Munich RE

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Press release

After outlier first quarter, Munich Re returns to accustomed profitability in second quarter of 2011

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Following very high claims costs for natural catastrophes in the first quarter of 2011, Munich Re returned to the profit zone in the second quarter with a result of €738m (same period last year: €709m). For the first half-year overall, however, Munich Re nevertheless posted a consolidated loss of €210m, compared with a profit of €1,194m in the same period last year. Munich Re still aims to achieve a profit for 2011 as a whole.

Nikolaus von Bomhard, Chairman of the Board of Management, commented as follows on the high claims burden from natural catastrophes in the first half-year: "It was an exceptional accumulation of major losses, but that is precisely what reinsurance is for. After all, a well-developed and functioning insurance and reinsurance system helps to overcome disasters of this scale." There were high losses from natural catastrophes in the second quarter as well, particularly from several series of tornadoes in the US.

Von Bomhard emphasised the advantages of Munich Re's integrated business model: "Primary insurance provides stable earnings and balances the burdens that occur in reinsurance due to high claims costs for natural catastrophes or major industrial risks."

ERGO came in for criticism in the first half-year, mainly because of an incentive event for intermediaries which had taken place in Budapest in 2007, and the handling of flawed application forms for Riester pensions. While regretting the events at ERGO, von Bomhard stressed: "The mistakes of the past demonstrate that the path now being taken by ERGO was – and still is – both necessary and correct. ERGO will show that customer focus, high-quality advice, transparency and candour are key to success."

With regard to the financial year 2011 as a whole, von Bomhard emphasised: "Despite the exceptionally heavy claims burdens, we aim to achieve a positive result for the year." He added that this still applied even if there were additional major losses in the further course of the year, provided these did not significantly exceed the average figure to be expected.

Summary of the figures for the first six months
From January to June, the Group recorded an operating result of –€437m (2,218m). In the second quarter, it posted an operating result of €947m. Compared with year-end 2010, equity fell by 11.8% to €20.3bn. The reasons for this were the loss for the first quarter, the relatively strong euro, the dividend payment of €1.1bn, and a moderate reduction in valuation reserves as a consequence of capital market developments. The annualised return on risk-adjusted capital (RORAC) amounted to –2.2% and the return on equity (RoE) to –2.0%. Gross premiums written were up 10.3% to €24.9bn (22.6bn), with €12.0bn attributable to the second quarter. At unchanged exchange rates, premium volume would have increased by 11.1% in the first six months compared with the same period last year.

Primary insurance: ERGO strengthens compliance and goes for even more transparency
The operating result for the first six months totalled €639m (627m), of which €466m derived from the second quarter. Before elimination of intra-Group transactions across segments, the consolidated result rose to €358m (293m), with the second quarter contributing €302m. The consolidated result for the first half-year was marked by special factors: in the first quarter, there were write-downs of €34m in South Korea; in the second quarter, a pleasing gain of €156m on the sale of a real estate company in Singapore, write-downs of €113m on Greek government bonds, and a burden of €15m from the revaluation of derivative financial instruments for hedging against low-interest-rate scenarios. The ERGO Insurance Group posted a consolidated result of €178m (164m).

ERGO CEO Torsten Oletzky commented: "We can be satisfied with our second-quarter business performance, which is somewhat masked by special factors in investments."

In the first half-year, the combined ratio for the property-casualty segment (including legal protection insurance) amounted to 96.5% (96.6%). Its level in the second quarter was good at 94.7% (94.5%).

Gross premiums written across all lines increased by 0.9% to €8.95bn (8.87bn) from January to June, with €4.17bn (4.15bn) from April to June. Growth came mainly from property-casualty insurance and German health insurance.

In the life segment, total premium income from German and international business fell by 6.3% compared with the same period last year, with ERGO writing considerably less single-premium business in Germany and abroad (–17.1%). As ERGO was able to increase its regular new-business premiums by 10.7%, new business measured in terms of APE (annual premium equivalent = regular premium income plus 10% of single-premium volume) totalled €363m (362m), a slight year-on-year increase of 0.3%.

In the primary health insurance segment, premium income in the first six months of 2011 climbed by 4.5% to €2.9bn (2.8bn), of which €1.4bn was attributable to the second quarter. Second-quarter growth amounted to 6.2%. There was marked expansion in new business, especially in supplementary health insurance.

