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**Press release**

# Munich Re posts quarterly loss of €948m due to heavy claims burdens

Contact
Media Relations Munich,
Johanna Weber
Tel.: +49 (89) 3891-2695
Fax: +49 (89) 3891-72695
jweber@munichre.com

**Münchener Rückversicherungs-Gesellschaft**
Aktiengesellschaft in München
Media Relations
Königinstraße 107
80802 München
Germany
Letters: 80791 München

www.munichre.com

**Owing to exceptionally high costs for natural catastrophes, Munich Re posted a consolidated loss of €948m for the first quarter of 2011 (previous year: profit of €485m). Despite this quarterly loss, Munich Re still expects to record a profit for the current financial year.**

CFO Jörg Schneider: "The earthquake in Japan and the natural catastrophes in Australia and New Zealand have made this the most difficult start to a financial year we have experienced for a long time. Such major losses – even several within a few weeks – are possible in our reinsurance business. Thanks to our solid capitalisation, we are able to absorb them. Despite these devastating natural catastrophes, we can still achieve a profit for the year as a whole." With regard to the positive effects expected by Munich Re for the reinsurance markets, Schneider added: "Owing to our financial strength, we can exploit the additional opportunities that now present themselves and participate in the positive market development."

**Summary of the figures for the first three months**
For the period January to March, the Group had to cope with losses in reinsurance of €2.7bn from natural catastrophes (after retrocession and adjusted for the impact from the transfer of insurance risks to the capital markets and before tax). That is – before tax – almost €2.5bn more than was to be expected for a single quarter (after tax, it is €1.8bn more).

These high costs led to a pre-tax operating loss of €1,384m (previous year: profit of €770m). Compared with year-end 2010, equity fell by 11.0% to €20.5bn, which was also partly due to the rise in interest rates, a relatively strong euro, and share buy-backs. The annualised return on risk-adjusted capital (RORAC) amounted to –18.5% and the return on equity (RoE) to –17.4%. Gross premiums written increased by 11.3% to €13.0bn (11.7bn). If exchange rates had remained the same, premium volume would have increased by 8.7% compared with the same period last year.

As part of its active capital management, Munich Re bought back a nominal amount of €1.2bn of the subordinated bond 2003/2023, out of a total outstanding amount of €2.9bn. Besides this, Munich Re issued a new subordinated bond with a volume of €1bn on 29 March 2011. This bond, which has a term of

30 years, is first callable after ten years. It has a fixed coupon rate of 6% p.a. up to then and a floating rate thereafter. The bond is designed to be compliant with the existing (Solvency I) and anticipated future (Solvency II) supervisory regime, and to meet current rating agency requirements.

**Primary insurance: Result of €56m**
The operating result for the first three months of 2011 was €173m (251m). Before elimination of intra-Group transactions, the consolidated result amounted to €56m (165m), the year-on-year reduction being chiefly attributable to the lower investment result and burdens from international business. Thus in the primary insurance segment, write-downs of €34m were made on the goodwill and other assets of ERGO Daum Direct in South Korea. The ERGO Insurance Group's consolidated result amounted to €15m (78m).

ERGO CEO Torsten Oletzky stressed: "We are adhering to our profit guidance of €450–550m for the year as a whole. We will make headway in international business in 2011, and our investment result should also improve in the further course of the year." After negative special factors in the first quarter, ERGO is expecting positive one-off effects from the already transacted sale of a group company in Singapore.

Overall premium income across all lines of business increased by 1.4% to €4.8bn (4.7bn) from January to March, with especially prominent growth in international business and German health insurance. The fact that total premium income was down slightly by 1.1% is mainly due to lower single premiums from capitalisation products and unit-linked life insurance.

Accordingly, overall premium income in the life segment fell by 8.5% since January, with reductions both in Germany and in international business. As ERGO was able to increase its new regular premium income by 12.9%, new business measured in terms of APE (annual premium equivalent = regular premium income plus 10% of single-premium volume) totalled €178m (177m), a slight year-on-year increase of 0.5%.

