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Press release

Munich Re posts €0.71bn profit for challenging year 2011 – Stable dividend

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Despite exceptional major losses and burdens from the financial crisis, Munich Re's preliminary figures show a profit of €0.71bn for 2011 (previous year: €2.43bn), thus demonstrating Munich Re's resilience. The profit for the fourth quarter totalled €0.63bn (0.48bn). Subject to the approval of the Supervisory Board and the Annual General Meeting, the dividend is to remain stable at €6.25 per share.

The year 2011 was marked by a series of severe earthquakes and many weather-related catastrophes. Thus Munich Re estimates its claims costs from the earthquakes in Japan and New Zealand at around €1.5bn for each event. In addition, there was the worsening of the sovereign debt crisis in the eurozone. CFO Jörg Schneider summed up the provisional figures: "We have never experienced a year like 2011 before – extreme burdens from natural catastrophes combined with the financial crisis, which flared up again after the slight recovery in 2009 and 2010. Given the huge strains these placed on results, it is a notable achievement that we still posted a profit of €0.71bn." Jörg Schneider continued: "Our shareholders are to benefit from this resilience shown by our Group. With the proposed dividend of €6.25 per share, we are maintaining our attractive dividend policy." Schneider emphasised that the decision on dividend payments was always dependent on the concrete development of results and the Group's capital situation: "Our solid capital situation enables us to again pay out a total of €1.1bn to our shareholders." There have not been any cuts in Munich Re's dividend since 1969.

Assuming average loss experience, Munich Re expects a significantly improved technical result for 2012. Subject to actual claims experience with regard to major losses and the impact of possible severe currency or capital market developments, Munich Re anticipates that for 2012 it will be able to return to the result level achieved prior to 2011.

The 2011 result benefited from tax income of €0.55bn (previous year: tax expenditure of €0.69bn), mainly due to the tax deductibility of the severe natural catastrophe losses in 2011 and the relief effect of earlier losses in the USA.

Gross premiums written by the Group in the financial year 2011 rose significantly by almost 9% to €49.6bn (45.5bn). Group equity increased by around €0.3bn to

€23.3bn (31 December 2010: €23.0bn), rising by €1.1bn in the fourth quarter (30 September 2011: €22.2bn), chiefly thanks to the quarterly profit of €0.63bn and the depreciation of the euro.

The Group's investment result decreased by 22% to €6.8bn (8.6bn). It was marked in particular by an increase of €1.2bn to €1.6bn in the negative balance from write-ups and write-downs. Expenses for write-downs of Greek government securities alone totalled €1.2bn (€0.2bn of this in the fourth quarter), impacting the consolidated result with €0.2bn (€0.1bn in the fourth quarter). Net gains on the disposal of investments were high at €1.3bn.

Owing to the major-loss burden, the return on risk-adjusted capital (RORAC) amounted to 3.2% for the whole of 2011, after 13.5% in the previous year, thus falling well below the long-term target of 15% over the insurance and interest-rate cycles.

The ERGO Insurance Group, in which Munich Re has concentrated its primary insurance business, showed a profit of the same level as in the previous year: €0.35bn (0.36bn) based on preliminary figures. ERGO CEO Torsten Oletzky commented: "In view of the dramatic upheavals on the capital markets, we can be satisfied with the stable result." Before consolidation, the result of the primary insurance segment increased by 16.2% to €0.76bn (0.66bn), of which €0.34bn (0.22bn) was attributable to the fourth quarter. Gross premiums written in the primary insurance segment in the financial year 2011 rose by around 1% to €17.6bn (17.5bn), with ERGO growing in the business segments of health and property-casualty. Total premium income in life insurance was lower than in the previous year because less single-premium business was written both in Germany and internationally. The combined ratio for property-casualty primary insurance amounted to 97.8% (96.8%) for 2011, and was still at a good level of 93.1% (89.8%) for German business. In international business, progress is apparent, but the figure of 105.0% (107.8%) is still too high. In the fourth quarter, the combined ratio was 100.9% (100.4%).