In the property-casualty insurance segment, ERGO posted premium income totalling €3.1bn (3.0bn) in the first six months of 2011, the months of April to June accounting for €1.3bn. International business grew by 5.2% to €1.22bn (1.16bn). German business also showed growth, with premium since the start of the year climbing by 1.9% to €1.9bn (1.8bn). ERGO increased its premium income in commercial and industrial business in particular.

Oletzky had the following to say about consequences from the incidents in Budapest and the mistakes in handling Riester forms: "Over the past few weeks, we have come in for a great deal of criticism. We have been able to fully clarify many of the issues. We have been candid about the findings, both internally and externally, and have immediately initiated the requisite measures. The results of the investigations show that the realignment of ERGO last year was the right step. We will therefore continue systematically pursuing the course we have taken."

Reinsurance: Quarterly profit of €551m despite heavy loss burden
In the first half of 2011, reinsurance business was impacted by high claims costs for major losses. The operating result fell to –€679m (1,697bn), of which €578m derived from the second quarter. Reinsurance contributed –€132m (1,057m) to the Group's overall result, €551m of this (633m) in the second quarter.

The combined ratio was 133.1% (106.4%) of net earned premiums for the first half-year and 99.6% (103.8%) for April to the end of June. In the second quarter, 12.2 (5.4) percentage points of this related to natural catastrophes, compared with 44.3 (12.8) percentage points in the first half-year. The figure for natural catastrophes thus substantially exceeded the average annual loss ratio of 6.5% to be expected for these risks. Altogether, losses from natural catastrophes totalled around €3,358m (889m) in the first half-year and €449m (195m) in the period from April to June.

The earthquake that struck Japan on 11 March and subsequent tsunami constitute the largest natural catastrophe loss for Munich Re since Hurricane Katrina in 2005. According to the still provisional figures, Munich Re anticipates a pre-tax loss burden of €1.5bn after retrocession and risk transfer to the capital markets. The losses to be borne by Munich Re derive mainly from commercial covers. The estimate is still subject to considerable uncertainties, mainly due to the extent of the devastation and the related difficulties in claims settlement. Besides this, there were other major natural catastrophes in the first half of the year. For the earthquake that affected the region of Christchurch, New Zealand, in February 2011, Munich Re has increased its estimate by €261m to around €1bn. Conversely, the losses for the weather-related events in Australia are now expected to be €110m lower than reserved previously. In April and May, the worst series of tornadoes to hit the southern and midwest US states in nearly four decades led to hundreds of fatalities and significant material damage. Munich Re's share in these losses is just over €200m. Torsten Jeworrek, Munich

Re's Reinsurance CEO, stressed: "The claims burdens in the first quarter already had an impact on the negotiations for treaty renewals at 1 July. These effects should also have an appreciable influence on the renewals at 1 January 2012. With our capital strength, we regard ourselves as being in a good position to provide sufficient capacity in a market environment of rising prices."

Premium income grew by 15.2% in the first six months year on year and totalled €13.3bn (11.6bn), of which €6.4bn (5.6bn) was attributable to the second quarter. Adjusted to eliminate the effects of changes in exchange rates, premium volume would have increased by 16.6% in the first six months. In property-casualty business, Munich Re recorded premium growth of 10.4% to €8.5bn (7.7bn) for the first half of 2011 and posted premiums of €4.0bn (3.6bn) in this segment for the second quarter. Particularly in motor business, there was an appreciable rise in premium income of €474m, largely from treaties with Chinese and UK primary insurers. In life reinsurance, Munich Re continued to benefit from brisk demand among insurers seeking capital relief through risk transfer, as well as from continued pleasing growth in Asia. Gross premiums written in this segment rose by around 24.7% to €4.9bn (3.9bn) in the first half-year.

At 1 July 2011, business with a volume of nearly €1.6bn was renewed in parts of the US market, Australia and Latin America. This represents around 15% of Munich Re's total annually renewable treaty business. Munich Re was able to improve its premium income, and especially to optimise the quality of its portfolio. In the markets currently affected by losses, significant price increases for natural catastrophe covers were achieved. Rates were up by 40–50% on average in Australia and New Zealand. In natural catastrophe business in the USA and Latin America, too, Munich Re realised rate increases of 10%. Altogether, Munich Re's premium volume in this renewal season increased to €1,791m or by 10% (around €160m) compared with the previous year. Rates, i.e. the price level, rose by 5.7% year on year.

Munich Health: Half-year result clearly improved at €36m
Munich Health generated an operating result of €65m (60m) (+8.3%), contributing €36m (16m) to the Group's overall profit, €15m of this in the second quarter.

