Munich RE

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Press release

Munich Re posts profit of €3.2bn for 2014 and raises dividend to €7.75

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With a consolidated result of €3.2bn in 2014, Munich Re was able to roughly maintain the high level of €3.3bn from the previous year. According to provisional calculations, in the fourth quarter 2014 it posted a profit of €0.7bn (previous year: €1.2bn). Shareholders are to participate in last year's success through a higher dividend: subject to approval by the Supervisory Board and the Annual General Meeting, the dividend will rise to €7.75 (7.25) per share.

CFO Jörg Schneider summed up the preliminary figures: "With this good result, we have once again demonstrated our robust earnings strength. It is especially pleasing that all business fields have contributed to this success again in the past year."

Schneider said: "With an increased dividend of €7.75 per share, our shareholders are receiving an attractive and also reliable return on their investment in Munich Re in comparison with other German and international companies, and this despite strong growth in the share price in recent months." Munich Re is also continuing its long-standing commitment to buy back shares. As part of the announced share buy-back programme running since the Annual General Meeting in April 2014, Munich Re has acquired shares amounting to around €800m to date; by the next Annual General Meeting on 23 April 2015, the total value should be €1bn.

In 2014, as in the previous year, the Group was exposed to very different and sometimes contrary effects. The performance of derivative financial instruments, negative currency effects and goodwill impairments owing to a resegmentation in the ERGO field of business all had an adverse impact overall. In contrast, there was tax income derived from a recalculation of taxes for prior years. Overall, the impact of major losses was randomly lower than expected; in property-casualty reinsurance, Munich Re was also able to release loss reserves for prior accident years.

Summary of the preliminary figures for the financial year 2014
The Group posted an operating result of €4.0bn (4.4bn) in 2014, of which €0.7bn (1.3bn) was in the fourth quarter. Currency translation effects continued to have a negative influence of –€0.1bn (–0.3bn) in 2014; with a positive result of €0.2bn

in the fourth quarter. Mainly as a consequence of a recalculation of taxes for prior years, there was a net inflow from income taxes of €0.3bn in 2014 (previous year: expense of €0.1bn); with a figure of €0.6bn for the fourth quarter. Shareholders' equity increased in 2014 by around €4.1bn to €30.3bn (31.12.2013: €26.2bn), with a rise of more than €1.0bn just in the fourth quarter. The return on risk-adjusted capital (RORAC), which serves as the key performance indicator for the Group as a whole, developed satisfactorily at 13.2% (12.1%), whilst the return on equity (RoE) amounted to 11.3% (12.5%). For the fourth quarter, an annualised RORAC of 12.2% (17.4%) and an RoE of 9.8% (18.4%) were achieved. Gross premiums written by the Group in the financial year 2014 fell to €48.8bn (51.1bn).

Munich Re has made the disclosure of its investments more transparent in its annual financial statements for 2014. Insurance-related investments (which mainly comprise investments for unit-linked life insurance contracts on behalf of policyholders) are disclosed separately, as is the result from these investments. The previous year’s figures were adjusted accordingly. With a carrying amount of €218.9bn (market value of €235.8bn), investments (excluding insurance-related investments) at 31 December 2014 were up on the year-end 2013 figure of €202.2bn (210.4bn at market value). The Group's investment result (excluding insurance-related investments) increased to €8.0bn (7.2bn). Changes in the value of derivatives had a negative impact at –€1.1bn for the year as a whole, and at –€0.5bn also had a negative impact in the fourth quarter. By contrast, the balance of gains and losses on disposals excluding derivatives was positive at €2.6bn. The investment result represents a pleasing annualised return of 3.6% in relation to the average market value of the portfolio.

Reinsurance: Result of €2.9bn

The reinsurance business field contributed €2.9bn (2.8bn) to the consolidated result. The operating result fell by €0.3bn to €3.3bn. Gross premiums written were down to €26.8bn (€27.8bn). This was partly due to the development of exchange rates, which resulted in a reduction in premium income of almost 2%.

