Munich RE

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Press release

Munich Re well on track to achieve 2013 profit target with first half-year profit of €1.5bn

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In the second quarter of 2013, Munich Re achieved a consolidated profit of €543m (same period last year: €812m). Performance in primary insurance and reinsurance was good as a whole, although the second quarter was marked by claims burdens of €230m from the floods in Germany and neighbouring countries and by above-average major losses. In the first half-year, the Group achieved a profit of €1.5bn.

CEO Nikolaus von Bomhard said: "Unlike the first quarter of 2013, the second quarter was significantly affected by major losses. The business environment remains difficult, owing to the low interest rates. Against that background, the half-year result is very satisfactory." With regard to Munich Re's result target for 2013 as whole, von Bomhard emphasised: "With this half-year profit, we are well on track to achieving our target of close to €3bn." According to the CEO, the very different claims experience in the first two quarters again showed "how careful one has to be in basing long-term result estimates on the basis of just one quarter."

Summary of the figures for the first six months
From January to June, the Group recorded an operating result of €1,982m (2,304m). In the second quarter, it posted an operating result of €594m. There was tax income of €165m (same quarter last year: tax expenditure of €164m), mainly due to a reduction of provisions for prior years necessary for accounting reasons. Negative impacts came from interest payments of €113m on back tax payments for prior years, and currency translation effects of –€92m (previous quarter: +€153m). Owing to the increase in interest rates, the on- and off-balance-sheet valuation reserves decreased to a still-high level of €16.7bn; equity declined by 6.5% compared with the year-end figure, falling to €25.7bn. The annualised return on risk-adjusted capital (RORAC) in the first six months amounted to 11.1% and the return on equity (RoE) to 11.2%. Gross premiums written were up 1.0% to €26.1bn (25.8bn), with €12.8bn (12.6bn) attributable to the second quarter. If exchange rates had remained the same, premium volume would have increased by 2.1% compared with the same period last year.

Primary insurance: Result of €275m
In the first six months of the year, the primary insurance field of business posted an operating result of €410m (550m), of which €187m (293m) was attributable to the second quarter. The consolidated result totalled €275m (295m), with the second quarter contributing €148m (150m). ERGO's profit was just below the previous year's level at €236m (255m), of which €116m derived from the second quarter.

Overall premium income across all primary insurance segments decreased by 2.5% in the first six months to €9.3bn (9.5bn), with €4.4bn (4.5bn) from April to June. Gross premiums written in the first half-year were 1.9% lower than in the same period last year at €8.6bn (8.8bn). The main reason for this was lower life insurance premium income in Germany and in international business.

In Germany, ERGO launched a new generation of products in life insurance on the market with effect from 1 July 2013. CEO of the ERGO Insurance Group, Torsten Oletzky, commented: "The new ERGO Annuity Guarantee offers our clients an innovative combination of security, earnings opportunities and flexibility. With a capital guarantee of the gross premiums paid up to the start of the benefit phase, a guaranteed annuity factor, and the classic guaranteed interest rate in the benefit phase, the product has major guarantee components." Oletzky continued: "We achieve the premium-related guarantee at the beginning of the benefit phase through an innovative investment concept, and safeguard it through a reinsurance contract. In the event of premature surrender in the capital accumulation period, we offer the client additional security by also paying out the value covered under this reinsurance. The new product sets new standards in terms of transparency regarding disclosure of costs and projection methods. After one month of marketing the product, we are satisfied with the initial sales figures."

The combined ratio in property-casualty insurance (including legal protection business) amounted to 96.0% (95.2%) in the first half-year. In the second quarter, the combined ratio of 96.1% was only one percentage point higher than the figure for the same period last year, despite high expenditure for the floods. In the first half-year, an increased combined ratio of 94.5% (92.8%) in Germany contrasted with a slightly improved figure of 98.6% (98.9%) in international business.

The primary insurers' loss burden from the floods is estimated at around €50m net.

Reinsurance: Profit of €1.2bn
The operating result totalled €1,481m (1,702m), of which €361m (796m) derived from the second quarter. Altogether, the reinsurance field of business accounted for €1,205m (1,293m) of the Group consolidated result, the second quarter bringing in €378m (659m).

Gross premiums written grew by 3.0% in the first six months year on year and totalled €14.1bn (13.7bn), of which €7.1bn (6.8bn) was attributable to the second quarter. In the life reinsurance segment, gross premiums written rose in the first half-year by around 5.1% to €5.6bn (5.3bn). Premium growth was curbed by currency translation effects, without which premium would have risen by 7.4%. In property-casualty reinsurance business, premiums climbed by 1.6% to €8.5bn (8.4bn).

