Booth (61) should be elected to the Supervisory Board as successor to Anton van Rossum (70), who is retiring from the Supervisory Board with effect from the end of the Annual General Meeting on 27 April 2016.

Booth was a member of the Board of Allianz SE from 2006 to 2014. From 2003 to 2005, he was Chairman and CEO of Aon Re International in London, and from 1999 to 2003 was a member of the Board of Management of Munich Re. Born in South Africa, Booth knows and understands the full value-added chain of the insurance business – from primary insurance to reinsurance and brokerage. Booth is being proposed for election to the Supervisory Board for the remaining period of office of van Rossum – namely until the Annual General Meeting 2019.

The Supervisory Board also decided to approve the Board of Management's dividend proposal to the Annual General Meeting.

Summary of the figures for the 2015 financial year

The Group achieved a very pleasing operating result of €4,819m (4,027m) in 2015. There were negative foreign-exchange effects of €213m (135m) on the "other non-operating result" in 2015. The consolidated result for the Group was marked by various opposing effects. Changes in the value of derivative financial instruments, negative currency effects, and goodwill impairments in the ERGO field of business had an overall adverse impact. This contrasted in particular with the very good result in property-casualty reinsurance. Comparatively low tax expenditure, resulting from adjustments for prior years, also had a positive effect.

Equity increased by €677m in 2015 to €30,966m (31.12.2014: €30,289m). The return on risk-adjusted capital (RORAC), which serves as the key performance indicator for the Group as a whole, was again pleasing at 11.5% (13.2%), whilst the return on equity (RoE) amounted to 10.0% (11.3%). Gross premiums written by the Group increased in 2015 to €50,374m (48,848m), due to currency effects.

The solvency ratio on the basis of Solvency II – calculated in accordance with the internal model approved by the German Federal Supervisory Authority (BaFin) – was an excellent 302% as at 31 December 2015 (31.12.2014: 277%). Compared with the solvency ratio calculated under the previous method (242% as at 31 December 2014), this constitutes a slight improvement.

Reinsurance: High result of €3.3bn

The reinsurance field of business contributed a remarkable €3,261m (2,892m) to the consolidated result, with the operating result up by €859m to €4,142m. Gross premiums written increased to €28,216m (26,770m). Changes in the value of the euro as against other currencies had a significant impact on premium growth (+5.4%).

Life reinsurance contributed €345m (409m) to the consolidated result. At €335m (279m), the technical result was somewhat below the target of €400m. It was impacted by two mortality claims, for each of which Munich Re paid out an amount in the double-digit million euro range. In the USA and Australia, business largely developed as expected after negative effects had impacted the result in the previous year.

Property-casualty reinsurance again accounted for an impressive share of the result for the full year, with a total of €2,915m (2,483m). The combined ratio for 2015 amounted to an excellent 89.7% (92.7%) of net earned premiums. Overall, claims notifications for basic losses remained noticeably below the expected level. Munich Re was able to release loss reserves – after adjustments for commissions – of around €1,200m for the full year, corresponding to around 7.2 percentage points of the combined ratio. Munich Re also still aims to set the amount of provisions for newly emerging claims at the very top end of the estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

In 2015, overall claims expenditure for major losses was €1,046m (1,162m). The major-loss burden amounted to 6.2% (7.2%) of net earned premiums, below the average expected figure of 12%. The cost of natural catastrophe losses for the full year was €149m (538m). Heavy rainfall in northern Chile, which caused considerable flooding, was the largest natural catastrophe loss event of the year at €47m. A severe earthquake off the coast of Chile gave rise to expenditure of €45m. At €897m, man-made major losses were up on the level of the previous year (€625m), which is equivalent to 5.3% (3.9%) of net earned premiums. The explosion at Tianjin harbour in China (€175m) and a dam failure in Brazil (€156m) were by far the largest individual losses of the year.

