Munich, 08 November 2011
Press release

Munich Re with third-quarter profit of €290m in a difficult environment

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The difficult environment on the financial markets, currency translation effects and heavy burdens from natural catastrophes have all influenced Munich Re's nine-month result. The Group posted a profit of €80m (same period last year: €1,955m) despite absorbing the claims burdens of €3.6bn from the major natural catastrophes at the start of the year. In the third quarter, Munich Re posted a profit of €290m (761m). Munich Re continues to anticipate a positive annual result for 2011 as a whole and aims to keep the dividend stable.

The Group increased its premium volume significantly; in the first nine months, gross premiums written were up 9.1% against the previous year. In reinsurance business, the exceptional claims costs for major losses masked a strong performance in basic business: whilst loss burdens from natural catastrophes were roughly €2.7bn above the normalised expected value, the underwriting result declined by only some €1.8bn. The combined ratio in reinsurance for the third quarter was 89.0% of net earned premiums, with reserve releases for prior-year losses contributing to this very good figure.

CFO Jörg Schneider expressed great satisfaction with the Group's development given the difficult conditions: "Although our result was certainly affected by the capital-market and currency turbulence, our financial position has once again proved comparatively resilient. The low combined ratio in reinsurance in the third quarter and the satisfactory underwriting results in insurance and reinsurance are indicators that our core business is doing well."

In addition to heavy burdens from natural catastrophes, continuing uncertainty on the capital markets has been a marked feature of the year to date for Munich Re, too. The sharp decline in the price of Greek government bonds led to write-down expenses of €933m and a negative impact of €170m net on the consolidated result, €45m of which related to the third quarter. Negative currency translation effects burdened the result by €145m for the first three quarters and by €342m for the third quarter. Recently, Munich Re has circumspectly reduced its bonds from peripheral European states, instead purchasing bonds of financially strong states and corporates, while increasing its investments in dynamically developing states to further spread its risks. "With our broad diversification, we are well-positioned for different scenarios and thus less susceptible to fluctuations in individual markets", Schneider emphasised.

Schneider was also optimistic with regard to the overall result for the year: "We still envisage a positive consolidated result for 2011 as a whole. Munich Re will not be making a more concrete profit forecast than this because the final amount will be influenced considerably up to the last day of the year by the incidence of major losses and the volatility of the capital markets and exchange rates."

Summary of the figures for the first nine months
From January to September, the Group recorded an operating result of €402m (3,367m). In the third quarter, it posted an operating result of €839m. Compared with year-end 2010, equity fell by 3.5% to €22.2bn. The main reasons for this were the dividend payment in April and share buy-backs. The annualised return on risk-adjusted capital (RORAC) amounted to 0.3% and the return on equity (RoE) to 0.5%. Gross premiums written were up 9.1% to €37.2bn (34.1bn), with €12.2bn attributable to the third quarter. At unchanged exchange rates, premium volume would have increased by 10.9% in the first nine months compared with the same period last year.

CFO Schneider highlighted the countervailing trends in the third quarter – alongside sinking interest rates, currency translation effects had also been appreciable. "Our shareholders' equity has improved by €1.9bn – a marked increase on the figure at 30 June. Although the prices of southern European bonds fell, we more than made up for these losses with the increases in value in our large portfolio of bonds from top-rated states", Schneider explained.

Primary insurance: Consolidated result of €418m for the first three quarters
The operating result for the first nine months totalled €806m (923m), of which €167m derived from the third quarter. Before elimination of intra-Group transactions across segments, the consolidated result amounted to €418m (432m), with the third quarter contributing €60m (139m). One-off effects left their mark on the consolidated result: besides the already announced write-downs in South Korea and the gains on the sale of a real-estate company in Singapore, in the third quarter there was also a further charge of €37m resulting from write-downs on Greek government bonds (ERGO had already posted an expense of €113m in the second quarter). The revaluation of derivatives for hedging against low-interest-rate scenarios led to positive effects of €84m on the result for the third quarter and €69m for the first nine months of 2011. The ERGO Insurance Group posted a consolidated result of €260m (301m).