Life reinsurance contributed €0.4bn (0.4bn) to the consolidated result. Some individual developments in Australia and the USA were unsatisfactory. In Australia, as a consequence of negative impacts from disability business in 2011 and 2013, Munich Re took measures to ensure a sustained improvement in the quality of the business. Reserves for disability business were therefore increased by €0.1bn in the fourth quarter. In the third quarter, Munich Re posted a one-off impact from the commutation of individual treaties in the USA, with which Munich Re aims to improve future results. Overall, claims experience in the USA was in line with current expectations. The results in all other important markets developed as expected or better.

Property-casualty reinsurance accounted for €2.5bn (2.4bn) of the consolidated result for the full year. The combined ratio for 2014 amounted to a very good 92.7% (92.1%) of net earned premiums, and totalled 91.2% (89.3%) for the fourth quarter. As claims notifications for so-called basic losses remained significantly below the expected level overall, Munich Re released reserves.

Adjusted for changes in commissions, there is a net effect of around 5.3 percentage points for the full year, and around 9.1 percentage points for the fourth quarter. Munich Re is adhering to its conservative approach in setting loss reserves and in adjusting them over the course of time, so the safety margin for the reserves remains high.

Overall expenditure for major losses totalled €1.2bn (1.7bn) in 2014, with the fourth quarter accounting for €0.25bn (0.4bn). Reserve strengthening and run-off profits for major losses from previous years almost balanced each other out. In relation to net earned premiums, the major-loss burden of 7.2% (10.4%) for the full year was below the average expected figure of 12%, and amounted to 6.1% (9.2%) for the fourth quarter. Natural catastrophe losses impacted the full year with €538m (764m), while the figure for the fourth quarter was €111m (119m). At €305m, the February snowstorm in Japan was the largest loss event of 2014. Reserves of €59m were set aside for Hurricane Odile, which hit Mexico in late summer. Provisions set aside for the severe earthquakes in New Zealand in 2010 and 2011 were increased. Man-made major losses totalled €625m (925m), while the figure for the fourth quarter was €138m (265m), or 3.9 (5.7) percentage points of net earned premiums. Extensive losses resulted from an explosion at a Russian refinery (€150m), and the losses from the crash of two aircraft impacted Munich Re’s result with €52m.

ERGO business field: Result of €0.2bn
Munich Re's consolidated financial statements for 2014 show the business transacted by ERGO in the three new segments Life and Health Germany, Property-casualty Germany, and International. As a consequence of this change, goodwill had to be reallocated and revalued, which together with the revaluation of intangible assets led to additional expenditure totalling around €450m.

In its ERGO business field, Munich Re nevertheless posted a profit of €0.2bn (0.4bn) based on preliminary figures. The result also benefited from tax income for prior years, leading to a result contribution of around €150m – taking into account policyholder participation. The operating result fell by around 9% to €0.6bn. Gross premiums written in 2014 increased by 0.4% to €16.7bn (16.7bn). The combined ratio in German property-casualty insurance improved to 95.3% (96.7%) for the full year, and amounted to 97.1% (95.4%) in the fourth quarter, mainly owing to low expenditure for severe weather events. The year's biggest loss event was the low-pressure system Ela, which swept through large areas of western Germany accompanied by heavy hailstorms, causing significant damage to buildings and motor vehicles. The combined ratio in international property-casualty insurance amounted to 97.3% (98.7%) for the full year and 96.8% (100.4%) for the fourth quarter.

Based on preliminary figures, the ERGO Insurance Group achieved a profit of €0.6bn (0.4bn).

Munich Health: Result of €0.1bn
In 2014, the business field of Munich Health posted a profit of €0.1bn (0.2bn). The operating result was down to €0.1bn. Munich Health's premium income

showed a year-on-year decrease of around 18.5% to €5.3bn (6.6bn), which was attributable to negative currency translation effects, the reduction of Munich Re's share in a large-volume treaty and the sale of the Windsor Health Group. The combined ratio for 2014 amounted to 98.8% (98.3%).