Torsten Jeworrek, Member of Munich Re's Board of Management, said: "On account of our good access to clients and diversified business model, we consider ourselves well placed to write profitable business even in a strained business environment." This competitive pressure had eased slightly during the renewals at 1 January 2016, but it is still too early to speak of a lasting change for the better. Jeworrek emphasised: "In the current market environment, we are continuing to focus on strict underwriting discipline while intensively pursuing innovative business potential. And we are increasingly offering our clients customised, individual solutions, which are naturally less exposed to competition."

ERGO: Loss of €227m owing to write-downs

In 2015, the ERGO field of business generated a loss of €227m (previous year: profit of €169m). This is due to additional expenses of €452m from the revaluation of goodwill, attributable above all to a deterioration in earnings prospects in German life insurance business on account of the continuing low-interest-rate phase. The sale of the subsidiary ERGO Italia agreed in November also had a negative impact of €82m on the result. At €598m, the operating result remained stable year on year (previous year: €626m).

ERGO CEO Markus Rieß commented on the result: "We are not satisfied with the ERGO result. Even adjusted for goodwill impairment losses, the figure of €225m clearly falls short of our ambition."

Gross premiums written fell to €16,535m (16,736m). Total premium income across all lines of business was down to €17,867m (18,058m) in 2015. In the Life and Health Germany segment, gross premium for 2015 decreased by 3.9% to €9,426m (9,812m). Premium in the Property-casualty Germany segment improved slightly to €3,162m (3,115m), and ERGO International showed an increase to €3,947m (3,809m).

The combined ratio for German property-casualty insurance was 97.9% (95.3%) for the full year. Flooding caused by the low-pressure systems Eva and Frank in the fourth quarter of 2015 was the largest loss event of the year in German business. The combined ratio for international property-casualty business was 104.7% (97.3%) for the full year. The deterioration in the combined loss ratio was due mainly to an increased loss ratio – partly on account of new claims settlement rules issued by the Polish supervisory authority – and to higher allocations to loss provisions in Turkey and the United Kingdom.

ERGO CEO Rieß said: "With ERGO's new structure, which we communicated in mid-February, we are setting the course for a successful future for our Group. We are creating the necessary environment for innovation by launching ERGO Digital Ventures, which will take the lead in driving innovation and digital transformation at ERGO." As previously announced, in the second quarter of 2016 Rieß will present specific measures designed to sustainably enhance ERGO's earnings power.

Munich Health: Profit of €88m (109m)

The Munich Health field of business posted a profit of €88m (109m) in 2015. The operating result fell to €80m (118m). The somewhat weaker year-on-year result is due mainly to higher claims expenditure in parts of health reinsurance business in the USA. Munich Health's gross premiums written increased by around 5% to €5,623m (5,342m) owing to positive currency translation effects. The combined ratio for 2015 totalled 99.9% (98.8%).

Investments: Investment result of €7,536m

With a carrying amount of €215,093m (market value of €230,529m), total investments (excluding insurance-related investments) as at 31 December 2015 were down on the year-end 2014 figure of €218,927m (€235.849m at market

value). The Group's investment result (excluding insurance-related investments) decreased to €7,536m (8,002m). Changes in the value of derivatives had a negative effect of €1,226m for the year. The balance of gains and losses on disposals excluding derivatives, on the other hand, was positive at €2,693m (2,629m). Considering the situation in the capital markets, this investment result represents a relatively high annualised return of 3.2% in relation to the average market value of the portfolio.

Investments and investment commitments (including renewable energies and new technologies) amounted to around €2.5bn. Further investment is also planned for 2016, subject to dependable conditions and appropriate returns.

Munich Re's equity-backing ratio at 31 December 2015, including equity-linked derivatives, increased to 4.8% (31 December 2014: 4.3%). With a share of around 88%, fixed-interest securities, loans and short-term fixed-interest investments continued to make up the largest portion of Munich Re's investments at market value.

CFO Jörg Schneider expressed satisfaction with the investment result: "Thanks to our strongly diversified investments, we are well prepared for a great variety of capital market scenarios. In such volatile markets, MEAG did well."

