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Press release

Munich Re posts profit of €2.6bn for 2016 and raises dividend to €8.60

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Munich Re posted a consolidated result of €2.6bn for 2016, thus meeting its profit target of "well over €2.3bn". According to provisional calculations, in the fourth quarter of 2016 it posted a profit of €0.5bn (previous year: €0.7bn). Subject to approval by the Supervisory Board and the Annual General Meeting, the dividend will rise to €8.60 (8.25) per share.

CFO Jörg Schneider said: "We are satisfied with the result for 2016. Thanks to our strong market position, client proximity and successful investment management, we were largely able to counter the effects of low interest rates and intense competition in the reinsurance markets."

Major-claims expenditure was high in the fourth quarter, with claims costs of €232m for Hurricane Matthew and €251m for an earthquake in New Zealand. On a twelve-month basis, major losses were lower than expected, but nevertheless significantly higher than in the previous year.

With respect to the proposed increase in the dividend, Jörg Schneider commented: "Munich Re is sticking to its shareholder-friendly and sustainable dividend policy. We are sure that we will be able to maintain this level of dividend and continue the trend of raising it in future."

On the results of the January renewals, Torsten Jeworrek, member of the Board of Management of Munich Re said: "Market conditions for the renewals were once again challenging, even though the trend towards price reductions had continued to slow. So skilful cycle management is still extremely important, and Munich Re was once again able to react with flexibility in relation to changes. We withdrew from business that no longer met profit expectations – for instance, in China – and built up or expanded profitable business, either through new acquisitions or by strengthening existing client relationships."

Summary of the preliminary figures for the 2016 financial year
Munich Re (Group) achieved a satisfactory operating result of €4.0bn (4.8bn) in 2016, of which €0.8bn (1.4bn) related to the fourth quarter. The lower technical result and the costs of the ERGO Strategy Programme were partly offset by gratifying investment and currency translation results.

Equity increased by around €0.8bn to €31.8bn in 2016 (31.12.2015: €31.0bn). The return on risk-adjusted capital (RORAC) – which serves as the key performance indicator for profitability in terms of risk capital requirements – was 10.9% (11.5%), whilst the return on equity (RoE) amounted to 8.1% (10.0%). For the fourth quarter, Munich Re achieved an annualised RORAC of 8.2% (10.8%) and an RoE of 6.1% (9.6%).

In the 2016 financial year, the Group's gross premiums written declined to €48.9bn (50.4bn), mainly because of reduced shares in large-volume treaties and the sale of ERGO Italia.

With a carrying amount of €219.4bn (market value of €236.2bn), total investments (excluding insurance-related investments) as at 31 December 2016 were up on the year-end 2015 figure of €215.1bn (230.5bn at market value). The Group's investment result (excluding insurance-related investments) remained nearly constant at €7.6bn (7.5bn). Regular investment income declined, not least because of yield attrition. Gains on the disposal of government bonds, covered bonds and equities more than offset losses from hedging derivatives and impairment losses. Considering the situation in the capital markets, this investment result represents a relatively high overall return of 3.2% in relation to the average market value of the portfolio.

Reinsurance: Result of €2.5bn
The reinsurance field of business contributed €2.5bn (3.3bn) to the consolidated result. The operating result was down by €1.3bn to €2.8bn. Gross premiums written declined to €27.8bn (28.2bn).

Life reinsurance business contributed €0.46bn (0.35bn) to the consolidated result. At €0.49bn (0.34bn), the technical result was above the target of €0.4bn, with €0.2bn (0.1bn) relating to the fourth quarter. The very pleasing result in life reinsurance benefited from positive reserving effects, especially in the USA.

Property and casualty reinsurance generated a good result of €2.0bn (2.9bn) over the year as a whole. The combined ratio for 2016 amounted to 95.7% (89.7%) of net earned premiums, and totalled 101.9% (78.6%) for the fourth quarter. Munich Re was able to release loss reserves in the amount of €1.1bn for the full year, and €0.4bn for the fourth quarter. Adjusted for commission effects, this corresponds to 5.5 percentage points of the combined ratio for the full year, and 5.7 percentage points for the fourth quarter. Overall, Munich Re was able to raise the level of loss reserves again slightly in 2016. Munich Re also still aims to set the amount of provisions for newly emerging claims at the very top end of the estimation range, so that profits from the release of a portion of these reserves are possible at a later stage.

Total major-loss expenditure for 2016 amounted to €1.5bn (1.0bn), of which €0.6bn (0.2bn) was attributable to the fourth quarter. The major-loss burden amounted to 9.1% (6.2%) of net earned premiums, and thus remained below the average expected figure of 12% for the full year. However, this does not apply for the fourth quarter, when the ratio totalled 14.8% (4.7%). Natural catastrophe losses amounted to €0.9bn (0.1bn) for the full year, while the figure for the fourth quarter was €0.5bn (0.0bn). With a cost to Munich Re of €404m, devastating forest fires in the Canadian province of Alberta in May 2016 were the biggest loss of the year. Man-made major losses were below the level of the previous year, and totalled €0.6bn (0.9bn) – equivalent to 3.6% (5.3%) of net earned premiums. Development was marked by a variety of individual events, including fire, explosion and liability losses.

