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Press release

Munich Re targets profit of €2.5–3bn in 2015

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Munich Re is targeting a profit in the €2.5–3bn range for 2015.

CEO Nikolaus von Bomhard believes that the Group is well positioned with its competence in risk to move into new fields of business and tap new long-term earnings potential. Munich Re announced a further share buy-back to enable it to pay out to shareholders capital it has earned, but does not currently need. A maximum of €1bn worth of own shares are again to be bought back up until the Annual General Meeting in 2016.

CEO Nikolaus von Bomhard said: "Looking back, 2014 was a good year for Munich Re despite widespread uncertainty. We were able to surpass by almost €200m our original result target of €3bn." He continued: "The Supervisory Board and the Board of Management are proposing to the Annual General Meeting an increase in the dividend to €7.75 per share in order to allow our shareholders to participate commensurately in Munich Re's success. Our dividend policy, and our business, are based on the principle of sustainability. We are increasing the dividend only to a level that we can maintain even after a less successful year and that will permit us to comfortably finance profitable growth and innovation."

On the outlook for 2015, von Bomhard said: "We are targeting a consolidated result of €2.5–3bn in 2015." The comparatively wide spread of the result guidance is due to the unchanged high level of political and economic uncertainty. The flood of liquidity in important markets means that Munich Re must expect declining returns on its investments again in 2015. However, Munich Re's strategy for a number of years has been to base its profitability primarily on the technical result achieved in its insurance business. "That strategy is paying off in the current capital market environment", underlined von Bomhard. "We are also attempting to diversify our investments even more", he added, "for example by increasing our investments in alternative asset classes such as infrastructure."

In primary insurance, in January ERGO also extended its new generation of life insurance products to company pension schemes. "This enables us to provide an innovative and forward-looking answer to the challenges posed by low interest rates", noted von Bomhard.

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Both the capital markets and the reinsurance markets will remain challenging in 2015. Munich Re expects the fierce competition to continue. "Rigorous cycle management and underwriting discipline, and excellent client service, will therefore still be extremely important", emphasised von Bomhard. "This requires great determination from our staff and management to let go of even substantial levels of business where it is no longer possible to maintain adequate prices. This soft market phase will show just who takes their return-on-equity targets seriously." In addition to the current intense competition – particularly in reinsurance – there are also indications of structural changes in the insurance industry. In particular, significant changes are expected in the context of increasing digitalisation. "Here it is good to know that throughout our history we have already seen many ground-breaking changes and mastered them successfully. In our core business – the assumption of risk – we are focused on innovation, and digitalisation is now a part of this. Thanks to the inventiveness of our 43,000 staff across the world, we are well placed to take on structural challenges and generate profitable new business with innovative products," said von Bomhard.

There is potential for growth not only from a geographical perspective, as in the booming regions of Asia. Munich Re is also working on pushing back the limits of insurability of risks not yet – or not yet adequately – covered in the market, such as cyber risk, energy, supply chain and business interruption, and protection of reputation.

Munich Re has announced a further share buy-back programme: by the Annual General Meeting on 27 April 2016, up to €1bn worth of shares are to be bought back. The buy-back is conditional on no major upheavals occurring in the capital markets or in its underwriting business. On the basis of the current share price, around 5.3 million shares, or approximately 3.1% of the share capital, would be bought back. The buy-back currently in progress should be completed by the Annual General Meeting on 23 April 2015 and the acquired shares retired, as with the previous buy-backs; so far, around 5.6 million shares with a value of approximately €905m have been bought back.

Summary of the figures for the financial year 2014

In 2014, the Group posted an operating result of €4.0bn (4.4bn). Currency translation effects were again negative, amounting to –€0.1bn (–0.3bn). Mainly as a consequence of a recalculation of taxes for prior years, in 2014 there was a net inflow from income taxes of €0.3bn (previous year: expense of –€0.1bn). Changes in the value of derivative financial instruments, and goodwill impairments owing to a resegmentation of the ERGO field of business had an adverse impact. Shareholders' equity rose by €4.1bn in 2014 to €30.3bn (31 December 2013: €26.2bn) The return on risk-adjusted capital (RORAC), which serves as the key performance indicator for the Group as a whole, developed satisfactorily, rising to 13.2% (12.1%), whilst the return on equity (RoE) was 11.3% (12.5%). Gross premiums written by the Group in 2014 decreased to €48.8bn (51.1bn).

