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Press release

Munich Re increases profit by almost two-thirds in 2009

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Munich Re's balance for the financial year 2009 is a positive one. As already published, the Group's bottom-line result totalled €2.56bn (previous year: €1.58bn). The dividend is to be raised to €5.75 (5.50) per share. For 2010, Munich Re again expects a profit of over €2bn.

Nikolaus von Bomhard, Chairman of the Board of Management: "We have brought the financial year 2009 to a successful close: with a profit of over €2.5bn, we were even able to surpass expectations and achieve our long-term return target despite the difficult environment."

With regard to the financial year 2010, von Bomhard emphasised: "We are again aiming for a consolidated result of over €2bn." He said that this target remained achievable in spite of the claims burdens from the earthquake in Chile and Winter Storm Xynthia. For 2011, Munich Re anticipates an increase in results.

Munich Re was able to use the past months to drive forward important initiatives. "For our primary insurance group, establishing the ERGO brand in the German market is the greatest challenge and opportunity", said the Chairman of the Board. "With its new brand presence, ERGO is making its all-round range of products more visible." In reinsurance, the Group's value proposition has been sharpened. "Together with our clients, we devise needs-oriented and sophisticated solutions. That helps make them – and therefore us – successful. Trends have to be identified early and future risks made controllable." The objective is "to create added value for clients wherever possible, be it through innovative products or concepts for capital relief."

Altogether, von Bomhard took an optimistic view of business opportunities: "Known risks are assuming new dimensions, while at the same time risks no one had previously thought of are emerging – for example through technological innovation." Demographic development, increasing risk awareness and greater risk aversion are creating additional demand for insurance coverage. Munich Re offers solutions for the issues of the future. "That makes Munich Re a reliable and preferred partner for clients and creates value for our investors", the Chairman concluded.

Summary of the figures for the financial year 2009

The Group recorded a good operating result of €4,721m (3,834m) in 2009, €1,400m of this in the fourth quarter. Despite the share buy-back, equity rose to €22.3bn or by 5.5% over the course of the year. Return on risk-adjusted capital

after tax (RORAC) amounted to 15.1% for 2009, and return on equity (RoE) to 11.8%. Gross premiums written rose by 9.5% to €41.4bn (37.8bn). If exchange rates had remained the same, premium volume would have increased by 9.9% compared with the previous year.

Munich Re's capital buffer has increased further in relation to 2008: available financial resources, including the subordinated bonds issued, amount to €28.4bn. This compares with a risk capital requirement of €17.4bn based on internal calculations.

Munich Re offers health-related products to its clients and partners outside Germany (in reinsurance also within Germany) in a separate field of business, operating since May 2009 under the Munich Health brand. In this third field of business, the Group combines its global insurance and reinsurance know-how, including related services. Up to now, this business has been accounted for in the segments "reinsurance life and health" and "primary insurance health". Having made good progress in establishing the organisation, Munich Re will be showing Munich Health's business figures separately in its segment reporting with effect from the first quarter of 2010.

Primary insurance: New brand strategy for more profitable growth

Primary insurance performed well in the difficult economic environment of 2009. The operating result totalled €926m (991m), of which €417m (164m) derived from the fourth quarter. Before elimination of intra-Group transactions across segments, the consolidated result amounted to €375m (156m), with the fourth quarter contributing €280m (-218m). The ERGO Insurance Group posted a significantly improved consolidated result of €173m (73m).

The 2009 combined ratio for the property-casualty segment (including legal expenses insurance) amounted to 93.1% (90.9%). Its level in the fourth quarter was very good at 90.0% (93.8%).

Total premium income across all lines showed growth of 5.3% in 2009, amounting to €19.1bn (18.1bn), with €4.9bn (4.7bn) in the fourth quarter. As in 2008, ERGO grew mainly in international business.

In property-casualty business (including legal expenses insurance), premiums climbed by 1.0% to €5.2bn (5.1bn). Without the strongly negative changes in exchange rates, particularly of the Polish zloty and the Turkish lira, the increase would have been even higher. Premiums in the health segment grew by 3.6% to €6.0bn (5.8bn), mainly due to international business. In life insurance, total premium income (i.e. including savings premiums from unit-linked life insurance and capitalisation products) increased markedly to €7.9bn (7.2bn), a rise of 9.9%. This includes the premium written by Bank Austria Creditanstalt Versicherung AG (BACAV), which has been consolidated in Munich Re's financial statements since the fourth quarter of 2008.

ERGO CEO Torsten Oletzky emphasised: "In 2009, we made good progress – for example, in cutting costs or expanding our international business. We have significantly strengthened our important bank distribution channel and made major progress with integration. We have ambitious plans for 2010, too. With our changed brand strategy, we are opening a new chapter in ERGO's history."