The combined ratio was 99.7% (100.4%) for the period January to June 2011 and 99.6% (99.5%) for April to June. This ratio relates only to short-term health business, not to business conducted like life insurance.

Gross premium income climbed markedly by 18.8% to €3,036m (2,555m) in the first half-year, primarily owing to large-volume reinsurance treaties providing clients with capital relief. But the acquisition of the Windsor Health Group (Windsor) also continued to have a positive effect. Windsor is working together with Sterling Life, the Group's other US health insurer, offering health insurance services and specialty managed healthcare programmes for the senior segment. This will afford Sterling access to the network of service providers established by Windsor. If exchange rates had remained the same, premium volume would have been 19.2% higher than in the first six months of 2009.

Investments: Result of €1.5bn in the second quarter (€3.5bn in the first half-year)
The carrying amount of Munich Re's investments at 30 June 2011 remained almost unchanged compared with year-end 2010 at €193.7bn (193,1bn) (at market values: 196,3bn). Increases in deposits retained on assumed reinsurance business were offset by decreases resulting from foreign exchange losses, particularly those of the US dollar against the euro.

The portfolio continues to focus on fixed-interest investments, €159bn 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 74% of them are top-rated securities (51% AAA, 23% AA); only 4% are from Portuguese, Irish and Greek issuers. The equity-backing ratio at 30 June 2011 was 3.5% (31 December 2010: 4.4%), based on the Group's total investments at market value, including equity-based derivatives.

CFO Jörg Schneider: "MEAG's carefully balanced investment portfolio, which is closely geared to the structure of our liabilities and comprises a good mix of fixed-interest and real assets, has again proved its worth even in these turbulent times."

The overall balance of write-ups and write-downs, plus net gains on disposals, amounted to –€166m (1,351m) for the first half-year. Owing to the increase in the interest-rate level, the Group made net write-downs of €80m (previous year: write-ups of 170m) on derivative financial instruments used by its life primary insurers to hedge against reinvestment risks in low-interest-rate phases. For the sake of clarity, where Greek government bonds are concerned, the Group resolved to write down its aggregate portfolio to the market values as at 30 June 2011. This led to costs of €703m and a burden of €125m on the consolidated result. Of the write-ups of €1,103m, approximately €211m were attributable to earnings after the earthquake in Japan from the transfer of insurance risks to the capital markets.

Altogether, the Group's investment result for the period from January to June 2011 decreased by 31.7% year on year to €3,468m (5,078m). This represents an annualised return of 3.6% on the average investment portfolio at market values.

The Group's asset manager is MEAG MUNICH ERGO AssetManagement GmbH, which in addition to Group investments had segregated and retail funds totalling €9.9bn (10.2bn) under management as at 30 June 2011.

Outlook for 2011: Positive consolidated result still aimed at
The Group anticipates that its gross premium volume for the current financial year 2011 in the reinsurance segment will be around €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. Munich Re is now proceeding on the assumption that its total gross premiums written in primary insurance, reinsurance and Munich Health (total consolidated premium) will be in the order of €48–50bn, provided that exchange rates remain stable.

Munich Re generally envisages a combined ratio in property-casualty reinsurance 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. The estimate was based on an average major-loss burden of 6.5 percentage points from natural catastrophes. However, the first half of 2011 was already affected by very severe losses, which in relation to the expected net premiums for the year as a whole accounted for approximately 22 percentage points of the loss ratio.

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

Munich Re continues not to expect any significant rise in capital market interest rates in 2011; regular income from fixed-interest securities and loans is therefore likely to be somewhat lower. Beyond this, the impairment of Munich Re's portfolio of Greek government securities has noticeably affected the Group's investment result. 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% return on our risk-adjusted capital (RORAC) after tax across the cycle of the insurance and interest-rate markets. However, this target will be difficult to achieve with the currently still low level of interest rates and should be beyond reach for 2011 given the already substantial claims burden from major losses. Munich Re continues to assess its medium- to long-term business opportunities as positive. CEO von Bomhard: "In reinsurance, we are seeing a general stabilisation of prices and hardening markets in individual segments. We can exploit this to profitably expand our portfolio. For ERGO, we still project a profit of between €450m and €550m. Munich Health, our third business field, is also well on track. This year especially, our integrated business model is again proving its worth."

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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.

