Münchener Rück
Munich Re Group

Press release – Munich, 6 May 2009

Munich Re starts the financial year 2009 with a quarterly profit of €420m

In the first quarter, the Munich Re Group recorded a profit of €420m (first quarter 2008: €777m). Thanks to business opportunities taken in the life and health reinsurance segment, the Group can increase its premium forecast for this year.

CFO Jörg Schneider: “In view of the difficult economic parameters, the results are highly satisfactory. We are well prepared for the challenges of the current year, especially with our broad set-up and diversification. Where opportunities present themselves, we are exploiting them – but with great discipline.”

Munich Re is adhering to its line with crisis-related write-downs: “We take a resolute approach and are able to absorb the burdens, thanks to our good capitalisation. Where there is evidence of sustained impairment losses, be they in investments or goodwill, we recognise these through write-downs. Our shareholders can continue to rely on this transparency and on our realism”, said Schneider.

The write-downs on Bank Austria Creditanstalt Versicherung (BACAV) had adversely affected the result of the primary insurance segment, added Schneider. “Naturally, these write-downs such a short time after the acquisition hurt. But the investment in BACAV was the right move strategically because of its crucial role in advancing our business in Austria, with its bridgehead function for the markets of the future in Eastern Europe.”

Summary of the Munich Re Group’s figures
In the first three months, the Munich Re Group posted an operating result of €746m (1,193m), a decrease of 37.5%. The technical result contributed €551m (603m), while the non-technical result amounted to €195m (590m). The latter figure was affected in particular by the significant price losses on the capital markets and their impact on the investment result, which fell

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by 18.5% to €1.4bn (1.7bn). Group equity has risen to €21.7bn since the beginning of the year (31 December 2008: €21.3bn). The annualised return on risk-adjusted capital (RORAC) amounted to 9.8% and the annualised return on equity (RoE) to 7.8%. The quarterly profit totalled €420m.

Gross premiums written were up 5.3% to €10.4bn (9.9bn). If exchange rates had remained the same, premium volume would have increased by 5.2% compared with the same period last year.

In reporting its figures for the first quarter of 2009, Munich Re is applying the new accounting standard IFRS 8 for the first time. This results in a slightly different presentation:

Firstly, the operating result is split into the two components "technical result" and "non-technical result". Secondly, in accordance with IFRS 8, the breakdown of the business segments for the segment reporting is geared more closely to the Group's internal reporting and management structure.

In the segment reporting, life and health business in primary insurance are now disclosed separately. Contrary to past practice, the business of the Watkins Syndicate is shown in the reinsurance segment rather than the primary insurance segment.

The Munich Re Group's reinsurance segment contains not only property-casualty and life reinsurance but also the companies with other business models that are managed from within the reinsurance organisation, such as specialty primary insurers or managing general agents. The segment also includes health reinsurance and the Group's specialised insurers in international health primary insurance that are managed from within reinsurance. Together with the international health primary insurance conducted by ERGO, these operations form the business field of Munich Health, which is not disclosed as a separate business segment yet owing to its current relatively small size.

Munich Re does not avail itself of the option to adjust the operating result to eliminate the effects of fluctuations on the capital markets or major losses. Both are part of its core business and will therefore continue to be fully included in the income statement's operating result. However, the operating result shown now features the "technical result" as a subtotal. Besides premiums, expenses for claims and benefits, and operating expenses, this figure comprises "income from technical interest" – a component for the interest earned on technical provisions and the profit-sharing of policyholders.

Primary insurance: Write-downs of goodwill and interest-rate hedges impact result

Following the first-time application of IFRS 8, Munich Re's primary insurance business now corresponds to that of the ERGO Insurance Group, although consolidation effects mean that the figures of the Munich Re Group's primary insurance segments may in fact differ from those of the ERGO Insurance Group.

In the first quarter of the year, results in primary insurance still suffered from the effects of the financial crisis. The operating result amounted to €77m (314m), with the technical result contributing €259m (343m). The non-technical result amounted to –€182m (–29m), adversely affected by the balance of gains and losses on disposals and of write-ups and write-downs, which was lower than in the first quarter of last year. The consolidated result of the primary insurance segment totalled –€72m (171m). Despite the long and hard winter, the combined ratio in the property-casualty segment remained acceptable at 96.3% (87.8%) in the first quarter of 2009, last year's figure having been exceptionally low.