ERGO CEO Torsten Oletzky commented: "So far, 2011 has been a challenge for ERGO in every respect. The volatility on the capital markets has not passed ERGO by. I consider it positive that we are making progress in international business." ERGO is still working on the exhaustive investigation of the incidents that have been criticised, and will inform the public in early December of the results achieved and measures taken.

For the first nine months of 2011, the combined ratio in the property-casualty insurance segment (including legal protection insurance) amounted to 96.8% (95.6%). The combined ratio for the third quarter was 97.5% (93.6%).

Gross premiums written across all lines increased by 0.6% to €13.2bn (13.1bn) from January to September, with €4.3bn (4.3bn) from July to September. Growth came mainly from property-casualty insurance and German health insurance.

In the life segment, total premium income fell by 4.6% compared with the same period last year, with ERGO writing considerably less single-premium business in Germany and abroad (–13.5%). ERGO's regular premiums in German new business improved by 8.8%. In terms of the annual premium equivalent (APE = regular premium income plus 10% of single-premium volume), ERGO's German new business was at approximately the same level as last year at €343m (345m).

In the health primary insurance segment, premium income in the first nine months of 2011 climbed by 4.2% to €4.3bn (4.2bn), of which €1.4bn was attributable to the third quarter (+3.6%). There was marked expansion in new business in comprehensive health cover at ERGO.

In the property-casualty insurance segment, ERGO posted premium income totalling €4.4bn (4.3bn) in the first nine months of 2011, the third quarter accounting for €1.3bn. International business grew by 3.9% to €1.83bn (1.76bn). German business also showed growth, with premium since the start of the year climbing by 1.6% to €2.6bn (2.5bn). ERGO increased its premium income in commercial and industrial business in particular.

Reinsurance: Profit of €108m in the first three quarters despite large claims burdens
The result from reinsurance business in the first nine months of 2011 was impacted by heavy claims burdens from major losses and the difficult environment on the financial markets. The operating result fell to –€43m (2,512m), of which €636m derived from the third quarter. Reinsurance contributed €108m (1,659m) to the Group's overall result, €240m (602m) of this in the third quarter.

The combined ratio was 117.9% (102.1%) of net earned premiums for the first three quarters and 89.0% (93.8%) for July to September. Claims notifications submitted by clients for earlier accident years continued to be gratifyingly below expectations. For credit, aviation and marine reinsurance, loss provisions were therefore reduced by a total of €200m, i.e. 1.8 percentage points in terms of net premiums earned in the first nine months. In the third quarter, 5.8 (6.8) percentage points of the combined ratio related to natural catastrophes, compared with 31.0 (10.8) percentage points in the first nine months. The figure for natural catastrophes thus very substantially exceeded the average annual loss ratio of 6.5% to be expected for these risks. Altogether, losses from natural catastrophes totalled €3,589m (1,134m) from January to September and €231m (245m) in the period from July to September.

The earthquake that struck Japan on 11 March and subsequent tsunami still constitute the largest loss event to date, causing insured market losses of around €21bn and costing Munich Re around €1.5bn net before tax. The largest loss event in the third quarter was Hurricane Irene. Based on Munich Re's preliminary estimates, Irene caused insured losses in the order of US$ 7bn in the Caribbean and the United States. Munich Re estimates the pre-tax net burden for the Group to be €195m. The two earthquakes in the region of Christchurch, New Zealand, impacted Munich Re with around €1.1bn net before tax. According to current estimates, the consequences of the January floods in Brisbane, Australia, will cost Munich Re around €200m. In Copenhagen, intense rainfall on 2 July 2011 led to flooding, with a pre-tax net burden of around €50m for Munich Re.