ERGO has modified its brand strategy in Germany with the aim of gearing its operations even more strongly to the needs of its clients and winning new ones in order to generate more growth. In addition, it will be able to focus its marketing activities on just a few brands. There was an urgent need for action regarding the brand KarstadtQuelle Versicherungen following the insolvency of Arcandor's Karstadt and Quelle operations. In future, ERGO will also market life and property insurance in Germany under the ERGO brand. KarstadtQuelle Versicherungen has already been renamed ERGO Direkt Versicherungen.

Reinsurance: Good result in a difficult environment

The reinsurance business was marked by two trends: claims costs in lines of business affected by the recession and a random below-average burden from natural catastrophes. Against this background, reinsurance achieved a good result. Also thanks to a satisfying investment result of €3,879m (4,128m), Munich Re recorded an operating result of €4,164m (3,822m), an increase of 8.9%, with €1,169m coming from the fourth quarter. Reinsurance contributed €2,555m (2,400m) to the Group's overall profit, the fourth quarter producing €699m (€358m) of this. In the previous year, the investment result and the profit had included ERGO's intra-Group dividend payment of €947m.

The combined ratio for 2009 came to 95.3% (99.4%), with natural catastrophes accounting for only 1.4 (6.2) percentage points in the period from January to December and -2.1 (2.0) percentage points between October and December. The bush fires that struck southeast Australia at the beginning of February 2009 were the largest loss event, costing Munich Re a total of €97m. Claims burdens from credit and surety reinsurance business amounted to €510m for the year as a whole.

Gross premiums written were up 13.5% compared with the previous year, rising to €24.8bn (21.9bn). The life and health segment accounted for €9.7bn (7.1bn), and property-casualty for €15.1bn (14.7bn). With effect from 1 April 2009, Munich Re's consolidated financial statements include its new acquisition, the Hartford Steam Boiler Group (HSB Group), which contributed gross premium income of €458m. "In acquiring the HSB Group, we have not only gained a highly profitable enterprise but have also substantially strengthened our position in the USA, the world's largest reinsurance market", commented Torsten Jeworrek, Board member and Reinsurance CEO. In the life and health reinsurance segment, gross premiums written were boosted by large-volume quota share treaties concluded by primary insurers as a capital substitute.

An overall Group premium volume of around €2.5bn will be up for renewal as at 1 April 2010 (Japan and Korea) and 1 July 2010 (parts of the US market, Australia and Latin America). With the exception of loss-affected segments, Munich Re expects markets to generally move sideways, with a slight downward tendency. "At the moment, we do not see any signs of a marked change in the trend," said Torsten Jeworrek. This makes it all the more important to tap other profitable areas of business. "We are focusing here on the expansion of specialty segments, which will in future be marketed as Risk Solutions under the Munich Re brand," stressed Jeworrek. Particularly in Anglo-Saxon markets, the Group's expansion in niche segments has already made very good progress.

Investments: Investment result of €7.9bn up significantly on the previous year

Owing to the expansion of insurance business and foreign currency gains, total investments at 31 December 2009 stood at €182.2bn, an increase of €7.2bn or 4.1% compared with year-end 2008.

The Group's investment result showed a year-on-year rise of 33.2% to €7.9bn (5.9bn) in 2009. In the previous year, Munich Re had to absorb substantial write-downs of €4.7bn on its equity portfolio. In 2009, with the general improvement in the stock markets and a significantly reduced equity portfolio, write-downs on equities were markedly lower at €218m. Besides this, Munich Re posted a gain of €887m (137m) on the disposal of equities in 2009. The investment result is equivalent to a return of 4.3% based on the average market value of the portfolio. Including the higher valuation reserves, the total return on investments amounted to a very pleasing 5.7% (2.5%).

The equity-backing ratio increased slightly to 2.8% as at 31 December 2009 (31 December 2008: 1.6%) based on the Group's total investments at market value, after taking derivatives into account.

Munich Re's net realised gains on disposal were down on the previous year at €1,612m (2,208m), although this was due to the fact that in 2008 the Group realised particularly high gains on the disposal of derivative financial instruments. The sale of shares already hedged prior to the financial crisis led to the release of high, previously unrealised gains. Capital gains totalling €107m were also realised by reducing Munich Re's stake in the Admiral Group from 15.1% to 10.2%.

The overall balance of write-ups and write-downs plus net gains on disposals amounted to €490m (–639m) for the year as a whole.

Munich Re's investment policy is reflected in its portfolio of fixed-interest securities and loans (including short-term investments), totalling €164bn. A good 44% of this portfolio is in government bonds or similarly secure instruments for which public institutions are liable, an area in which the Group invested more strongly in the year under review. Approximately 49% of this involves German and US issuers, while 16% of the government bonds portfolio relates to Greece, Spain, Italy, Ireland and Portugal.