In the health primary insurance segment, ERGO achieved growth of 3.0% in premium income to €1.5bn (1.4bn). There was expansion in new business, especially in comprehensive cover, following the abolition in Germany from the beginning of 2011 of the three-year waiting period introduced in 2007 for switching to private insurance.

In the property-casualty segment, ERGO increased its premium income to €1.8bn (1.7bn). Commercial and industrial insurance was mainly responsible for the growth of 2.2% to €1.19bn (1.16bn) in German business, while international business grew at a faster pace. The combined ratio for all German and international property-casualty business amounted to 98.2% (98.7%) for the first quarter.

**Reinsurance: Quarterly loss of €683m owing to heavy claims burden**
Reinsurance business was hit particularly hard by natural catastrophe losses in the first quarter. The operating result decreased to –€1,257m (previous year: profit of €605m), while the investment result was satisfactory at €1,256m (935m). Owing to the high claims costs, reinsurance posted a loss of €683m (previous year: profit of 424m).

The combined ratio for the first quarter was 159.4% (109.2%) of net earned premiums – adjusted for the impact from the transfer of insurance risks to the capital markets. Around 69 percentage points of this were due to natural catastrophes. Claims costs for natural catastrophes totalled approximately €2.7bn (0.7bn) after retrocession and before tax. Based on an initial loss estimate, €1.5bn of this is attributable to the earthquake in Japan alone, adjusted for the impact from the transfer of insurance risks to the capital markets. The Group had to carry a further €1.1bn from the severe natural hazard events in Australia and New Zealand. Torsten Jeworrek, Munich Re's Reinsurance CEO, stressed: “Events like those in Japan demonstrate the role and significance of professional reinsurers in covering major losses.” In terms of the individual events and their random accumulation, the losses still remained within the range Munich Re is prepared and able to bear according to the risk tolerance defined in its risk model.

Gross premiums written in the first three months were up 16.3% on the same period last year, rising to €6.9bn (5.9bn). Adjusted to eliminate the effects of changes in exchange rates, premium volume would have increased by 12.2% in the first three months.

With a volume of approximately €1.1bn, the renewals at 1 April 2011 (in Japan, Korea and the USA, as well as with some global clients) involved around 10% of the total treaty business. 35% of this concerned the markets of Japan and Korea and another 40% North America and global clients. In Japan, renewal negotiations were marked by the earthquake losses. Treaties negotiated here after 11 March 2011 saw significant price increases of up to 50% for loss-affected earthquake cover. Jeworrek: “In the current financial year, Munich Re expects price increases in global lines such as natural catastrophe or industrial business as a result of the recent loss events.” In loss-affected regions such as Australia and New Zealand, prices are likely to rise considerably. Munich Re continues to be very well positioned to take advantage of the opportunities that present themselves.

**Munich Health: Marked increase in premiums to €1.5bn**
Munich Health's operating result rose by 900% in the first quarter to €40m (4m), contributing a pleasing €21m (–11m) to the Group’s overall result.

Gross premium income grew appreciably to €1,536m (1,252m) in the first quarter, or by 22.7% compared with the same period last year. This was due particularly to the conclusion of a new, large-volume quota share treaty in North America. But the acquisition of the Windsor Health Group (Windsor) also had a positive effect, more than compensating for the decline in premium from Sterling

Life. “The purchase of Windsor with effect from 1 January 2011 was a further step towards realising Munich Health’s strategy of strengthening its position in the US Medicare market”, stated Wolfgang Strassl, member of the Board of Management responsible for Munich Health. If exchange rates had remained the same, premium volume would have been 18.1% higher than in the first three months of the previous year.

The combined ratio for the period from January to March 2011 was 99.8% (101.3%). This ratio relates only to short-term health business, not to business conducted like life insurance.

**Investments: Lower result of €1,956m**
At €189.4bn, total investments at 31 March 2011 decreased by €3.7bn or 1.9% compared with year-end 2010, owing to currency translation effects and market-value losses on fixed-interest securities due to the higher interest-rate level.

