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Press release

Munich Re raises profit guidance for 2010

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Munich Re is reckoning with a higher consolidated result for 2010 than previously expected: following a profit of €1,955m for the first nine months of 2010 (same period last year: €1,784m), Munich Re is now anticipating a consolidated profit of around €2.4bn for the year as a whole, compared with the guidance to date of over €2bn. In the third quarter, the Group posted a profit of €761m (650m), based on a good underwriting result of €785m (852m) and – as in the first half-year – a high investment result.

The reasons for the raised profit guidance are the high income from investments achieved so far and the favourable claims experience in the third quarter. CFO Jörg Schneider: "Particularly the figures for the third quarter are very pleasing. The chances are therefore good that we can achieve a consolidated result of around €2.4bn. Besides normal claims development, determining factors will be share prices, interest rates and currencies." As a consequence of IFRS accounting rules, such factors can easily lead to considerable fluctuations in results.

Summary of the figures for the first nine months

From January to September, the Group recorded an operating result of €3,367m (3,321m), €1,149m of this in the third quarter. Compared with year-end 2009, equity rose by 8.3% to €24.1bn. The annualised return on risk-adjusted capital (RORAC) amounted to 14.5% and the return on equity (RoE) to 11.2%. Gross premiums written were up 9.7% to €34.1bn (31.0bn), with €11.4bn attributable to the third quarter. At unchanged exchange rates, premium volume would have increased by 5.2% in the first nine months compared with the same period last year.

Primary insurance: Nine-month result of €432m

The operating result for the first nine months of 2010 was up considerably on the previous year to €923m (500m), €296m (224m) of this in the third quarter. Before elimination of transactions across segments, the consolidated result amounted to €432m (95m), with the third quarter contributing €139m (94m). The ERGO Insurance Group posted a consolidated result of €301m (73m).

ERGO CEO Torsten Oletzky commented: “I am pretty satisfied with our nine-month result, which we have significantly improved in a difficult environment, and I am confident that we will make further progress in this direction.”

Total premium income across all lines showed growth of 7.0% from January to September, amounting to €14.5bn (13.5bn), with €4.6bn (4.3bn) in the third quarter. As in the first two quarters of the year, ERGO expanded its premium volume in international business.

In the life segment, total premium income rose by 6.6% to €6.0bn (5.7bn) since January, the months of July to September accounting for €1.9bn (1.8bn). Premium in international business climbed by 8.4% in the first nine months to €1.5bn (1.4bn). Total domestic premium income amounted to €4.5bn (4.2bn) – a rise of 6.0%. German new business was 28.5% higher than in the same period last year, thanks to the favourable development of single-premium business, where double-digit growth rates were achieved, especially in traditional annuity covers. Based on German new business, the annual premium equivalent (APE = regular premium income plus 10% of single-premium volume) was up 7.2% on last year at €345m (322m).

In the health insurance segment, premium income in the first nine months of 2010 increased by 6.1% to €4.2bn (3.9bn), of which €1.4bn (1.3bn) was attributable to the third quarter. Third-quarter growth amounted to 7.2%. Besides necessary premium adjustments at the start of the year, the conclusion of a major contract in the previous year also had a positive effect.

In the property-casualty insurance segment, ERGO posted premium income totalling €4.3bn (4.0bn) in the first nine months of the year, the months of July to September accounting for €1.3bn (1.2bn). International business grew by 19.1% to €1.8bn (1.5bn), partly due to favourable exchange-rate developments. German business also showed growth, with premium since the start of the year climbing by 2.0% to €2.54bn (2.49bn). ERGO increased its premium income in commercial and industrial business in particular.

At 95.6%, the combined ratio for the first three quarters in the property-casualty insurance segment was at a good level, albeit higher than in the same period last year (94.3%). Natural hazard events such as the long, harsh winter and flood losses, which especially affected international business, were responsible for markedly higher claims expenditure. The combined ratio for the third quarter amounted to 93.6% (93.3%).