Premium income grew by 13.3% in the first nine months year on year and totalled €20.0bn (17.6bn), with €6.6bn (6.1bn) accounted for by the third quarter. Adjusted to eliminate the effects of changes in exchange rates, premium volume would have increased by 16.2% in the first three quarters. In property-casualty business, Munich Re recorded premium growth of 9% to €12.8bn (11.7bn) from January to September and posted premiums of €4.3bn (4.0bn) in this segment for the third quarter. In motor business, premiums showed a year-on-year increase of €243m to €925m in the third quarter, mainly due to Munich Re concluding large-volume quota share treaties in Asia. Munich Re also participated to a substantial extent in an insurance solution providing the Mexican government with cover against natural catastrophes. 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. Premiums written in this segment rose by around 21.7% to €7.2bn (5.9bn) in the first nine months. Munich Re strengthened its reserves for Australian disability business by approximately €150m; cases of disability are becoming more expensive market-wide in Australia due to a significant lengthening of run-off periods.

Torsten Jeworrek, Munich Re's Reinsurance CEO, stressed: "This year's claims burdens and the persistently low interest rates will have an appreciable influence on the renewals at 1 January 2012. We are seeing a general stabilisation in prices, coupled with hardening markets in a number of segments." Jeworrek explained that Munich Re intends to utilise its financial strength to exploit opportunities. "We are well positioned. Nonetheless, particularly in times of greater uncertainty, staying strictly focused on adequate profitability is more essential than ever."

Munich Health: Solid consolidated result of €31m for the first nine months
Munich Health generated an operating result of €119m (114m) (+4.4%) and contributed €31m (57m) to the Group's overall profit, –€5m of this in July to September. Both the decrease in the consolidated result for the first nine months and, in particular, the loss in the third quarter are due to high currency translation losses which impacted the non-operating result.

The combined ratio was 99.0% (99.6%) for the period January to September 2011 and 97.6% (98.1%) in the third quarter. This ratio relates only to short-term health business, not to business conducted like life insurance.

Gross premium income climbed markedly by 18.1% to €4,530m (3,836m) in the first nine months, primarily owing to large-volume reinsurance treaties providing clients with capital relief. Munich Re's US health insurers – the Windsor Health Group and Sterling Life – have been merged into a single legal entity, the Windsor Sterling subgroup, since the end of the second quarter.

Investments: Result of €4.8bn for the first nine months in a volatile environment

The carrying amount of Munich Re's investments at 30 September 2011 increased compared with year-end 2010 (€193.1bn) to €199.7bn (205.3bn at market values). This is due to increases in deposits retained on assumed reinsurance business and to improved market values of fixed-interest securities, with the positive effects of the strong gains in the large portfolio of bonds from Germany and the USA outweighing the losses on the southern European government bonds.

The portfolio continues to focus on fixed-interest investments, €164.7bn of which are fixed-interest securities and loans. A good 47% of this portfolio is invested in government bonds or similar instruments for which public institutions are liable. These investments have slightly increased since the beginning of the year. Pursuing its risk-conscious investment policy, Munich Re actively reduced its portfolio of Italian government bonds by around €1.4bn and invested in core euro countries such as Germany, France and the Netherlands. As hitherto, however, Munich Re also bought bonds of financially strong countries outside the eurozone and, to an increasing extent, of dynamically developing countries like South Africa, Brazil, India and Turkey. CFO Schneider emphasised: "In turbulent capital markets, diversification continues to be the order of the day."

Around 88% of the government bonds are top-rated securities (55% AAA, 33% AA), while only 3% are from Portuguese, Irish and Greek issuers. The equity-backing ratio at 30 September 2011 was 2.0% (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 –€444m (1,699m) for the first three quarters. In the environment of falling interest rates, the third quarter saw an increase in the value of the derivatives used by the life primary insurers to hedge against reinvestment risks in low-interest-rate phases. The write-ups for these totalled €356m (270m) for the quarter and €275m (440m) for the first nine months. Write-downs of €456m on equities were partly offset by write-ups on equity hedges.

In view of the planned participation of private creditors in a rescue package for Greece, Munich Re has written down the value of its total portfolio of Greek government bonds across all maturities by €933m to the market value as at

30 September 2011; €230m of that figure is attributable to the third quarter. This impacted the consolidated result with €170m in the first nine months and €45m in the third quarter. Of the write-ups of €2,109m, approximately €211m were attributable to earnings from the transfer of Japan earthquake insurance risks to the capital markets.

