Munich RE

Munich, 04 February 2014
Press release

Munich Re posts profit of €3.3bn for 2013 and raises dividend to €7.25

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According to provisional calculations, Munich Re improved its consolidated result in 2013 to €3.3bn (previous year: €3.2bn). In the fourth quarter, it posted a profit of €1.2bn (0.5bn). Shareholders are to participate in last year's success through a higher dividend: subject to approval by the Supervisory Board and Annual General Meeting, the dividend will rise to €7.25 (7.00) per share.

CFO Jörg Schneider summed up the preliminary figures: "The very good result, to which all the business fields contributed, demonstrates Munich Re's earnings strength. We have clearly surpassed our profit guidance of €3bn." Claims expenditure for major losses in property-casualty reinsurance was below the expected level. In addition, the Group was able to release provisions for prior accident years. The investment result of €7.7bn was down on the previous year (€8.4bn) but, considering the persistently low market interest rates, still at a good level with an ROI of 3.5%. Munich Re posted a particularly low tax burden for the year as a whole, chiefly due to the recalculation of tax for prior years and to the utilisation of loss carry-forwards. Currency translation effects had a negative impact overall in 2013.

Schneider said: "We want our shareholders to benefit from the Group's good performance: the increased dividend of €7.25 per share is further confirmation of our attractive and reliable dividend policy." Back in November 2013, Munich Re launched a share buy-back of €1bn, which is scheduled to be completed by the Annual General Meeting on 30 April 2014. By the beginning of February, around 3.3 million shares with a volume of €519m had been acquired.

Summary of the preliminary figures for the financial year 2013
Owing to a reduced investment result, the Group posted a lower, but still pleasing operating result of €4.4bn (5.3bn) in 2013, some €1.3bn (1.6bn) of this in the fourth quarter. Currency translation effects had a negative influence of –€0.3bn (–0.2bn) in 2013. Tax on income amounted to only €0.1bn (0.9bn) in 2013, with the fourth quarter producing tax relief of €0.2bn on balance, whereas the result for the fourth quarter of 2012 incurred tax on income of €0.4bn. Despite the adverse effects of interest rates and exchange rates, shareholders' equity decreased in 2013 by only around €1.2bn to €26.2bn (31.12.2012: €27.4bn) – mainly thanks to the high profit for the year – with a rise of around

€0.4bn in the fourth quarter. The return on risk-adjusted capital (RORAC), which serves as the core target for the Group as a whole, developed satisfactorily at 12.2% (13.2%), whilst the return on equity (RoE) amounted to 12.5% (12.5%). For the fourth quarter, an annualised RORAC of 17.5% (7.8%) and an RoE of 18.4% (7.0%) were achieved. Gross premiums written by the Group in the financial year 2013 fell slightly to €51.1bn (52.0bn) owing to currency effects.

With a book value of €209.5bn (market value of €217.7bn; previous year €224.5bn), total investments at 31 December 2013 were down on the year-end 2012 figure of €213.8bn. The Group's investment result fell to €7.7bn (8.4bn). This result represents a return of 3.5% in relation to the average market value of the portfolio.

Reinsurance: Result of €2.8bn
The reinsurance segment contributed €2.8bn (3.1bn) to the consolidated result. Owing to the lower income from investments, the operating result decreased by €0.8bn to €3.5bn. Gross premiums written were down to €27.8bn (€28.2bn). This was due to the development of exchange rates, which accounted for over 4 percentage points of the reduction in premiums.

The result from life reinsurance business was adversely affected in the third quarter by negative impacts from Australian disability business, but otherwise again performed well. Life reinsurance contributed €0.4bn (0.5bn) to the consolidated result.

Property-casualty reinsurance accounted for €2.4bn (2.6bn) of the consolidated result for the full year. The combined ratio for 2013 amounted to a very good 92.1% (91.0%) of net earned premiums, and totalled 89.2% (83.2%) for the fourth quarter. As a consequence of Munich Re’s customary review of reserves, the combined ratio for the full year includes a total of around €0.8bn net from the reduction of claims provisions for prior years, which is equivalent to around 5 percentage points in relation to net earned premiums. Munich Re is adhering to its conservative approach in measuring loss reserves and in adjusting them over the course of time, so the safety margin for the reserves remains high.

Natural catastrophe losses impacted the full year with €764m (1,284m), and man-made major losses with €925m (515m). The two largest losses in 2013 were the floods in central Europe in early summer (€178m) and the intense rain and hailstorms in Germany in June and July (€174m). Overall claims expenditure for major losses in 2013 totalled €1,689m, while the figure for the fourth quarter was €384m (745m), of which €119m (708m) was for natural catastrophes and €265m (38m) for man-made losses. In relation to net earned premiums, the major-loss burden for the full year was, at 10.4% (10.8%), below the average expected figure of 12%, and amounted to 9.2% (18.0%) for the fourth quarter.

Primary insurance: Result of €0.4bn
In its primary insurance business, Munich Re showed a significantly higher profit of €0.4bn (0.2bn) based on preliminary figures. The operating result fell by

around 20% to €0.7bn. Gross premiums written in 2013 decreased by over 2% to €16.7bn (17.1bn). The combined ratio in property-casualty insurance improved to 97.2% (98.7%) for the full year, amounting to 97.5% (104.0%) in the fourth quarter. In both international and German business, the combined ratio for the year improved, despite the severe flood catastrophe in central Europe in the second quarter and the losses due to intense rain and hailstorms in Germany in the third quarter.