The portfolio continues to focus on fixed-interest investments, €157.5bn of which are fixed-interest securities and loans. Including short-term items, a good 45% of this portfolio is invested in government bonds or similar instruments for which public institutions are liable. These investments have been slightly reduced since the beginning of the year. Around 29% of them are securities with top-quality collateralisation, while only 4% are from Portuguese, Irish and Greek issuers. The equity-backing ratio at 31 March 2011 was 2.8% (31 December 2010: 4.4%), based on the Group’s total investments at market value, including equity-based derivatives.

The overall balance of write-ups and write-downs plus net gains on disposals amounted to €263m (562m) for the first quarter. Owing to the fall in the interest-rate level, the Group made net write-downs of €67m (10m) on derivative financial instruments used by its life primary insurers to hedge against reinvestment risks in low-interest-rate phases. Some €200m of the write-ups of €611m were attributable to income from the transfer of insurance risks to the capital markets.

Altogether, the Group's investment result for the period from January to March 2011 decreased by 20.5% compared year on year to €1,956m (2,460m). This represents an annualised return of 3.6% on the average investment portfolio at market values, adjusted for the impact from the transfer of insurance risks to the capital markets.

The Group’s asset manager is MEAG MUNICH ERGO AssetManagement GmbH, which in addition to Group investments had segregated and retail funds totalling €10.2bn (10.2bn) under management as at 31 March 2011.

**Outlook for 2011: Profit for the year still expected**
The Group anticipates that for the current financial year 2011 its gross premium volume in the reinsurance segment will range between €25bn and €26bn. In primary insurance, gross premiums written of between €17bn and €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. Gross premiums written of around €6bn are anticipated for Munich Health. Overall, Munich Re is proceeding on the assumption that its gross premiums written in primary insurance, reinsurance and Munich Health (total consolidated premium) will be in the order of €47–49bn, provided that exchange rates remain stable.

Munich Re envisages a combined ratio of around 97% of net earned premiums over the market cycle as a whole. However, the latter figure is likely to be significantly exceeded in 2011, since this long-term estimate is based on an average major-loss burden of 6.5 percentage points from natural catastrophes. The first quarter of 2011, however, was already affected by very severe loss events, which in relation to the expected net premiums for the year as a whole accounted for approximately 18 percentage points of the loss ratio (after retrocession and adjusted for the impact from the transfer of insurance risks to the capital markets). The month of April was also impacted by further severe weather events. The US South and Midwest were hit by the most devastating tornadoes in decades. Munich Re expects a claims burden from the tornadoes in the region of €100–150m.

By contrast, the combined ratio for 2011 in primary insurance should be within the long-term target of 95%.

For 2011, Munich Re does not expect any significant rise in capital market interest rates; regular income from fixed-interest securities and loans is therefore likely to be somewhat lower. Munich Re thus projects a return of just under 4% on its investment portfolio.

Munich Re is adhering to its long-term objective of a 15% post-tax return on risk-based capital (RORAC) across the insurance and interest-rate cycle. Despite the exceptional claims expenditure in the first four months, Munich Re still expects to record a positive result for 2011, even if further major losses within the statistically expectable range occur. CFO Schneider explained: “Not least thanks to our broad spectrum of activities, with life reinsurance, primary insurance and Munich Health, we will be able to partly counterbalance the catastrophic losses in property-casualty reinsurance. Particularly after major losses, property-casualty reinsurance usually benefits from the generally heightened risk awareness, stronger demand and reduced capacity through noticeably improved terms and conditions.” Munich Re therefore continues to assess its medium- to long-term business opportunities as positive.