“The premium growth is especially pleasing in view of our brand change in Germany”, said Oletzky. “Our sales forces have done very well here, and we made good progress in implementing the new brand strategy in the third quarter.” ERGO now markets life and property-casualty insurance in Germany under a single eponymous brand, a move supported since mid-July by a highly acclaimed advertising campaign. At the beginning of October, the last step took place – the combining of health insurance business under the DKV brand and legal protection insurance under the D.A.S. brand.

Reinsurance: Profit of €1.7bn despite high losses

Reinsurance business was marked by heavy claims burdens from major losses in the first nine months of 2010. The operating result fell to €2,512m (2,933m), of which €815m (977m) derived from the third quarter. Despite the substantial expenses for major losses, reinsurance contributed €1,659m (1,869m) to the Group's overall profit, €602m (560m) of this in the third quarter.

The combined ratio was 102.1% (96.3%) of net earned premiums for January to September and 93.8% (93.1%) for July to September. In the third quarter, 6.8 (0.8) percentage points of this related to natural catastrophes, compared with 10.8 (2.6) percentage points in the first nine months. Of the originally projected 6.5% for natural catastrophes in the annual loss ratio, around 8 percentage points were incurred in the first three quarters alone, totalling approximately €1.1bn (0.3bn). The largest loss event for Munich Re this year continues to be the devastating earthquake in Chile, with an overall burden of nearly US$ 1bn after retrocession and before tax. The biggest individual loss in the third quarter was the earthquake in New Zealand, with a claims burden of approximately €230m. In the period from January to September, around €523m (641m) was paid or reserved for man-made major-loss events, of which €53m (187m) was attributable to the third quarter.

Premium income grew by 6.6% in the first nine months year on year and totalled €17.6bn (16.5bn), with €6.1bn (5.6bn) accounted for by the third quarter. Adjusted to eliminate the effects of changes in exchange rates, premium volume would have fallen by 0.4% in the first nine months. US subsidiary Hartford Steam Boiler, which was acquired with effect from 31 March 2009, continued to have a positive effect on premium volume, posting premiums of €494m for the period from January to September. Gross premiums written in the life reinsurance segment showed an increase of 21.1% to €5.9bn (4.9bn) in the first nine months, boosted by large-volume quota share deals.

On 20 April, the Deepwater Horizon oil rig exploded in the Gulf of Mexico. Against this background, Munich Re has developed a new concept for insuring offshore oil drilling, which provides for each well to be covered by a policy specifically developed for that risk. As a result, it should be possible to increase liability limits to US$ 10–20bn per well. Munich Re would be prepared to offer coverage capacity in the order of up to US$ 2bn. Torsten Jeworrek, Munich Re's Reinsurance CEO, stressed: "In September, we presented the concept for the coverage of offshore oil drilling. A consortium in which the world's leading broker groups will participate is now planned. This is an important milestone on the way to providing better financial security for offshore drilling operations."

In the treaty renewals in property-casualty reinsurance at 1 July 2010 (mainly for parts of the US market, for Australia and for Latin America), price levels remained stable (–0.1%). For the forthcoming renewals of reinsurance treaties in the property-casualty segment, Munich Re's assessment as presented at the industry conference in Monte Carlo in mid-September 2010 remains unchanged: Munich Re is expecting prices, terms and conditions for its own portfolio to remain stable. Where risk-adequate prices cannot be realised, however, it will terminate the business concerned.

Munich Health: Increase in premium to €3.8bn
As from this year, Munich Re is reporting Munich Health as a separate segment under IFRS 8 for the first time. Munich Health covers the Group's health reinsurance business worldwide and its health primary insurance outside Germany. Munich Health's business was previously disclosed in the segments "life and health reinsurance" and "health primary insurance". The figures for the previous year have been adjusted accordingly.

Munich Health increased its operating result to €114m (89m), contributing €57m (–1m) to the Group's overall profit, €41m of this in the third quarter.

The combined ratio was 99.6% (99.3%) for the period January to September 2010 and 98.1% (100.0%) for July to September. This ratio only relates to short-term health business and not to business conducted like life insurance.