The burden from major losses totalled €711m (716m) in the first half of 2013 and €605m (452m) in the second quarter, before tax in each case. Altogether, major-loss expenditure for the first half-year was below the projected level. After a first quarter with low costs for major losses, the second quarter was marked by a disproportionately high random accumulation of man-made major losses. This added up to a figure of €373m (383m) for the first half-year, of which €291m (160m) derived from the second quarter. The flooding in Germany and neighbouring states was by far the most expensive natural catastrophe in the first half-year in reinsurance as well, costing around €180m on the basis of current estimates. Overall losses from natural catastrophes totalled €338m (334m) for the first half of 2013, of which €314m (293m) was accounted for by the second quarter. As loss reserves remain significantly above the level of losses reported, there were reserve releases of approximately €150m in the second quarter. The combined ratio for the first half-year was 92.4% (95.7%) of net earned premiums. For the second quarter, the figure was 99.3% (96.9%).

The renewals at 1 July mainly involved treaty business in the US market and in Australia, New Zealand and Latin America, with a volume of around €2.2bn up for renewal. This represents around 13% of Munich Re's property-casualty business. Altogether, Munich Re's premium volume in this renewal season remained unchanged compared with the previous year. Rates, i.e. the price level, fell slightly by around 0.9% year on year. Torsten Jeworrek, Munich Re’s Reinsurance CEO, said: "The results of the renewals at 1 July reflect our intent to achieve risk-commensurate prices even in a competitive market environment. Despite sometimes substantial competitive pressure in natural catastrophe business, the price reduction for the business we wrote remained moderate. That is a consequence of our broadly diversified portfolio. Our ability to devise complex and tailor-made solutions for our clients also played a mitigating part."

Munich Health: Profit of €59m

In the first half-year, Munich Health posted an operating result of €86m (35m), €38m (3m) of which was attributable to the second quarter. It contributed €59m (6m) to the Group's overall profit, €22m (1m) of this in the second quarter.

Gross premium income grew slightly to €3,377m (3,348m) in the first half-year, or by 0.9% compared with the same period last year. Premium in international health primary insurance business remained nearly stable at €999m (1,001m). The growth in reinsurance premium income to €2,378m (2,347m) is due to large treaties concluded by clients for capital relief.

The combined ratio was 98.9% (100.5%) for the period January to June 2013 and 98.4% (101.5%) for April to June.

Investments: Investment result of €3.6bn
Owing to the increase in interest rates, total investments at 30 June 2013 decreased by €4.5bn or 2.1% compared with year-end 2012 to €209.4bn (€218.3bn at market value).

For the period January to June 2013, the Group's investment result showed a year-on-year reduction of 12.0% to €3.6bn (4.1bn). This result represents an annualised return of 3.2% in relation to the average market value of the portfolio. Fixed-interest securities, loans and short-term fixed-interest investments continued to form the greater part of Munich Re's investments, and totalled €189bn – equivalent to 87% of the Group's total investments at market value. Equities make up 3.5% (31.12.2012: 3.4%) and real estate 2.4% (31.12.2012: 2.4%).

Regular income in the first half-year fell by 1.2% year on year to €3.8bn. Reinvestment of proceeds from matured securities continued to be possible only at significantly lower interest rates. This has caused the running yield to fall from 3.6% to 3.4%. In the write-ups and write-downs of Munich Re investments, Munich Re posted net write-downs of €445m (155m), particularly on interest-rate derivatives and swaptions. The result from the disposal of investments, which primarily involved government bonds, amounted to €463m (380m). Gains on disposal at the life primary insurance companies were used for building up the additional interest reserve ("Zinszusatzreserve") required under German accounting. In reinsurance, Munich Re deliberately refrained from making shifts in investments with a view to protecting the valuation reserves and to limiting reinvestment at lower interest rates to unavoidable cases where securities had matured.

CFO Jörg Schneider was satisfied with the investment result: "The risks from the still challenging economic environment continue to be considerable. We are therefore adhering to our balanced investment policy and taking care that the terms to maturity of our fixed-interest investments are consistently aligned with our liabilities. In this way, we achieve tolerable returns at moderate risk."

The Group's asset manager is MEAG. Its assets under management as at 30 June 2013 included not only Group investments but also segregated and retail funds totalling €12.6bn (11.5bn).

Outlook for 2013: Well on track to achieving profit target of close to €3bn
Subject to exchange rates remaining stable, the Group anticipates that for the 2013 financial year its gross premiums written will range between €50bn and €52bn. It expects gross premium income of some €27.5bn in the reinsurance segment, and a figure of just under €17bn for primary insurance. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should range between €18bn and €18.5bn. Gross premiums written of just over €6.5bn are projected for Munich Health.