ERGO: Result of –€0.04bn
As was anticipated in the ERGO Strategy Programme, the ERGO field of business posted a marginal loss of €0.04bn in 2016 (previous year: loss of €0.2bn). But in the fourth quarter, ERGO generated a profit of €0.07bn, which largely benefited from a high investment result.

ERGO is making good progress in implementing the Strategy Programme presented in June 2016. The Management has agreed on a reconciliation of interests programme with the Co-determination Committee with respect to the staff reductions announced in June. An important milestone was thus achieved towards strengthening the ERGO group’s competitiveness with consolidated structures and lower costs.

Gross premiums written declined to €16.0bn (16.5bn). The combined ratio for German property-casualty insurance was 97.0% (97.9%) for the full year, and amounted to 100.0% (103.9%) in the fourth quarter. The largest loss events in German business were the storms Elvira and Marine/Neele, each of which impacted the result with around €16m. The combined ratio for international property-casualty insurance was 99.0% (104.7%) for the full year, and 100.4% (115.3%) for the fourth quarter.

Munich Health: Result of €0.14bn
For the last time before being divided up on 1 February 2017, the Munich Health field of business contributed a very gratifying profit of €0.14bn (0.09bn) to the consolidated result. At €0.2bn, the operating result was also above the previous year’s figure (€0.1bn). Munich Health’s premium income declined to €5.0bn (5.6bn), due in particular to the reduction of its share in a large treaty. The combined ratio amounted to 98.5% (99.9%) in 2016.

Renewals of reinsurance treaties in property-casualty business at 1 January 2017
In the renewals of reinsurance treaties at 1 January 2017, prices fell only slightly in various markets, while demand for reinsurance cover and global capacity remained largely unchanged.

As at 1 January 2017, around half of Munich Re's non-life reinsurance business was up for renewal, representing premium volume of almost €9bn. Of this, 14% (around €1.3bn) was not renewed. By contrast, Munich Re wrote new business with a volume of approximately €1.1bn. The volume of business written at 1 January thus declined by 4.9% to around €8.5bn. Prices fell by about 0.5%, compared with price erosion of 1% in the previous year.

Munich Re is proceeding on the assumption that the market environment will not change significantly in the subsequent renewal rounds in 2017, 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 the USA, 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 2015, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €3.1bn on premium income of over €50bn. It operates in all lines of insurance, with over 43,000 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 leading 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 2015, ERGO posted premium income of €17.9bn. 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 (excluding insurance-related investments) amounting to €215bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group**.**

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Preliminary figures (IFRS) for the Group in the fourth quarter of 2016
(in €bn unless otherwise indicated)

	4th quarter 2016	4th quarter 2015
Gross premiums written	12.1	12.4
Investment result	1.6	1.7
Operating result	0.8	1.4
Consolidated profit	0.5	0.7
Thereof attributable to		
Munich Reinsurance Company equity holders	0.5	0.7
Minority interests	0.0	0.0
Reinsurance	**4th quarter 2016**	4th quarter 2015
Gross premiums written	6.9	7.0
Combined ratio in %	101.9	78.6
Operating result	0.5	1.5
Result	0.4	1.4
ERGO	**4th quarter 2016**	4th quarter 2015
Gross premiums written	3.9	4.0
Combined ratio for Germany in %	100.0	103.9
Combined ratio International in %	100.4	115.3
Operating result	0.3	–0.1
Result	0.07	–0.64
Munich Health	**4th quarter 2016**	4th quarter 2015
Gross premiums written	1.3	1.4
Combined ratio in %	96.1	100.9
Operating result	0.1	0.0
Result	0.06	0.01

Preliminary figures (IFRS) for the Group in 2016
(in €bn unless otherwise indicated)

	2016	2015
Gross premiums written	48.9	50.4
Investment result	7.6	7.5
Operating result	4.0	4.8
Consolidated profit	2.6	3.1
Thereof attributable to		
Munich Reinsurance Company equity holders	2.6	3.1
Minority interests	0.0	0.0
	31.12.2016	31.12.2015
Investments	219.4	215.1
Shareholders' equity	31.8	31.0
Reinsurance	**2016**	2015
Gross premiums written	27.8	28.2
Combined ratio in %	95.7	89.7
Operating result	2.8	4.1
Result	2.5	3.3
ERGO	**2016**	2015
Gross premiums written	16.0	16.5
Combined ratio for Germany in %	97.0	97.9
Combined ratio International in %	99.0	104.7
Operating result	1.0	0.6
Result	–0.04	–0.2
Munich Health	**2016**	2015
Gross premiums written	5.0	5.6
Combined ratio in %	98.5	99.9
Operating result	0.2	0.1
Result	0.14	0.09