As the Group's asset manager, MEAG's assets under management as at 31 December 2015 included not only Group investments, but also third-party segregated and retail funds totalling €14.1bn (13.9bn).

Outlook for 2016: Group result target of €2.3–2.8bn

Assuming exchange rates remain stable, the Group anticipates that for the financial year 2016 its gross premiums written will be in the range of €47–49bn. Gross premiums of €26–28bn are expected in reinsurance, and €15.5–16bn in the ERGO field of business. Total premium income in the ERGO field of business (including the savings premiums of unit-linked life insurance and capitalisation products) should amount to €17–18bn in 2016. Gross premiums written of almost €5bn are expected for Munich Health.

In property-casualty reinsurance, Munich Re is aiming for a combined ratio of around 98% of net earned premiums in 2016, taking account of the relatively low incidence of major losses until February. The increase of more than 8 percentage points on the ratio achieved in 2015 is mainly due to the fact that 2015 saw randomly fewer major losses from natural catastrophes than expected, and that loss reserves for prior accident years were released on a large scale. At the beginning of the year, Munich Re anticipated major losses in the order of around €2bn for 2016, corresponding to an unchanged 12% of net earned premiums. The combined ratio for the ERGO Property-casualty Germany segment should improve to around 95% in 2016, provided that major losses remain within normal bounds. A significant improvement in the combined ratio to around 99% is projected for the ERGO International segment if major losses remain within normal bounds. The combined ratio for Munich Health is likely to be around 99%.

Munich Re anticipates that market interest rates will also remain very low overall in 2016, with correspondingly lower regular income from fixed-interest investments. Altogether, Munich Re expects an investment result of around €7bn, representing a return on investments of about 3%.

In reinsurance, the consolidated result for 2016 should be in the range of €1.9–2.4bn. For the ERGO field of business, Munich Re projects a consolidated result for 2016 in the order of €250–350m, which is a significant increase on the 2015 result. The target figures reflect the sale of ERGO Italia, but do not include major expenditure for implementing the future programme to be communicated in the second quarter. Profit guidance for the Munich Health field of business is in the range of €50–100m.

Munich Re is aiming for a consolidated result in the range of €2.3–2.8bn, subject to large losses being within normal bounds and to its profits not being affected by severe movements in exchange rates or the capital markets, significant changes in fiscal parameters, or other exceptional factors.

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Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. This is how Munich Re creates value for clients, shareholders and staff. In the financial year 2015, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €3.1bn on premium income of over €50bn. It operates in all lines of insurance, with over 43,000 employees throughout the world. With premium income of around €28bn from reinsurance alone, it is one of the world's leading reinsurers. Especially when clients require solutions for complex risks, Munich Re is a much sought-after risk carrier. Its primary insurance operations are concentrated mainly in the ERGO Insurance Group, one of the leading insurance groups in Germany and Europe. ERGO is represented in over 30 countries worldwide and offers a comprehensive range of insurances, provision products and services. In 2015, ERGO posted premium income of €17.9bn. In international healthcare business, Munich Re pools its insurance and reinsurance operations, as well as related services, under the Munich Health brand. Munich Re's global investments (excluding insurance-related investments) amounting to €215bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

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Disclaimer

This press release contains forward-looking statements that are based on current assumptions and forecasts of the management of Munich Re. Known and unknown risks, uncertainties and other factors could lead to material differences between the forward-looking statements given here and the actual development, in particular the results, financial situation and performance of our Company. The Company assumes no liability to update these forward-looking statements or to conform them to future events or developments.