Renewals of reinsurance treaties in property-casualty business at 1 January 2015

As in the previous year, the renewal negotiations were marked by an oversupply of reinsurance capacity and good capitalisation of most market players. The downward pressure on prices, terms and conditions remained stable in most classes of business. Only programmes affected by major losses, e.g. in aviation, saw price increases. The demand for reinsurance cover was largely stable.

Torsten Jeworrek, who is responsible for Munich Re's global reinsurance activities, said: "Munich Re was able to stand its ground in this challenging environment. Overcapacity and a relatively low number of major natural catastrophes in 2014 added to the competitive pressure, above all in catastrophe business. But Munich Re's broad diversification across lines of business and markets, bolstered by stable client relationships, paid off for us."

At 1 January 2015, slightly more than half of Munich Re's non-life reinsurance business was up for renewal, representing premium volume of around €9.4bn. Some 13% (around €1.2bn) 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 €0.9bn. Altogether, the volume of business written at 1 January dropped by 9.5% to around €8.5bn. Prices fell by 1.3%.

Jeworrek: "Munich Re provides its clients with substantial high-security capacities. However, we always ensure that the price we obtain is commensurate with the risk assumed. Consistent cycle management is key in this competitive environment. In addition, we offer innovative risk transfer solutions even for very complex risks, a fact that is becoming more and more important for companies in this globalised economy."

Munich Re is proceeding on the assumption that the market environment will not change significantly in the subsequent renewal rounds in 2015, unless extraordinary loss events occur. The renewal date of 1 April is mainly for reinsurance treaties in Japan, whereas 1 July is the renewal date for some treaties in the USA and for treaties in Australia and Latin America.

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Munich Re stands for exceptional solution-based expertise, consistent risk management, financial stability and client proximity. This is how Munich Re creates value for clients, shareholders and staff. In the financial year 2013, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €3.3bn on premium income of over €51bn. It operates in all lines of insurance, with almost 45,000 employees throughout the world. 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 2013, ERGO posted premium income of €18bn. 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 €209bn 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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Preliminary figures (IFRS) for the Group in the fourth quarter of 2014*
(in €bn unless otherwise indicated)

	4th quarter 2014	4th quarter 2013
Gross premiums written	12.0	12.5
Investment result	2.0	1.8
Operating result	0.7	1.3
Consolidated profit	0.7	1.2
Thereof attributable to		
Munich Reinsurance Company equity holders	0.7	1.2
Minority interests	0.0	0.0
Reinsurance	**4th quarter 2014**	4th quarter 2013
Gross premiums written	6.6	6.9
Combined ratio in %	91.2	89.3
Operating result	0.8	1.2
ERGO	**4th quarter 2014**	4th quarter 2013
Gross premiums written	4.1	4.1
Combined ratio Germany in %	97.1	95.4
Combined ratio International in %	96.8	100.4
Operating result	–0.2	0.1
Munich Health	**4th quarter 2014**	4th quarter 2013
Gross premiums written	1.3	1.6
Combined ratio in %	99.8	99.1
Operating result	0.0	0.0

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

Preliminary figures (IFRS) for the Group in 2014*
(in €bn unless otherwise indicated)

	2014	2013
Gross premiums written	48.8	51.1
Investment result	8.0	7.2
Operating result	4.0	4.4
Consolidated profit	3.2	3.3
Thereof attributable to		
Munich Reinsurance Company equity holders	3.2	3.3
Minority interests	0.0	0.0
	31.12.2014	31.12.2013
Investments	218.9	202.2
Equity	30.3	26.2
Reinsurance	**2014**	2013
Gross premiums written	26.8	27.8
Combined ratio in %	92.7	92.1
Operating result	3.3	3.5
Result	2.9	2.8
ERGO	**2014**	2013
Gross premiums written	16.7	16.7
Combined ratio Germany in %	95.3	96.7
Combined ratio International in %	97.3	98.7
Operating result	0.6	0.7
Result	0.2	0.4
Munich Health	**2014**	2013
Gross premiums written	5.3	6.6
Combined ratio in %	98.8	98.3
Operating result	0.1	0.2
Result	0.1	0.2

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