The main factors that shaped the result were further write-downs of goodwill amounting to €81m and impairments of investments. ERGO CEO Torsten Oletzky commented: "In the first quarter, the rise in interest rates and the decline in volatilities compared with the end of 2008 led to impairments among the derivatives we use to hedge against a prolonged low-interest-rate phase in life insurance. But from an economic point of view, these are pleasing developments which will improve our long-term results."

Overall premium income across all lines of business increased by 3.3% to €5.0bn (4.9bn). ERGO achieved growth mainly in its international business. As part of the first-time application of IFRS 8, life and health primary insurance are now shown as individual segments, owing to their significant volume and their separate management. Also, following their transfer to ERGO, Europäische Reiseversicherung and Mercur are now part of the health segment rather than the property-casualty segment.

In the life segment, total premium income rose to €1.8bn (1.7bn). Premium in Germany showed a decrease of 1.7%, but in international business there was an increase of 44.0% to €363m (252m). Gross premiums written totalled €1.5bn (1.4bn), a figure that does not include the savings premiums from unit-linked life insurance and capitalisation products such as "Riester" pensions in Germany.

In the health insurance segment, premium income in the first three months of 2009 climbed by 2.3% to €1.59bn (1.55bn). Up by 1.8% to €1.3bn (1.2bn) in Germany, it showed a rise of 4.4% to €330m (316m) in international business, chiefly due to high growth in Spain and Belgium.

In the property-casualty segment, ERGO's premium income was up slightly by 0.4% in the first three months of 2009. International business grew in particular by 2.7% to €495m (482m), with a boost to premium from the South Korean company ERGO Daum Direct offsetting significant negative currency translation effects. In Germany, the premium income of €1.13bn was 0.6% below last year's level (€1.14bn).

Reinsurance: Combined ratio of 97.3%, with average cost burden from major losses

The reinsurance business performed satisfactorily overall in the first quarter of 2009. The operating result grew by 0.8% to €851m (844m). Thanks to its broadly diversified, profitable business and the smaller number of major losses, Munich Re was able to post a technical result of €315m (303m). The non-technical result of €536m was dominated by a solid investment result of €888m (993m). Reinsurance contributed €665m (579m) to the Group profit.

Major losses in the first quarter remained manageable in number. For Winter Storm Klaus, which caused severe damage particularly in France and Spain, Munich Re established provisions of around €80m. A second notable major loss was the devastation caused by the bush fires in the Australian state of Victoria, for which Munich Re expects a claims burden of approximately €65m. The combined ratio amounted to 97.3% (103.7%), with 5.6 (10.7) percentage points attributable to natural catastrophes.

Premium income was up 6.5% on the same period last year, rising to €5.9bn (5.6bn), predominantly due to acquisitions. Adjusted to eliminate the effects of changes in exchange rates, it increased by 5.0%.

At 1 April this year, a section of the Group's treaty business with a volume of around €1.3bn was up for renewal. Nearly 40% of this involved Japan and Korea and parts of the US market. Torsten Jeworrek, member of Munich Re's Board of Management: “Although the market had not yet hardened in all segments, the price increase of 7.2% achieved shows that the upward trend in prices is accelerating.” Regarding the reduction of 11.4% in premium volume, Jeworrek went on to say: “On the one hand, we terminated underpriced treaties. On the other, we are pursuing our previously announced policy of reducing liabilities in business that is highly exposed as a result of the recession, like credit insurance and D&O. Both measures demonstrate the top priority we give to profitability and maintaining our capital strength.”

For the forthcoming renewals on 1 July 2009 (parts of the US market, Australia and Latin America), Jeworrek expects the positive trend to continue.

As evidence of Munich Re's competitive strength, Jeworrek cited the conclusion of quota share treaties in the life and health reinsurance segment. “We were able to benefit here from our capital strength and prudently exploit our scope for profitable growth.” Altogether, Munich Re is reckoning with additional annual premium income of more than €2bn from the treaties in life and health reinsurance, mainly as from the second quarter of 2009.