Altogether, the Group's investment result for the first three quarters decreased by 33.9% year on year to €4,815m (7,281m). This represents an annualised return of 3.3% on the average investment portfolio at market values.

The Group's asset manager is MEAG which, in addition to Group investments, had segregated and retail funds totalling €10.1bn (10.2bn) under management as at 30 September 2011.

Outlook for 2011: Positive consolidated result aimed at
On the basis of stable exchange rates, the Group now calculates that gross premiums written for the financial year 2011 will be between €49bn and €50bn (total consolidated premium), which would be an increase of at least 7.5% on the previous year. Around €26.5bn is expected in the reinsurance segment. For primary insurance, gross premiums written of around €17.5bn are projected. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should be a good €19bn. Gross premiums written of around €6bn are expected for Munich Health.

Munich Re generally envisages a combined ratio in property-casualty reinsurance of under 97% of net earned premiums over the market cycle as a whole. However, this figure is likely to be significantly exceeded in 2011. The long-term target is based on an average major-loss burden of 6.5 percentage points from natural catastrophes, but the first nine months of 2011 were affected by very severe natural catastrophe losses whose costs of around €3.6bn already account for some 23 percentage points in relation to the year as a whole. That is why Munich Re anticipates a combined ratio of around 113% for the full year, assuming normal claims experience from now on and before taking reserve changes into account. Given the high cost burdens from natural catastrophes in the first three quarters of 2011, the annual result for property-casualty reinsurance will be lower than in the previous year, even if performance is good in the remaining weeks of the year.

The combined ratio for 2011 in primary insurance is likely to be somewhat above the long-term target of 95%. The consolidated result for the primary insurance segment should reach the previous year's level, depending on further capital market developments and especially trends in market interest rates. The same applies to the ERGO subgroup, which in 2010 had achieved a profit of €355m. We anticipate that an intra-Group transaction will make a contribution to ERGO's result – but with no impact on Munich Re's consolidated result. Subject to the approval of the supervisory authorities and at company values fixed by an external valuer, ERGO will transfer its shares in the foreign health insurers of the DKV Group to Munich Health Holding AG at the end of the year. These DKV subsidiaries are already reported as part of the Munich Health segment.

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. Owing to the pronounced volatility of the capital markets and exchange rates, there may still be significant fluctuations in the Group's investment and currency result in IFRS accounting, particularly from derivatives – despite the fact that assets are closely geared to liabilities. At any rate, Munich Re expects an appreciably lower investment result for 2011 than in the previous year, with the total return on the portfolio likely to be just under 3.5%.

Munich Re is adhering to its long-term objective of a 15% return on its 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 returns on low-risk investments and should be beyond reach for 2011 given the claims burden from major losses. Nevertheless, the Group expects a positive consolidated result for the fourth quarter and hence for 2011 as a whole. The amount of the result for the year will be determined by the incidence of major losses and the development of the capital markets and exchange rates in the remaining weeks up to the end of the year. With regard to the dividend for 2011, CFO Schneider said: “Two months before the end of the financial year, it is too early for us to make a definite announcement. But we are still looking to pay the same dividend amount for the financial year 2011 as for the previous year, i.e. €6.25 per share.”

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Munich, 08 November 2011

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

	Q1–Q3 2011	Q1–Q3 2010	Change Absolute	Change %
Gross premiums written	37,166	34,060	3,106	9.1
Net earned premiums	35,041	31,954	3,087	9.7
Net expenses for claims and benefits	30,905	27,860	3,045	10.9
Technical result	-298	1,462	-1,760	-
Investment result	4,815	7,281	-2,466	-33.9
Thereof realised capital gains	4,042	2,940	1,102	37.5
realised losses	2,846	1,531	1,315	85.9
Non-technical result	700	1,905	-1,205	-63.3
Operating result	402	3,367	-2,965	-88.1
Finance costs	214	219	-5	-2.3
Taxes on income	-408	859	-1,267	-
Consolidated profit	80	1,955	-1,875	-95.9
Thereof attributable				
to Munich Reinsurance Company equity holders	75	1,955	-1,880	-96.2
to non-controlling interests	5	-	5	-
	30.9.2011	31.12.2010		
Investments	199,743	193,108	6,635	3.4
Equity	22,215	23,028	-813	-3.5
Employees	47,107	46,915	192	0.4