Reinsurance business was marked by exceptionally high claims costs for major losses in 2011. According to Munich Re's estimates, insured losses from natural catastrophes worldwide totalled US$ 105bn and were thus even higher than in the previous record year 2005. The reinsurance segment nevertheless contributed €0.77bn (2.10bn) to the consolidated result.

In property-casualty reinsurance, premium climbed by nearly 8% to €16.9bn (15.7bn). Gross premiums written in the life reinsurance segment in 2011 were up by over 21% to €9.6bn (7.9bn). The main growth drivers were again large treaties in which reinsurance is used by clients primarily as an instrument for capital management. Since the beginning of the financial crisis in 2007, demand for these solutions has increased dramatically and remains at a high level.

The combined ratio in property-casualty reinsurance was 113.6% (100.5%) of net earned premiums for the year as a whole and 101.8% (96.0%) for the fourth quarter. As a consequence of the customary review of reserves, the combined ratio includes a good €0.6bn from the reduction of claims provisions. This mainly involved underwriting years 2007–2009 in fire, credit and engineering business. The combined ratio for the year contains 28.8 (11.0) percentage points for natural catastrophes, while the figure for the final three months is 22.7 (11.7) percentage points. Natural catastrophe losses amounted to around €4.5bn (1.6bn) for the entire year. The earthquake that struck Japan on 11 March and subsequent tsunami were the largest loss event in 2011, causing insured losses of up to US$ 40bn and costing Munich Re around €1.5bn net before tax. In 2011, Munich Re increased its claims estimate for the earthquakes in New Zealand by €0.4bn to around €1.5bn.

The largest loss in the fourth quarter 2011 was the flooding in Thailand, with claims costs of around €0.5bn. “The consequences of these floods again demonstrate the vulnerability of the globalised economy”, said Torsten Jeworrek, member of the Board of Management and Munich Re’s Reinsurance CEO. When catastrophes of this magnitude hit key industries, there are global effects on supply chains. And the risk of companies suffering financial losses due to disrupted supply chains has grown strongly in recent years. “Much greater transparency of supply chains is essential both for companies’ risk management and for their insurers”, stressed Jeworrek.

Munich Re’s third field of business, Munich Health, contributed €0.05bn (0.06bn) to the Group’s overall result. Munich Health’s premium income climbed markedly by over 19% to €6.1bn (5.1bn). In Munich Health’s case, too, the strong growth was attributable to capital management solutions for reinsurance clients. Its combined ratio totalled 99.4% (99.7%) for 2011 and 100.4% (100.0%) for the period from October to December. This ratio relates only to short-term health business, not to business conducted like life insurance.

Satisfactory renewals of reinsurance treaties in the property-casualty segment at 1 January 2012
The outcome of the renewals in the various classes of business and regions were again very heterogeneous. The extremely high cost burdens from natural catastrophes influenced the renewal negotiations and led to some marked increases in reinsurance prices in the segments affected by losses. There were significant rate increases in natural catastrophe covers in the USA, Australia and Southeast Asia in particular. Prices in other regions or classes remained unchanged, for example in European natural catastrophe business, or rose slightly, as in UK motor business.

Torsten Jeworrek: “The reinsurance markets remain keenly competitive. In this situation, active cycle and portfolio management are of crucial importance. The economic environment prohibits the provision of reinsurance cover at inadequate rates.” Jeworrek emphasised: “Alongside our resolute portfolio management, the regional diversification of our portfolio also helped us selectively take advantage of business opportunities in attractive markets and segments to realise further increases in profitability.”

Details of the renewals

At 1 January 2012, a good half of Munich Re's total non-life reinsurance business was up for renewal, which corresponds to a premium volume of around €8.5bn. Of this business, 91.3% (equivalent to a premium volume of approximately €7.8bn) was renewed, while 8.7% (approximately €740m) was not. New business with a volume of approximately €370m was written. Altogether, compared with last year, the premium volume rose by 2.6% (around €230m), particularly as a result of organic growth in renewed business. The price level rose by around 2% year on year.