Looking ahead, CFO Jörg Schneider remarked: "We fared well with our investment portfolio in the difficult capital market environment of 2008 and 2009. We will slightly increase the risk profile, but not depart fundamentally from our prudent investment policy. We aim to invest more in renewable energies and other new technologies."

The Group's asset manager is MEAG MUNICH ERGO AssetManagement GmbH. In addition to Group investments, MEAG had segregated and retail funds totalling €7.9bn (7.3bn) under management as at 31 December 2009.

Outlook for 2010: Profit target of over €2bn

For the current financial year 2010, Munich Re expects gross premiums written in its primary insurance and reinsurance business (total consolidated premium) to be between €41bn and €43bn. If exchange rates remain stable, the Group

projects that its gross premium volume in the reinsurance segment (including health reinsurance business written by Munich Health) will range between €25bn and €26bn. For primary insurance (including health primary insurance business written outside Germany by Munich Health) gross premiums of €17–18bn are expected. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should range between €19bn and €20bn.

For property-casualty reinsurance, Munich Re's expectation is a combined ratio of around 97% of net earned premiums over the market cycle as a whole. This estimate is based on an average major-loss burden of 6.5% from natural catastrophes. Given the severe accumulation events at the end of February 2010, with the earthquake in Chile and the European Winter Storm Xynthia, this target will only be achievable if random major losses remain below expectations in the further course of the year. On the basis of provisional estimates, the major earthquake off the coast of Chile on 27 February and Winter Storm Xynthia, which swept over large areas of western Europe on the same weekend, gave rise to a gross claims burden in the region of €500m for Munich Re (Group), with Winter Storm Xynthia accounting for up to €100m. In other words, the major portion is attributable to the earthquake in Chile, whose magnitude of 8.8 made it the fifth-strongest earthquake ever recorded. According to Munich Re's estimates, the insured market loss will range between US\$ 4bn and US\$ 7bn. Munich Re has sent several loss experts to Santiago de Chile to ensure swift and effective claims settlement. "In this way, we also make a small contribution to helping the region recover as quickly as possible," said Torsten Jeworrek. "Carrying losses from catastrophes of this dimension is part of our core business. We calculate risk-adequate prices for this, and will naturally continue to offer our capacity in Chile. We are proceeding on the assumption that an event of this size will affect the prices for catastrophe covers." The insured market loss from Winter Storm Xynthia should total between €1.5bn and €2.5bn, some €300–500m of which is attributable to Germany.

In its investments, Munich Re has systematically switched from equities into fixed-interest securities. It does not expect any significant increase in capital market interest rates for 2010, so regular income from fixed-interest securities and loans is likely to be relatively low. The Group is therefore reckoning with a return on investment in the region of under 4% for 2010 and subsequent years.

For 2010, Munich Re is aiming at another profit of over €2bn. This target remains achievable despite the claims burdens from the earthquake in Chile and Winter Storm Xynthia, although the further development of major losses in relation to the expected annual average will be a significant factor. "We will be especially counting on the commitment, initiative and creative capital of our 47,000 staff around the world to reach our target", emphasised von Bomhard. For 2011, Munich Re anticipates an increase in results. Munich Re is adhering to its long-term objective of a 15% post-tax return on risk-based capital (RORAC) across the cycle, although it will be much more difficult to achieve in an environment in which interest rates are low.

The share buy-back programme announced at the beginning of October is well on track. By 8 March 2010, shares with a total volume of around €677m had been repurchased; the target is €1bn by the next Annual General Meeting on 28 April 2010. As already announced, subject to the approval of the Supervisory

Board and Annual General Meeting, Munich Re intends to pay a dividend for the past financial year of €5.75 (5.50) per share in April 2010, equivalent to a total of almost €1.1bn based on the shares currently in circulation. “This makes us one of the few companies able not just to maintain an attractive dividend but even to slightly increase the payout per share”, stated CEO von Bomhard.

In May 2007, as part of its Changing Gear programme, Munich Re had announced share buy-backs of more than €5bn. Including the current buy-back, an amount of €4bn has already been implemented. Munich Re will carefully consider further buy-backs, weighing up the benefit against the advantages of comfortable capitalisation – also with a view to opportunities for organic and possibly external growth. Von Bomhard stressed: “Our shareholders should know that it is our ambition to achieve our Changing Gear objective – in other words, to realise the next step of our share buy-back programme as well.”

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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 2009, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.56bn on premium income of around €41bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €25bn 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. 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, and 40 million clients in over 30 countries place their trust in the services and security it provides. 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 amounting to €182bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

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.