Premium income improved appreciably year on year by 32.0% to €3,836m (2,905m) in the first three quarters, with €1,281m (1,084m) assignable to the third quarter. International health primary insurance business showed an increase of 7.2% to €1,434m (1,338m), with premium growth particularly in the UK, Spain and Belgium. Sterling Life's premium income was down because the US regulatory framework has been tightened for the senior segment. However, the decrease in premium was more than compensated for by an improved combined ratio. The growth in reinsurance premium income to €2,402m (1,567m) is essentially due to the conclusion of large-volume quota share treaties which clients are using for capital relief. If exchange rates had remained the same, premium volume would have been 22.7% higher than in the first nine months of 2009.

In October, Munich Re agreed to acquire the Windsor Health Group Inc. (Windsor), a specialist US health insurer. Windsor operates government-sponsored health plans for the senior segment through its Windsor Health Plan, Inc. subsidiary, which provides specialty managed healthcare services in the senior segment to more than 75,000 members in Alabama, Arkansas, Mississippi, South Carolina and Tennessee. The acquisition of Windsor will strengthen Munich Health's position in the US medicare market by sharpening its competitive edge for the challenges posed by the US health reform.

Investments: Result of €7.3bn for the first nine months
At €194.0bn, total investments at 30 September 2010 increased by €11.8bn or 6.5% compared with year-end 2009, chiefly due to currency translation effects and the decline in risk-free interest rates.

For the period January to September 2010, the Group's investment result showed a major year-on-year improvement of 25.7% to €7,281m (5,792m). Annualised, the result represents a return of 5.0% in relation to the average market value of the portfolio. The equity-backing ratio was 2.6% (31 December

2009: 2.8%), based on the Group's total investments at market value, including hedging instruments. The portfolio continues to focus on fixed-interest investments, €174bn of which are fixed-interest securities, loans and short-term fixed-interest items. Just over 46% of this portfolio (including the short-term items) is in government bonds or instruments for which public institutions are liable.

The overall balance of write-ups and write-downs plus net gains on disposals amounted to €1,699m (231m) for the first three quarters. The Group made net write-ups of €440m (–344m) on swaptions, mainly because the interest-rate level fell in the second and third quarters. Swaptions are used by Munich Re's life primary insurers as protection against reinvestment risks in low-interest-rate phases. Especially owing to the volatile stock markets, Munich Re had to make write-downs of €153m (313m) on non-fixed-interest investments, €80m (21m) in the third quarter. Contributions to the result came from the sale of corporate bonds acquired in the previous year, which subsequently recorded market gains as risk spreads fell. When switching investments in government bonds, Munich Re profited from the interest-rate level remaining low. CFO Jörg Schneider was very satisfied: "Munich Re continued to benefit from its conservative yet active asset management."

The Group's asset manager is MEAG MUNICH ERGO AssetManagement GmbH. In addition to Group investments, MEAG had segregated and retail funds totalling €10.6bn (7.9bn) under management as at 30 September 2010.

Outlook for 2010: Return on investment of around 4.5% now expected
If exchange rates remain stable, the Group anticipates that its gross premium volume in the reinsurance segment will range between €23bn and €24bn. For primary insurance (excluding 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 be in the region of €19bn. Gross premiums written of around €5bn are expected for Munich Health. Overall, subject to the precondition described, Munich Re expects its gross premiums written in primary insurance, reinsurance and Munich Health in the current financial year 2010 (total consolidated premium) to be between €44bn and €46bn.

For property-casualty reinsurance, Munich Re's target is a combined ratio of around 97% of net earned premiums over the market cycle as a whole. If claims experience from now on is normal, Munich Re expects the combined ratio for 2010 to be just under 100%. In property-casualty primary insurance, the target is a combined ratio of around 95%.