Jeworrek: "We can be satisfied with these renewals in this difficult economic environment. The prolonged low-interest-rate phase needs to be factored into pricing. This is an opinion shared by our clients with a sustainable business approach. We offer these clients specially tailored reinsurance programmes in which we support them with our considerable financial strength in the current challenging environment."

Munich Re expanded its profitable business with strategic partners, particularly in UK motor business. For US natural catastrophe covers, Munich Re achieved price increases in the low double-digit percentage range, and appreciably higher ones in Australia and Asia. By contrast, Munich Re selectively shed some of its European property business, traditional marine business and selected portfolios in non-proportional liability business, as the treaties concerned no longer met Munich Re's profitability requirements.
The next renewals at 1 April 2012 (mainly Japan and Korea) and 1 July 2012 (especially parts of the US market, Australia and Latin America) will have a greater proportion of natural catastrophe business than the January renewals. Munich Re projects further price increases here, particularly in loss-affected regions. For other property business and in the casualty classes, Munich Re is proceeding on the assumption that prices will stabilise with a trend towards slight increases.

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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.

Disclaimer

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At a glance:

- Munich Re posts profit of €0.71bn for challenging year and keeps dividend stable at €6.25
- CFO Jörg Schneider: "Respectable profit given the exceptional burdens."

Preliminary key figures (IFRS) for the Group for 2011*
(in €bn unless otherwise indicated)

	2011	2010	Change	
			Absolute	%
Gross premiums written	49.6	45.5	4.1	8.9
Investment result	6.8	8.6	-1.8	-21.8
Consolidated profit	0.71	2.43	-1.72	-70.7
	31.12.2011	31.12.2010		
Investments	201.7	193.1	8.6	4.5
Equity	23.3	23.0	0.3	1.2

REINSURANCE	**2011**	2010	Change	
			Absolute	%
Gross premiums written	26.5	23.6	2.9	12.3
Combined ratio in %	113.6	100.5	13.1	
Result	0.77	2.10	-1.33	-63.1

PRIMARY INSURANCE	**2011**	2010	Change	
			Absolute	%
Gross premiums written	17.6	17.5	0.1	0.8
Combined ratio in %	97.8	96.8	1.0	
Result	0.76	0.66	0.10	16.2

MUNICH HEALTH	**2011**	2010	Change	
			Absolute	%
Gross premiums written	6.1	5.1	1.0	19.3
Combined ratio in %	99.4	99.7	-0.3	
Result	0.05	0.06	-0.01	-28.6

* Before elimination of intra-Group transactions across segments.

Preliminary key figures (IFRS) for the Group in the fourth quarter of 2011*
(in €bn unless otherwise indicated)

	4th quarter 2011	4th quarter 2010	Change	
			Absolute	%
Gross premiums written	12.4	11.5	0.9	8.1
Investment result	1.9	1.4	0.5	42.6
Consolidated profit	0.63	0.48	0.15	33.1
REINSURANCE	**4th quarter 2011**	4th quarter 2010	Change	
			Absolute	%
Gross premiums written	6.5	6.0	0.5	9.5
Combined ratio in %	101.8	96.0	5.8	
Result	0.67	0.44	0.23	51.4
PRIMARY INSURANCE	**4th quarter 2011**	4th quarter 2010	Change	
			Absolute	%
Gross premiums written	4.4	4.3	0.1	1.4
Combined ratio in %	100.9	100.4	0.5	
Result	0.34	0.22	0.12	53.6
MUNICH HEALTH	**4th quarter 2011**	4th quarter 2010	Change	
			Absolute	%
Gross premiums written	1.6	1.3	0.3	22.9
Combined ratio in %	100.4	100.0	0.4	
Result	0.01	0.01	0.00	133.3

* Before elimination of intra-Group transactions across segments.