Based on preliminary figures, the ERGO Insurance Group achieved a profit of €0.4bn (0.3bn).

Munich Health: Result of €0.15bn

The business field of Munich Health posted a profit of €0.15bn in 2013 (previous year: loss of €0.09bn). The operating result grew by over 50% to €0.17bn. This was mainly due to the restructuring of US Medicare business and to the fact that the balance sheet provision made in 2012 for anticipated further expenditure was not required. In September 2013, Munich Re announced the sale of the Windsor Health Group (WHG) to US health primary insurer WellCare Health Plans, Inc. The sale was completed as at 31 December 2013. Owing to negative currency effects, Munich Health's premium income in 2013 was down by around 2% to €6.6bn (6.7bn). The combined ratio for 2013 amounted to 98.3% (100.2%).

Renewals of reinsurance treaties in property-casualty business at 1 January 2014

Munich Re is satisfied overall with the renewals at 1 January. However, the market environment remains very challenging, with competition having become even keener at the end of the year. Ample capacity was available, partly because capital from investors such as pension funds is increasingly being invested in instruments for alternative risk transfer. This capital is flowing mainly into non-proportional natural catastrophe business, which only features to a relatively small extent in the January renewals. Of more significance is that price competition has increased in the traditional reinsurance market.

Torsten Jeworrek, Munich Re's Reinsurance CEO, commented: "Munich Re has again succeeded in keeping its portfolio relatively stable. As ever, client proximity and solution orientation make us a valued partner. In a generally difficult economic environment, clients are seeking sophisticated reinsurance solutions for their capital and risk management."

At 1 January 2014, slightly more than half of Munich Re's non-life reinsurance business was up for renewal, representing a premium volume of around €8.7bn. Some 12% (around €1bn) of this was not renewed, partly because the business concerned no longer met Munich Re’s profitability requirements. By contrast, Munich Re wrote new business with a volume of approximately €1.3bn, acquiring major volumes from individual clients, especially with customised solutions very often designed to provide capital relief. Munich Re was thus largely able to compensate in its portfolio for the effects of the pressure on prices prevailing in the market. Altogether, the volume of business written at 1 January grew slightly by 2.7% to around €9bn. The price level, which is an indicator of the profitability of the business, fell marginally by 1.5%. Treaty terms and conditions remained largely stable.

Jeworrek stated: "Munich Re again adhered consistently to its principle of only writing business at risk-commensurate prices and conditions. We can be relied on to provide our clients with capacity, innovative solutions and service of the highest quality. But not at any price."

The forthcoming renewals in 2014 at 1 April (mainly Japan) and 1 July (especially parts of the US market, Australia and Latin America) will include a greater proportion of natural catastrophe business than the January renewals. Munich Re expects pricing pressure in this segment to remain very appreciable in the further course of the year unless any extraordinary loss events occur. Jeworrek: "In the coming renewal rounds, we will be aiming to buck the general market trend with our tailor-made risk-transfer solutions and with prudent portfolio management."

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Preliminary key figures (IFRS) for the Group in 2013*
(in €bn unless otherwise indicated)

	2013	2012
Gross premiums written	51.1	52.0
Investment result	7.7	8.4
Operating result	4.4	5.3
Consolidated profit	3.3	3.2
Thereof attributable to		
Munich Reinsurance Company equity holders	3.3	3.2
Minority interests	0.0	0.0
	31.12.2013	**31.12.2012**
Investments	209.5	213.8
Equity	26.2	27.4
Reinsurance	**2013**	**2012**
Gross premiums written	27.8	28.2
Combined ratio in %	92.1	91.0
Operating result	3.5	4.3
Result	2.8	3.1
Primary insurance*	**2013**	**2012**
Gross premiums written	16.7	17.1
Combined ratio in %	97.2	98.7
Operating result	0.7	0.9
Result	0.4	0.2
Munich Health	**2013**	**2012**
Gross premiums written	6.6	6.7
Combined ratio in %	98.3	100.2
Operating result	0.2	0.1
Result	0.2	-0.1

* Previous year's figures adjusted pursuant to IAS 8.

Preliminary key figures (IFRS) for the Group in the fourth quarter of 2013*
(in €bn unless otherwise indicated)

	4th quarter 2013	4th quarter 2012
Gross premiums written	12.5	12.9
Investment result	2.0	2.2
Operating result	1.3	1.6
Consolidated profit	1.2	0.5
Thereof attributable to		
Munich Reinsurance Company equity holders	1.2	0.5
Minority interests	0.0	0.0
Reinsurance	**4th quarter 2013**	4th quarter 2012
Gross premiums written	6.9	7.0
Combined ratio in %	89.2	83.2
Primary insurance*	**4th quarter 2013**	4th quarter 2012
Gross premiums written	4.1	4.3
Combined ratio in %	97.5	104.0
Munich Health	**4th quarter 2013**	4th quarter 2012
Gross premiums written	1.6	1.7
Combined ratio in %	99.1	102.9

* Previous year's figures adjusted pursuant to IAS 8.