Since the end of April, Munich Re has been offering its healthcare-related products to clients and partners outside Germany under the Munich Health brand. In this third field of business, the Group thus combines its global insurance and reinsurance know-how, including related services.

Investments: Result down on previous year at €1.4bn
Despite the continuing high volatility on the capital markets, the Group's investments as at 31 March 2009 showed a rise of €2.1bn to €177bn, an increase of 1.2% on year-end 2008. In comparison with the figure for the same period last year, the investment result posted in the income statement sank by 18.5% to €1.4bn (1.7bn), equivalent to an annualised return of 3.1% based on the average market value of the portfolio.

The equity-backing ratio was reduced further to 1.4% as at 31 March 2009 (31 December 2008: 1.7%), based on the Group's total investments at market value, including hedging instruments.

Munich Re achieved net gains on disposals of €0.4bn (0.7bn) in the first quarter. Losses on disposals resulted chiefly from the fact that structured bonds and other fixed-interest securities were sold, mainly in order to reinvest in corporate bonds with higher yields. Gains on disposals resulted from the sale of shares already hedged prior to the financial crisis and from expired or closed derivative financial instruments, which had been purchased to hedge the equity portfolio and whose performance had benefited from the ongoing bear market.

The net balance of write-ups and write-downs in the first three months of the financial year came to –€542m (–508m). This slight decline resulted partly from the fact that, compared with last year, there were relatively high write-downs of fixed-interest securities and loans totalling €100m (20m). A positive effect, on the other hand, derived from the much lower economic equity-backing ratio Munich Re had achieved through measures such as disposals and the increased use of further hedging instruments

Between January and March 2009, Munich Re made overall write-downs of €267m (1,332m) on its non-fixed interest securities categorised as "available for sale", which related almost exclusively to equity portfolios. The write-ups totalled €418m (1,159m). Of this, derivatives accounted for €413m (1,131m), i.e. nearly the entire amount, with €299m (1,071m) stemming from derivatives with non-fixed-interest underlyings. All in all, the net balance of write-ups and write-downs on derivatives was –€129m (+€887m).

The revaluation of the Munich Re Group's entire portfolio of fixed-interest securities categorised as "available for sale" in the period under review resulted in write-downs totalling approximately €98m (21m) as well as changes in equity. The write-downs were attributable in roughly equal measure to credit structures on the one hand and to participation certificates, dormant holdings and similar banking-sector equity instruments on the other.

Notwithstanding significant restructurings in the fixed-interest portfolio, the overall balance of write-ups and write-downs and of gains and losses on disposals amounted to –€0.2bn in the first quarter. Also an indication that Munich Re is adhering to a prudent valuation of fixed-interest securities.

“Despite the higher volume of write-downs compared with the previous year, we naturally cannot rule out further write-downs if the economic crisis spreads”, stated CFO Schneider. This risk existed particularly among the tier 1 and upper tier 2 instruments in the bank sector, he said, and among the participation certificates, which had already been partially written down in value. Altogether, exposure in these investments at market value amounts to only €436m, or 0.2% of total investments. Schneider emphasised: “We should be well able to absorb potential further burdens from investments, given the precautionary measures we have taken and our broadly diversified portfolio.”

MEAG MUNICH ERGO AssetManagement GmbH is the asset manager of Munich Re and the ERGO Insurance Group. In addition to Group investments, MEAG had segregated and retail funds totalling €8.2bn (8.5bn) under management at 31 March 2009.

Outlook for 2009: Unchanged RORAC target of 15%
The uncertainties resulting from the economic crisis apply to both underwriting business and investments, making a serious projection of the annual profit for 2009 impossible. “All in all, we remain confident with regard to the Munich Re Group’s value-based corporate development and are adhering to our long-term objective of a 15% RORAC after tax across the cycle”, said CFO Schneider. This goal was quite ambitious considering the currently difficult economic environment and major uncertainties involved. “But because it relates to risk-based capital, it means we are not induced to take irrational risks”, explained Schneider.

If exchange rates remain stable, Munich Re now anticipates that its gross premium volume in the reinsurance segment will be in the range of €22.5–24bn (instead of the previously estimated €21–22bn), thanks mainly to the recent conclusion of the large-volume quota share treaties in the life and health reinsurance segment. Gross premium income of between €17bn and €18bn (instead of the previously estimated €17.5–18.5bn) is expected in primary insurance. This adds up to a consolidated figure for the whole Munich Re Group of between €39bn and €41bn (instead of the previously estimated €37.5–39.5bn), representing an increase of roughly 4% in the projected range.