For property-casualty reinsurance, Munich Re's target is a combined ratio of around 94% of net earned premiums, taking into account the run-off of loss reserves for prior accident years. If the incidence of major losses remains within the expected range in the further course of the year, Munich Re anticipates that it will achieve this target. In property-casualty primary insurance, the high flood losses in May and June could lead to the target combined ratio of around 95% not quite being met. The combined ratio for Munich Health is likely to be around 100%.

For 2013, Munich Re is proceeding on the assumption that regular income from investments will continue to fall, given the low market interest-rate level and the lower reinvestment return resulting from this. The return on investment is likely to be approximately 3.3%.

The consolidated result in reinsurance should total between €2.3bn and €2.5bn in 2013. For the primary insurance segment, Munich Re is aiming for a consolidated result in the range of €400–500m, and projects around €350–450m for the ERGO Group. However, the targeted range for the primary insurance segment and for the ERGO Group has become harder to achieve, despite the good half-year result. This is partly due to the high flood losses but also because the result for the first half of 2013 already reflects the realisation of gains on disposals planned for 2013. The difference between the result targets for the primary insurance segment and ERGO is mainly attributable to intra-Group business between primary insurance and reinsurance. In the Munich Health business field, a further loss cannot be ruled out owing to the difficult situation at the Windsor Health Group.

Given average claims experience, Munich Re still envisages a consolidated result of close to €3bn for 2013. CEO Nikolaus von Bomhard summed up the situation as follows: "We are still confident of being able to achieve our profit guidance for 2013."

As always, the outlook is subject to actual claims experience and the impact of severe currency or capital market developments on the income statement.

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With premium income of around €28bn 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. Its primary insurance operations are concentrated mainly in the ERGO Insurance Group, one of the major insurance groups in Germany and Europe. ERGO is represented in over 30 countries worldwide and offers a comprehensive range of insurances, provision products and services. In 2012, ERGO posted premium income of €19bn. 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 €214bn 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 the first half-year of 2013*

(in €m unless otherwise indicated)

		1st half-year 2013	1st half-year 2012	Change	
				Absolute	%
Gross premiums written		26,093	25,827	266	1.0
Net earned premiums		24,701	24,817	-116	-0.5
Net expenses for claims and benefits		19,645	20,458	-813	-4.0
Technical result		1,901	1,703	198	11.6
Investment result		3,563	4,050	-487	-12.0
Thereof	Realised gains	1,531	1,975	-444	-22.5
	Realised losses	1,068	1,595	-527	-33.0
Non-technical result		81	601	-520	-86.5
Operating result		1,982	2,304	-322	-14.0
Net finance costs		-143	-145	2	1.4
Taxes on income		286	323	-37	-11.5
Consolidated profit		1,522	1,594	-72	-4.5
Thereof attributable to	Munich Reinsurance Company equity holders	1,501	1,588	-87	-5.5
	Minority interests	21	6	15	250.0

	30.6.2013	31.12.2012		
Investments	209,353	213,823	-4,470	-2.1
Equity	25,650	27,423	-1,773	-6.5
Staff	45,119	45,437	-318	-0.7

Reinsurance	**1st half-year 2013**	**1st half-year 2012**	**Change**	
			Absolute	%
Gross premiums written	14,096	13,691	405	3.0
Technical result	1,508	1,244	264	21.2
Non-technical result	-27	458	-485	-
Operating result	1,481	1,702	-221	-13.0
Result	1,205	1,293	-88	-6.8

Thereof	**Reinsurance – Life**	**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
	Gross premiums written	5,563	5,294	269	5.1
	Technical result	305	255	50	19.6
	Non-technical result	-18	83	-101	-
	Operating result	287	338	-51	-15.1
	Result	230	267	-37	-13.9
	Reinsurance – Property-casualty	**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
	Gross premiums written	8,533	8,397	136	1.6
	Combined ratio in %	92.4	95.7	-3.3	
	Technical result	1,203	989	214	21.6
	Non-technical result	-9	375	-384	-
	Operating result	1,194	1,364	-170	-12.5
	Result	975	1,026	-51	-5.0