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Key figures (IFRS) for the Group in the financial year 2009*
 (in €m unless otherwise indicated)

At a glance:

- Profit of over €2.5bn for the year 2009
- CEO von Bomhard: "In 2010, we are again aiming for a consolidated result of over €2bn."
- Primary insurance: Consolidated result of €375m significantly higher than in previous year
- Reinsurance: Good result of €2.6bn

	2009	2008	Change	
			absolute	%
Gross premiums written	41,423	37,829	3,594	9.5
Net earned premiums	39,526	35,724	3,802	10.6
Net expenses for claims and benefits	32,392	28,716	3,676	12.8
Technical result	2,747	2,756	-9	-0.3
Investment result	7,883	5,916	1,967	33.2
Thereof realised gains	4,117	7,858	-3,741	-47.6
realised losses	2,505	5,650	-3,145	-55.7
Non-technical result	1,974	1,078	896	83.1
Operating result	4,721	3,834	887	23.1
Finance costs	304	361	-57	-15.8
Taxes on income	1,264	1,372	-108	-7.9
Consolidated profit	2,564	1,579	985	62.4
Thereof attributable to				
Munich Reinsurance Company equity holders	2,521	1,555	966	62.1
minority interests	43	24	19	79.2
	31.12.2009	31.12.2008		
Investments	182,175	174,936	7,239	4.1
Equity	22,278	21,107	1,171	5.5
Employees	47,249	44,209	3,040	6.9
REINSURANCE**	2009	2008	Change	
			absolute	%
Gross premiums written	24,823	21,869	2,954	13.5
Thereof life and health	9,742	7,130	2,612	36.6
property-casualty	15,081	14,739	342	2.3
Combined ratio in %	95.3	99.4	-4.1	
Technical result	1,945	1,557	388	24.9
Non-technical result	2,219	2,265	-46	-2.0
Operating result	4,164	3,822	342	8.9
Result	2,555	2,400	155	6.5
PRIMARY INSURANCE**	2009	2008	Change	
			absolute	%
Gross premiums written	17,516	16,998	518	3.0
Combined ratio in %	93.1	90.9	2.2	
Technical result	854	1,332	-478	-35.9
Non-technical result	72	-341	413	-
Operating result	926	991	-65	-6.6
Result	375	156	219	140.4
SHARES	2009	2008	Change	
Earnings per share in €	12.95	7.74	5.21	67.3

* Previous year's figures adjusted pursuant to IFRS 3.62, IFRS 8 and IAS 8.

** Before elimination of intra-Group transactions across segments.

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

	4th quarter 2009	4th quarter 2008	Change	
			absolute	%
Gross premiums written	10,375	9,706	669	6.9
Net earned premiums	10,414	9,627	787	8.2
Net expenses for claims and benefits	8,021	7,744	277	3.6
Technical result	877	622	255	41.0
Investment result	2,091	1,929	162	8.4
Thereof realised gains	972	3,850	-2,878	-74.8
realised losses	431	2,848	-2,417	-84.9
Non-technical result	523	492	31	6.3
Operating result	1,400	1,114	286	25.7
Finance costs	73	89	-16	-18.0
Taxes on income	250	631	-381	-60.4
Consolidated profit	780	110	670	609.1
Thereof attributable to				
Munich Reinsurance Company equity holders	760	123	637	517.9
minority interests	20	-13	33	-
	31.12.2009	31.12.2008		
Investments	182,175	174,936	7,239	4.1
Equity	22,278	21,107	1,171	5.5
Employees	47,249	44,209	3,040	6.9
REINSURANCE**	4th quarter 2009	4th quarter 2008		Change
			absolute	%
Gross premiums written	6,093	5,652	441	7.8
Thereof life and health	2,728	1,947	781	40.1
property-casualty	3,365	3,705	-340	-9.2
Combined ratio in %	92.5	97.6	-5.1	
Technical result	683	388	295	76.0
Non-technical result	486	595	-109	-18.3
Operating result	1,169	983	186	18.9
Result	699	358	341	95.3
PRIMARY INSURANCE**	4th quarter 2009	4th quarter 2008		Change
			absolute	%
Gross premiums written	4,533	4,292	241	5.6
Combined ratio in %	90.0	93.8	-3.8	
Technical result	199	225	-26	-11.6
Non-technical result	218	-61	279	-
Operating result	417	164	253	154.3
Result	280	-218	498	-
SHARES	4th quarter 2009	4th quarter 2008		Change
Earnings per share in €	3.94	0.63	3.31	525.4

* Previous year's figures adjusted pursuant to IFRS 3.62, IFRS 8 and IAS 8.

** Before elimination of intra-Group transactions across segments.