For reinsurance, the Group is aiming at a combined ratio in the region of 97% (with 6.5 percentage points budgeted for natural hazards) for 2009 and over the market cycle as a whole. In primary insurance, the 2009 target is another combined ratio well within the long-term target of 95%.

In the light of the economic crisis, Munich Re will continue to refrain from further share buy-backs for the time being. A resumption of the buy-back programme, totalling a further €2bn up to 2011, will have to be carefully weighed against the advantages of secure capitalisation and the opportunities arising from the crisis.

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The **Munich Re Group** operates worldwide, turning risk into value. In the financial year 2008, it achieved a profit of €1,528m on premium income of around €38bn. The Group operates in all lines of business, with around 44,000 employees at over 50 locations throughout the world and is characterised by particularly pronounced diversification, client focus and earnings stability. With premium income of around €22bn from reinsurance alone, it is one of the world's leading reinsurers. The primary insurance operations are mainly concentrated in the ERGO Insurance Group. With premium income of over €17bn, ERGO is one of the largest insurance groups in Europe and Germany. It is the market leader in Europe in health and legal expenses insurance, Some 40 million clients in over 30 countries place their trust in the services and security it provides. In international healthcare business, the Munich Re Group pools its insurance and reinsurance operations, as well as related services, under the Munich Health brand. The global investments of the Munich Re Group amounting to €175bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

At a glance:

- Profit of €420m in 1st quarter 2009
- CFO Schneider: "Munich Re has started with a satisfactory result."
- Primary insurance: Adverse impact from goodwill impairments and rise in interest rates
- Positive pricing trend in reinsurance continues

Key figures (IFRS) for the first quarter of 2009
(in €m unless otherwise indicated)

MUNICH RE GROUP	1st quarter 2009	1st quarter 2008	Change absolute	Change %
Gross premiums written	**10,367**	9,842	525	5.3
Net earned premiums	**8,997**	8,543	454	5.3
Net expenses for claims and benefits	**7,360**	6,933	427	6.2
Technical result	**551**	603	-52	-8.6
Investment result	**1,365**	1,675	-310	-18.5
Thereof realised gains	**1,404**	1,592	-188	-11.8
realised losses	**1,045**	850	195	22.9
Non-technical result	**195**	590	-395	-66.9
Operating result	**746**	1,193	-447	-37.5
Finance costs	**82**	86	–4	–4.7
Taxes on income	**259**	277	–18	–6.5
Consolidated profit	**420**	777	–357	–45.9
Thereof attributable				
to Munich Re equity holders	**415**	767	–352	–45.9
to minority interests	**5**	10	–5	–50.0
	31.3.2009	31.12.2008		
Investments	**177,039**	174,977	2,062	1.2
Equity	**21,663**	21,256	407	1.9
Staff	**47,220**	44,209	3,011	6.8

REINSURANCE**	1st quarter 2009	1st quarter 2008	Change absolute	Change %
Gross premiums written	**5,908**	5,550	358	6.5
Thereof Life and health	**1,846**	1,676	170	10.1
Property-casualty	**4,062**	3,874	188	4.9
Combined ratio in %	**97.3**	103.7	–6.4	
Technical result	**315**	303	12	4.0
Non-technical result	**536**	541	–5	–0.9
Operating result	**851**	844	7	0.8
Result	**665**	579	86	14.9

PRIMARY INSURANCE**	1st quarter 2009	1st quarter 2008	Change absolute	Change %
Gross premiums written	**4,731**	4,609	122	2.6
Combined ratio in %	**96.3**	87.8	8.5	
Technical result	**259**	343	–84	–24.5
Non-technical result	**–182**	–29	–153	–527.6
Operating result	**77**	314	–237	–75.5
Result	**–72**	171	–243	–

SHARES	1st quarter 2009	1st quarter 2008		Change
Earnings per share in €	**2.12**	3.75	–1.63	–43.5

* Previous year's figures adjusted owing to first-time application of IFRS 8.
** Before elimination of intra-Group transactions across segments.