Munich, 16 March 2016

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Key figures (IFRS) for the Group in the fourth quarter of 2015*					
(in €m unless otherwise indicated)					
		4th quarter 2015	4th quarter 2014	Change	
				Absolute	in %
Gross premiums written		12,388	12,015	373	3.1
Net earned premiums		12,142	12,075	67	0.6
Net expenses for claims and benefits		-9,156	-9,906	750	7.6
Technical result		1,373	613	760	123.9
Investment result		1,664	1,972	-308	-15.6
of which	Realised gains	742	1,042	-300	-28.8
	Realised losses	-370	-96	-274	-285.4
Insurance-related investment result		210	52	158	303.3
Non-technical result		54	42	12	29.2
Operating result		1,427	655	772	117.9
Net finance costs		-60	-58	-2	-3.5
Taxes on income		-175	608	-783	-
Consolidated profit		731	731	0	0.0
Thereof attributable to	Munich Reinsurance Company equity holders	728	725	3	0.4
	Minority interests	3	6	-3	-42.6
Reinsurance		4th quarter 2015	4th quarter 2014	Change	
				Absolute	in %
Gross premiums written		6,981	6,615	366	5.5
Technical result		1,335	680	655	96.3
Non-technical result		188	139	49	35.3
Operating result		1,523	819	704	86.0
Result		1,371	964	407	42.2
of which	Reinsurance Life	4th quarter 2015	4th quarter 2014	Change	
				Absolute	in %
	Gross premiums written	2,884	2,647	237	8.9
	Technical result	88	5	83	>1,000.0
	Non-technical result	77	65	12	18.9
	Operating result	166	70	96	136.6
	Result	174	129	45	34.8
	Reinsurance – Property-casualty	4th quarter 2015	4th quarter 2014	Change	
				Absolute	in %
	Gross premiums written	4,097	3,968	129	3.3
	Combined ratio in %	78.6	91.2	-12.6	
	Technical result	1,247	675	572	84.7
	Non-technical result	111	74	37	49.7
	Operating result	1,358	749	609	81.3
	Result	1,197	835	362	43.3

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ERGO		4th quarter 2015	4th quarter 2014	Change		
				Absolute	in %	
Gross premiums written		4,045	4,101	-56	-1.4	
Technical result		46	-56	102	-	
Non-technical result		-137	-115	-22	-18.8	
Operating result		-90	-171	81	47.2	
Result		-644	-247	-397	-160.7	
of which	ERGO Life and Health Germany	4th quarter 2015	4th quarter 2014	Change		
				Absolute	in %	
	Gross premiums written		2,402	2,498	-96	-3.8
	Technical result		81	-120	201	-
	Non-technical result		-84	-147	63	43.1
	Operating result		-2	-267	265	99.2
	Result		-462	130	-592	-
		ERGO Property-casualty Germany	4th quarter 2015	4th quarter 2014	Change	
					Absolute	in %
	Gross premiums written		633	605	28	4.6
	Combined ratio in %		103.9	97.1	6.8	
	Technical result		-19	41	-60	-
	Non-technical result		-9	-4	-5	-127.6
	Operating result		-28	37	-65	-
	Result		-19	19	-38	-
		ERGO International	4th quarter 2015	4th quarter 2014	Change	
					Absolute	in %
	Gross premiums written		1,010	998	12	1.2
	Combined ratio in %		115.3	96.8	18.5	
	Technical result		-16	23	-39	-
	Non-technical result		-44	36	-80	-
Operating result		-60	59	-119	-	
Result		-163	-396	233	58.9	
Munich Health		4th quarter 2015	4th quarter 2014	Change		
				Absolute	in %	
Gross premiums written		1,362	1,299	63	4.9	
Combined ratio in %		100.9	99.8	1.1		
Technical result		-9	-11	2	21.2	
Non-technical result		3	18	-15	-84.3	
Operating result		-6	7	-13	-	
Result		5	14	-9	-67.4	
Shares		4th quarter 2015	4th quarter 2014	Change		
				Absolute	in %	
Earnings per share in €		4.45	4.29	0.16	3.7	
* Previous year's figures adjusted owing to IAS 8.						