On the basis of the continued high investment result in the third quarter, Munich Re is raising its August forecast of just over 4% for the return on investment (RoI) to around 4.5%, but this is still subject to pronounced uncertainties. CFO Schneider emphasised that the currently high and difficult-to-predict volatilities in the interest-rate, equity and currency markets lead to substantial changes in the value of derivatives, which in Munich Re’s case are largely held for hedging purposes. Under IFRS accounting, these changes are recognised in profit or loss, whereas such recognition in the income statement is not always provided for with regard to the related underlying transactions themselves. Schneider: “Despite our economically well-balanced portfolio, market volatilities can still lead to some paradoxical fluctuations in our investment and consolidated result.” Munich Re therefore supports the ongoing further development of the pertinent IFRS accounting rules by the International Accounting Standards Board as an important step in the right direction.

For 2011, Munich Re does not anticipate any significant rise in capital market interest rates, so regular income from fixed-interest securities and loans is likely to be lower. Munich Re intends to increase its still low proportion of investments in equities only slightly, if at all. The Group therefore considers it likely that its medium-term investment result will be lower, with a return of under 4% on the portfolio. Its overall result should thus also tend to be lower than in years in which it achieved substantial gains on disposal from a large portfolio of equities with a correspondingly high market risk and from fixed-interest securities with extreme fluctuations in interest rates. Given normal claims experience and in expectation of essentially stable prices in reinsurance, Munich Re is currently reckoning with a somewhat higher underwriting result and a marginally lower consolidated result for 2011. CFO Schneider: “That would be a good consolidated result, only slightly below our substantially raised profit guidance for 2010.” Munich Re is adhering to its long-term objective of a 15% post-tax return on risk-based capital (RORAC) across the market and interest-rate cycle, although this target is particularly challenging in a continuing environment of very low interest rates.

The share buy-back programme launched in May is proceeding according to plan. By the end of October, Munich Re had repurchased a total of 4.5 million shares with a volume of €475m. Before the next Annual General Meeting on 20 April 2011, shares with a volume of up to €1bn are to be repurchased. The full execution of this share buy-back programme remains subject to developments in the capital markets and the general economic environment.

An issue that will increasingly occupy the insurance industry in the coming years is the implementation of Solvency II. “It is important that Solvency II is realised in keeping with the original spirit. Particularly the discussion regarding the inclusion of future profits challenges the spirit of the framework directive”, said CFO Schneider. What will probably be the last quantitative impact study, QIS 5, is currently in progress, testing the present risk calibration with real data from insurers and investigating its impact on the companies' capital requirements. “Subsequently, adjustments will have to be made, because many insurance risks are too conservatively valued in QIS 5. Also, the reporting requirements of the ‘third pillar’ of Solvency II should be reduced to a reasonable level and relief provided for small insurance companies whose risks are relatively limited”, added Schneider.

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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 Germany and Europe. 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 first nine months of 2010*
(in €m unless otherwise indicated)

	Q1–Q3 2010	Q1–Q3 2009	Change absolute	Change %
Gross premiums written	**34,060**	31,048	3,012	9.7
Net earned premiums	**31,954**	29,112	2,842	9.8
Net expenses for claims and benefits	**27,860**	24,371	3,489	14.3
Technical result	**1,462**	1,870	–408	–21.8
Investment result	**7,281**	5,792	1,489	25.7
Thereof realised gains	**2,940**	3,144	–204	–6.5
realised losses	**1,531**	2,075	–544	–26.2
Non-technical result	**1,905**	1,451	454	31.3
Operating result	**3,367**	3,321	46	1.4
Finance costs	**219**	231	–12	–5.2
Taxes on income	**859**	1,014	–155	–15.3
Consolidated profit	**1,955**	1,784	171	9.6
Thereof attributable				
to Munich Reinsurance Company equity holders	**1,955**	1,761	194	11.0
to minority interests	**–**	23	–23	–100.0
	30.9.2010	31.12.2009		
Investments	**194,017**	182,175	11,842	6.5
Equity	**24,136**	22,278	1,858	8.3
Employees	**47,187**	47,249	–62	–0.1