Note for the editorial staff:
For further questions please contact

Media Relations Munich, Johanna Weber
Tel.: +49 (89) 3891-2695

Media Relations Asia, Nikola Kemper
Tel.: +852 2536 6936

Media Relations USA, Terese Rosenthal
Tel.: +1 (609) 243-4339

**Munich Re** stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. Munich Re creates value for clients, shareholders and staff alike. In the financial year 2010, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.4bn on premium income of around €46bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €24bn 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. Our primary insurance operations are concentrated mainly in the ERGO Insurance Group. With premium income of over €20bn, ERGO is one of the largest insurance groups in Europe and Germany. It is the market leader in Europe in health and legal protection insurance. More than 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 €193bn 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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**Münchener Rückversicherungs-Gesellschaft**
Aktiengesellschaft in München
Media Relations
Königinstraße 107
80802 München
Germany

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**Key figures (IFRS) for the Group in the first quarter of 2011**
(in €m unless otherwise indicated)

| | **1st quarter 2011** | 1st quarter 2010 | Change Absolute | Change % |
|---|---|---|---|---|
| Gross premiums written | 12,980 | 11,657 | 1,323 | 11.3 |
| Net earned premiums | 11,670 | 10,153 | 1,517 | 14.9 |
| Net expenses for claims and benefits | 12,148 | 9,394 | 2,754 | 29.3 |
| Technical result | -1,912 | 138 | -2,050 | - |
| Investment result | 1,956 | 2,460 | -504 | -20.5 |
| Thereof realised capital gains | 1,054 | 1,083 | -29 | -2.7 |
| realised losses | 654 | 428 | 226 | 52.8 |
| Non-technical result | 528 | 632 | -104 | -16.5 |
| Operating result | -1,384 | 770 | -2,154 | - |
| Finance costs | 69 | 69 | - | - |
| Taxes on income | -612 | 73 | -685 | - |
| Consolidated profit | -948 | 485 | -1,433 | - |
| Thereof attributable | | | | |
| to Munich Reinsurance Company equity holders | -947 | 482 | -1,429 | - |
| to minority interests | -1 | 3 | -4 | - |
| | **31.3.2011** | 31.12.2010 | | |
| Investments | 189,408 | 193,108 | -3,700 | -1.9 |
| Equity | 20,506 | 23,028 | -2,522 | -11.0 |
| Employees | 46,885 | 46,915 | -30 | -0.1 |

| **REINSURANCE*** | **1st quarter 2011** | 1st quarter 2010 | Change Absolute | Change % |
|---|---|---|---|---|
| Gross premiums written | 6,893 | 5,928 | 965 | 16.3 |
| Thereof life | 2,398 | 1,843 | 555 | 30.1 |
| property-casualty | 4,495 | 4,085 | 410 | 10.0 |
| Combined ratio in %** | 159.4 | 109.2 | 50.2 | |
| Technical result | -2,050 | 108 | -2,158 | - |
| Non-technical result | 793 | 497 | 296 | 59.6 |
| Operating result | -1,257 | 605 | -1,862 | - |
| Result | -683 | 424 | -1,107 | - |

| **PRIMARY INSURANCE*** | **1st quarter 2011** | 1st quarter 2010 | Change Absolute | Change % |
|---|---|---|---|---|
| Gross premiums written | 4,778 | 4,714 | 64 | 1.4 |
| Combined ratio in % | 98.2 | 98.7 | -0.5 | |
| Technical result | 155 | 51 | 104 | 203.9 |
| Non-technical result | 18 | 200 | -182 | -91.0 |
| Operating result | 173 | 251 | -78 | -31.1 |
| Result | 56 | 165 | -109 | -66.1 |

| **MUNICH HEALTH*** | **1st quarter 2011** | 1st quarter 2010 | | Change |
|---|---|---|---|---|
| | | | Absolute | % |
| Gross premiums written | 1,536 | 1,252 | 284 | 22.7 |
| Combined ratio in % | 99.8 | 101.3 | -1.5 | |
| Technical result | 8 | -5 | 13 | - |
| Non-technical result | 32 | 9 | 23 | 255.6 |
| Operating result | 40 | 4 | 36 | 900.0 |
| Result | 21 | -11 | 32 | - |
| **SHARES** | **1st quarter 2011** | 1st quarter 2010 | | Change |
| Earnings per share in € | -5.28 | 2.54 | -7.82 | - |

* Before elimination of intra-Group transactions across segments.

** Adjusted for the impact from the transfer of insurance risks to the capital markets.