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Key figures (IFRS) for the Group in the 2015 financial year*					
(in €m unless otherwise indicated)					
		2015	2014	Change	
				Absolute	in %
Gross premiums written		50,374	48,848	1,526	3.1
Net earned premiums		48,309	47,384	925	2.0
Net expenses for claims and benefits		-38,731	-39,694	963	2.4
Technical result		4,014	3,242	772	23.8
Investment result		7,536	8,002	-466	-5.8
of which	Realised gains	3,648	2,970	678	22.8
	Realised losses	-955	-341	-614	-180.1
Insurance-related investment result		140	414	-274	-66.1
Non-technical result		806	785	21	2.6
Operating result		4,819	4,027	792	19.7
Net finance costs		-238	-228	-10	-4.4
Taxes on income		-476	312	-788	-
Consolidated profit		3,122	3,170	-48	-1.5
Thereof attributable to	Munich Reinsurance Company equity holders	3,107	3,152	-45	-1.4
	Minority interests	15	18	-3	-19.1
		31.12.2015	31.12.2014		
Investments (incl. insurance-related investment result)		224,256	227,388	-3,132	-1.4
Equity capital		30,966	30,289	677	2.2
Staff		43,554	43,316	238	0.5
Reinsurance					
		2015	2014	Change	
				Absolute	in %
Gross premiums written		28,216	26,770	1,446	5.4
Technical result		3,452	2,671	781	29.2
Non-technical result		690	612	78	12.7
Operating result		4,142	3,283	859	26.2
Result		3,261	2,892	369	12.8
of which	Reinsurance Life	2015	2014	Change	
				Absolute	in %
	Gross premiums written	10,536	10,040	496	4.9
	Technical result	335	279	56	20.2
	Non-technical result	165	180	-15	-8.3
	Operating result	500	459	41	9.0
	Result	345	409	-64	-15.5
	Reinsurance – Property-casualty	2015	2014	Change	
				Absolute	in %
	Gross premiums written	17,680	16,730	950	5.7
	Combined ratio in %	89.7	92.7	-3.0	
	Technical result	3,116	2,392	724	30.3
	Non-technical result	525	432	93	21.5
	Operating result	3,641	2,824	817	28.9
	Result	2,915	2,483	432	17.4

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ERGO		2015	2014	Change		
				Absolute	in %	
	Gross premiums written	16,535	16,736	-201	-1.2	
	Technical result	538	494	44	8.9	
	Non-technical result	60	132	-72	-54.4	
	Operating result	598	626	-28	-4.5	
	Result	-227	169	-396	-	
of which	ERGO Life and Health Germany Germany	2015	2014	Change		
				Absolute	in %	
		Gross premiums written	9,426	9,812	-386	-3.9
		Technical result	383	144	239	166.0
		Non-technical result	-72	-100	28	28.2
		Operating result	311	44	267	607.5
		Result	-329	269	-598	-
		ERGO Property-casualty Germany	2015	2014	Change	
					Absolute	in %
		Gross premiums written	3,162	3,115	47	1.5
		Combined ratio in %	97.9	95.3	2.6	
		Technical result	122	214	-92	-43.2
		Non-technical result	97	90	7	7.8
		Operating result	219	304	-85	-28.1
		Result	214	176	38	21.8
		ERGO International	2015	2014	Change	
					Absolute	in %
		Gross premiums written	3,947	3,809	138	3.6
		Combined ratio in %	104.7	97.3	7.4	
		Technical result	33	136	-103	-75.5
	Non-technical result	35	142	-107	-75.4	
	Operating result	68	278	-210	-75.5	
	Result	-112	-276	164	59.3	
Munich Health		2015	2014	Change		
				Absolute	in %	
	Gross premiums written	5,623	5,342	281	5.3	
	Combined ratio in %	99.9	98.8	1.1		
	Technical result	24	77	-53	-68.5	
	Non-technical result	56	41	15	35.5	
	Operating result	80	118	-38	-32.3	
	Result	88	109	-21	-18.9	
Shares		2015	2014	Change		
				Absolute	in %	
	Earnings per share in €	18.73	18.31	0.42	2.3	
* Previous year's figures adjusted owing to IAS 8.						