REINSURANCE**	**Q1–Q3 2010**	Q1–Q3 2009	Change absolute	Change %
Gross premiums written	**17,628**	16,531	1,097	6.6
Thereof life	**5,916**	4,884	1,032	21.1
property-casualty	**11,712**	11,647	65	0.6
Combined ratio in %	**102.1**	96.3	5.8	
Technical result	**1,025**	1,256	–231	–18.4
Non-technical result	**1,487**	1,677	–190	–11.3
Operating result	**2,512**	2,933	–421	–14.4
Result	**1,659**	1,869	–210	–11.2

PRIMARY INSURANCE**	**Q1–Q3 2010**	Q1–Q3 2009	Change absolute	Change %
Gross premiums written	**13,132**	12,289	843	6.9
Combined ratio in %	**95.6**	94.3	1.3	
Technical result	**457**	637	–180	–28.3
Non-technical result	**466**	–137	603	–
Operating result	**923**	500	423	84.6
Result	**432**	95	337	354.7

MUNICH HEALTH**	**Q1–Q3 2010**	Q1–Q3 2009	Change	
			absolute	%
Gross premiums written	**3,836**	2.905	931	32.0
Combined ratio in %	**99.6**	99.3	0.3	
Technical result	**57**	41	16	39.0
Non-technical result	**57**	48	9	18.8
Operating result	**114**	89	25	28.1
Result	**57**	–1	58	–
SHARES	**Q1–Q3 2010**	Q1–Q3 2009	Change	
Earnings per share in €	**10.47**	9.02	1.45	16.1

* Previous year's figures adjusted owing to first-time recognition of Munich Health as a separate segment and to IAS 8.

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

Key figures (IFRS) for the Group in the third quarter of 2010*
(in €m unless otherwise indicated)

	3rd quarter 2010	3rd quarter 2009	Change absolute	Change %
Gross premiums written	**11,447**	10,355	1,092	10.5
Net earned premiums	**10,876**	9,983	893	8.9
Net expenses for claims and benefits	**9,308**	8,357	951	11.4
Technical result	**785**	852	–67	–7.9
Investment result	**2,203**	2,237	–34	–1.5
Thereof realised gains	**778**	843	–65	–7.7
realised losses	**416**	413	3	0.7
Non-technical result	**364**	360	4	1.1
Operating result	**1,149**	1,212	–63	–5.2
Finance costs	**74**	73	1	1.4
Taxes on income	**414**	446	–32	–7.2
Consolidated profit	**761**	650	111	17.1
Thereof attributable				
to Munich Reinsurance Company equity holders	**764**	643	121	18.8
to minority interests	**–3**	7	–10	–

REINSURANCE**	**3rd quarter 2010**	3rd quarter 2009	Change absolute	Change %
Gross premiums written	**6,061**	5,622	439	7.8
Thereof life	**2,025**	1,795	230	12.8
property-casualty	**4,036**	3,827	209	5.5
Combined ratio in %	**93.8**	93.1	0.7	
Technical result	**577**	658	–81	–12.3
Non-technical result	**238**	319	–81	–25.4
Operating result	**815**	977	–162	–16.6
Result	**602**	560	42	7.5

PRIMARY INSURANCE**	**3rd quarter 2010**	3rd quarter 2009	Change absolute	Change %
Gross premiums written	**4,266**	3,870	396	10.2
Combined ratio in %	**93.6**	93.3	0.3	
Technical result	**202**	139	63	45.3
Non-technical result	**94**	85	9	10.6
Operating result	**296**	224	72	32.1
Result	**139**	94	45	47.9

MUNICH HEALTH**	**3rd quarter 2010**	3rd quarter 2009	Change	
			absolute	%
Gross premiums written	**1,281**	1,084	197	18.2
Combined ratio in %	**98.1**	100.0	–1.9	
Technical result	**40**	10	30	300.0
Non-technical result	**14**	23	–9	–39.1
Operating result	**54**	33	21	63.6
Result	**41**	7	34	485.7
SHARES	**3rd quarter 2010**	3rd quarter 2009	Change	
Earnings per share in €	**4.15**	3.29	0.86	26.1

* Previous year's figures adjusted owing to first-time recognition of Munich Health as a separate segment and to IAS 8.

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