REINSURANCE	**Q1–Q3 2011**	Q1–Q3 2010	Change Absolute	Change %
Gross premiums written	19,965	17,628	2,337	13.3
Thereof life	7,200	5,916	1,284	21.7
property-casualty	12,765	11,712	1,053	9.0
Combined ratio in %	117.9	102.1	15.8	
Technical result	-775	1,025	-1,800	-
Non-technical result	732	1,487	-755	-50.8
Operating result	-43	2,512	-2,555	-
Result	108	1,659	-1,551	-93.5

PRIMARY INSURANCE	**Q1–Q3 2011**	Q1–Q3 2010	Change Absolute	Change %
Gross premiums written	13,207	13,132	75	0.6
Combined ratio in %	96.8	95.6	1.2	
Technical result	563	457	106	23.2
Non-technical result	243	466	-223	-47.9
Operating result	806	923	-117	-12.7
Result	418	432	-14	-3.2

MUNICH HEALTH	**Q1–Q3 2011**	Q1–Q3 2010	Change	
			Absolute	%
Gross premiums written	4,530	3,836	694	18.1
Combined ratio in %	99.0	99.6	-0.6	
Technical result	60	57	3	5.3
Non-technical result	59	57	2	3.5
Operating result	119	114	5	4.4
Result	31	57	-26	-45.6

SHARES	**Q1–Q3 2011**	Q1–Q3 2010	Change	
Earnings per share in €	0.42	10.47	-10.05	-96.0

* Before elimination of intra-Group transactions across segments.

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

	3rd quarter 2011	3rd quarter 2010	Change Absolute	Change %
Gross premiums written	12,217	11,447	770	6.7
Net earned premiums	11,796	10,876	920	8.5
Net expenses for claims and benefits	9,396	9,308	88	0.9
Technical result	1,028	785	243	31.0
Investment result	1,347	2,203	-856	-38.9
Thereof realised capital gains	1,901	778	1,123	144.3
realised losses	1,345	416	929	223.3
Non-technical result	-189	364	-553	-
Operating result	839	1,149	-310	-27.0
Finance costs	76	74	2	2.7
Taxes on income	62	414	-352	-85.0
Consolidated profit	290	761	-471	-61.9
Thereof attributable				
to Munich Reinsurance Company equity holders	286	764	-478	-62.6
to non-controlling interests	4	-3	7	-

REINSURANCE	**3rd quarter 2011**	3rd quarter 2010	Change Absolute	Change %
Gross premiums written	6,639	6,061	578	9.5
Thereof life	2,347	2,025	322	15.9
property-casualty	4,292	4,036	256	6.3
Combined ratio in %	89.0	93.8	-4.8	
Technical result	829	577	252	43.7
Non-technical result	-193	238	-431	-
Operating result	636	815	-179	-22.0
Result	240	602	-362	-60.1

PRIMARY INSURANCE	**3rd quarter 2011**	3rd quarter 2010	Change Absolute	Change %
Gross premiums written	4,259	4,266	-7	-0.2
Combined ratio in %	97.5	93.6	3.9	
Technical result	196	202	-6	-3.0
Non-technical result	-29	94	-123	-
Operating result	167	296	-129	-43.6
Result	60	139	-79	-56.8

MUNICH HEALTH	**3rd quarter 2011**	3rd quarter 2010	Change	
			Absolute	%
Gross premiums written	1,494	1,281	213	16.6
Combined ratio in %	97.6	98.1	-0.5	
Technical result	39	40	-1	-2.5
Non-technical result	15	14	1	7.1
Operating result	54	54	-	-
Result	-5	41	-46	-

SHARES	**3rd quarter 2011**	3rd quarter 2010	Change	
Earnings per share in €	1.61	4.15	-2.54	-61.2

* Before elimination of intra-Group transactions across segments.