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

	1st half-year 2011	1st half-year 2010	Change Absolute	Change %
Gross premiums written	24,949	22,613	2,336	10.3
Net earned premiums	23,245	21,078	2,167	10.3
Net expenses for claims and benefits	21,509	18,552	2,957	15.9
Technical result	-1,326	677	-2,003	-
Investment result	3,468	5,078	-1,610	-31.7
Thereof realised capital gains	2,141	2,162	-21	-1.0
realised losses	1,501	1,115	386	34.6
Non-technical result	889	1,541	-652	-42.3
Operating result	-437	2,218	-2,655	-
Finance costs	138	145	-7	-4.8
Taxes on income	-470	445	-915	-
Consolidated profit	-210	1,194	-1,404	-
Thereof attributable				
to Munich Reinsurance Company equity holders	-211	1,191	-1,402	-
to minority interests	1	3	-2	-66.7
	30.6.2011	31.12.2010		
Investments	193,725	193,108	617	0.3
Equity	20,308	23,028	-2,720	-11.8
Employees	47,039	46,915	124	0.3

REINSURANCE	**1st half-year 2011**	1st half-year 2010	Change Absolute	Change %
Gross premiums written	13,326	11,567	1,759	15.2
Thereof life	4,853	3,891	962	24.7
property-casualty	8,473	7,676	797	10.4
Combined ratio in %	133.1	106.4	26.7	
Technical result	-1,604	448	-2,052	-
Non-technical result	925	1,249	-324	-25.9
Operating result	-679	1,697	-2,376	-
Result	-132	1,057	-1,189	-

PRIMARY INSURANCE	**1st half-year 2011**	1st half-year 2010	Change Absolute	Change %
Gross premiums written	8,948	8,866	82	0.9
Combined ratio in %	96.5	96.6	-0.1	
Technical result	367	255	112	43.9
Non-technical result	272	372	-100	-26.9
Operating result	639	627	12	1.9
Result	358	293	65	22.2

MUNICH HEALTH	**1st half-year 2011**	1st half-year 2010	Change	
			Absolute	%
Gross premiums written	3,036	2,555	481	18.8
Combined ratio in %	99.7	100.4	-0.7	
Technical result	21	17	4	23.5
Non-technical result	44	43	1	2.3
Operating result	65	60	5	8.3
Result	36	16	20	125.0
SHARES	**1st half-year 2011**	1st half-year 2010	Change	
Earnings per share in €	-1.18	6.33	-7.51	

* Before elimination of intra-Group transactions across segments.

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

	2nd quarter 2011	2nd quarter 2010	Change Absolute	Change %
Gross premiums written	11,969	10,956	1,013	9.2
Net earned premiums	11,575	10,925	650	5.9
Net expenses for claims and benefits	9,361	9,158	203	2.2
Technical result	586	539	47	8.7
Investment result	1,512	2,618	-1,106	-42.2
Thereof realised capital gains	1,087	1,079	8	0.7
realised losses	847	687	160	23.3
Non-technical result	361	909	-548	-60.3
Operating result	947	1,448	-501	-34.6
Finance costs	69	76	-7	-9.2
Taxes on income	142	372	-230	-61.8
Consolidated profit	738	709	29	4.1
Thereof attributable				
to Munich Reinsurance Company equity holders	736	709	27	3.8
to minority interests	2	-	2	-

REINSURANCE	**2nd quarter 2011**	2nd quarter 2010	Change Absolute	Change %
Gross premiums written	6,433	5,639	794	14.1
Thereof life	2,455	2,048	407	19.9
property-casualty	3,978	3,591	387	10.8
Combined ratio in %	99.6	103.8	-4.2	
Technical result	446	340	106	31.2
Non-technical result	132	752	-620	-82.4
Operating result	578	1,092	-514	-47.1
Result	551	633	-82	-13.0

PRIMARY INSURANCE	**2nd quarter 2011**	2nd quarter 2010	Change Absolute	Change %
Gross premiums written	4,170	4,152	18	0.4
Combined ratio in %	94.7	94.5	0.2	
Technical result	212	204	8	3.9
Non-technical result	254	172	82	47.7
Operating result	466	376	90	23.9
Result	302	128	174	135.9

MUNICH HEALTH	**2nd quarter 2011**	2nd quarter 2010	Change	
			Absolute	%
Gross premiums written	1,500	1,303	197	15.1
Combined ratio in %	99.6	99.5	0.1	
Technical result	13	22	-9	-40.9
Non-technical result	12	34	-22	-64.7
Operating result	25	56	-31	-55.4
Result	15	27	-12	-44.4

SHARES	**2nd quarter 2011**	2nd quarter 2010	Change	
Earnings per share in €	4.14	3.80	0.34	8.9

* Before elimination of intra-Group transactions across segments.