Primary insurance		**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
Gross premiums written		8,620	8,788	-168	-1.9
Technical result		348	458	-110	-24.0
Non-technical result		62	92	-30	-32.6
Operating result		410	550	-140	-25.5
Result		275	295	-20	-6.8
Thereof	**Primary insurance – Life**	**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
	Gross premiums written	2,658	2,828	-170	-6.0
	Technical result	-21	101	-122	-
	Non-technical result	69	155	-86	-55.5
	Operating result	48	256	-208	-81.3
	Result	73	178	-105	-59.0
	Primary insurance – Health	**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
	Gross premiums written	2,868	2,869	-1	0.0
	Technical result	185	156	29	18.6
	Non-technical result	-56	-78	22	28.2
	Operating result	129	78	51	65.4
	Result	63	31	32	103.2
	Primary insurance – Property-casualty	**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
	Gross premiums written	3,094	3,091	3	0.1
	Combined ratio in %	96.0	95.2	0.8	
	Technical result	184	201	-17	-8.5
	Non-technical result	49	15	34	226.7
	Operating result	233	216	17	7.9
	Result	139	86	53	61.6
Munich Health		**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
Gross premiums written		3,377	3,348	29	0.9
Combined ratio in %		98.9	100.5	-1.6	
Technical result		45	1	44	>1,000
Non-technical result		41	34	7	20.6
Operating result		86	35	51	145.7
Result		59	6	53	883.3
Shares		**1st half-year 2013**	**1st half-year 2012**	**Change**	
				Absolute	%
Earnings per share in €		8.38	8.94	-0.56	-6.3
* Previous year's figures adjusted pursuant to IAS 8.					

Key figures (IFRS) for the Group in the second quarter of 2013*

(in €m unless otherwise indicated)

		2nd quarter 2013	2nd quarter 2012	Change	
				Absolute	%
Gross premiums written		12,809	12,605	204	1.6
Net earned premiums		12,605	12,450	155	1.2
Net expenses for claims and benefits		10,065	10,225	-160	-1.6
Technical result		622	731	-109	-14.9
Investment result		1,556	1,806	-250	-13.8
Thereof	Realised gains	845	989	-144	-14.6
	Realised losses	706	981	-275	-28.0
Non-technical result		-28	371	-399	-
Operating result		594	1,102	-508	-46.1
Net finance costs		-75	-79	4	5.1
Taxes on income		-165	164	-329	-
Consolidated profit		543	812	-269	-33.1
Thereof attributable to	Munich Reinsurance Company equity holders	529	808	-279	-34.5
	Minority interests	14	4	10	250.0

Reinsurance		**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
Gross premiums written		7,129	6,847	282	4.1
Technical result		417	547	-130	-23.8
Non-technical result		-56	249	-305	-
Operating result		361	796	-435	-54.6
Result		378	659	-281	-42.6
Thereof	**Reinsurance – Life**	**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	2,994	2,695	299	11.1
	Technical result	96	102	-6	-5.9
	Non-technical result	-31	46	-77	-
	Operating result	65	148	-83	-56.1
	Result	58	138	-80	-58.0
	Reinsurance – Property-casualty	**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	4,135	4,152	-17	-0.4
	Combined ratio in %	99.3	96.9	2.4	
	Technical result	321	445	-124	-27.9
	Non-technical result	-25	203	-228	-
	Operating result	296	648	-352	-54.3
	Result	320	521	-201	-38.6

Primary insurance		**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
Gross premiums written		3,977	4,090	-113	-2.8
Technical result		173	195	-22	-11.3
Non-technical result		14	98	-84	-85.7
Operating result		187	293	-106	-36.2
Result		148	150	-2	-1.3
Thereof	**Primary insurance – Life**	**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	1,301	1,422	-121	-8.5
	Technical result	-	14	-14	-100.0
	Non-technical result	9	132	-123	-93.2
	Operating result	9	146	-137	-93.8
	Result	41	92	-51	-55.4
	Primary insurance – Health	**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	1,436	1,412	24	1.7
	Technical result	84	77	7	9.1
	Non-technical result	-6	-32	26	81.3
	Operating result	78	45	33	73.3
	Result	38	15	23	153.3
	Primary insurance – Property-casualty	**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
	Gross premiums written	1,240	1,256	-16	-1.3
	Combined ratio in %	96.1	95.1	1.0	
	Technical result	89	104	-15	-14.4
	Non-technical result	11	-2	13	-
	Operating result	100	102	-2	-2.0
	Result	69	43	26	60.5
Munich Health		**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
Gross premiums written		1,703	1,668	35	2.1
Combined ratio in %		98.4	101.5	-3.1	
Technical result		32	-11	43	-
Non-technical result		6	14	-8	-57.1
Operating result		38	3	35	>1,000
Result		22	1	21	>1,000
Shares		**2nd quarter 2013**	**2nd quarter 2012**	**Change**	
				Absolute	%
Earnings per share in €		2.95	4.54	-1.59	-35.0
* Previous year's figures adjusted pursuant to IAS 8.					