As at 31 December 2014, Munich Re's available financial resources were 138% (153%) of its self-defined economic risk-capital requirement (economic solvency ratio). This internal capital requirement corresponds to 1.75 times the solvency level that will be required under Solvency II. Subject to any changes made pending supervisory recognition, the solvency ratio according to Solvency II requirements would thus be 242% (267%).

Reinsurance: Strong result of €2.9bn

The reinsurance field of business contributed €2.9bn (2.8bn) to the consolidated result. The operating result was down –€0.3bn at €3.3bn. Gross premiums written decreased 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 €410m (403m) to the consolidated result. There were some unsatisfactory developments in the USA and Australia.

Property-casualty reinsurance accounted for €2.5bn (2.4bn) of the result for the full year. The combined ratio for 2014 amounted to a very good 92.7% (92.1%) based on net earned premiums. As claims notifications for "basic losses" remained significantly below the expected level overall, Munich Re was able to release reserves: after adjustments for commissions, the net effect for the year was around 5.3% of net earned premiums. Munich Re maintained its conservative approach in setting loss reserves and in adjusting them over the course of time, so the safety margin in the reserves remained high.

Overall claims expenditure for major losses in 2014 totalled –€1.2bn (–1.7bn). Reserve strengthening and run-off profits for major losses from previous years almost balanced each other out in 2014. The major-loss burden amounted to 7.2% (10.4%) of net earned premiums, below the average expected figure of 12%. The cost of natural catastrophe losses for the full year was –€538m (–764m). At –€305m, a February snowstorm in Japan was the largest loss event of 2014. Man-made major losses amounted to –€625m (–925m), accounting for 3.9% (5.7%) of net earned premiums.

Torsten Jeworrek, Munich Re's Reinsurance CEO: "We continue to focus on our profit-oriented underwriting policy and offer our clients individual solutions. And we benefit from our diversification into primary-insurance-based and specialised market segments."

ERGO field of business: Result of €169m, significant rise in profits in the ERGO Group

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

The success of ERGO's business in 2014 enabled Munich Re to post a profit of €169m (408m) for the ERGO field of business, notwithstanding the high additional charges. The result also benefited from tax income for prior years, which, taking into account policyholder participation, contributed around €150m. The operating result fell by around 9% to €626m (689m). The combined ratio for the year in the Property-casualty Germany segment improved to 95.3% (96.7%), whilst that for the International segment was 97.3% (98.7%).

ERGO CEO Torsten Oletzky commented on the result for the ERGO Group: "We have again done very well with the result of the ERGO Insurance Group, raising the profit from €436m to €620m."

Gross premiums written remained stable in 2014 at €16.7bn (16.7bn), and total premium income across all lines of business in 2014 was also fairly constant at €18.1m (18.0m). In the Life and Health Germany segment, gross premiums decreased by 1.8% in 2014 to €9.8bn (10.0bn), and in the Property-casualty Germany segment they remained at a similar level to the previous year at €3.1bn (3.2bn). In the International segment they amounted to €3.8bn (3.5bn).

Torsten Oletzky said: "The pleasing progress made in international business, where we saw a rise in both premium income and the result, shows that we are well on track. And we will continue to work hard on expanding our international business. We are also focusing on innovative business in Germany. Examples of this on the product side are our new company pension scheme, and our new residential-buildings cover, which also takes in high-hazard flood zones. And the new possibility of using digital signature is a great service for everyone who wishes to make full use of electronic processes. "

Munich Health: Profit of €109m (150m)

In 2014, the Munich Health field of business posted a profit of €109m (150m). The operating result declined to €118m. Munich Health's gross premiums written showed a year-on-year decrease of 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 2014 combined ratio was 98.8% (98.3%).

Investments: Investment result of €8.0bn

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) are disclosed separately, as is the result from these investments. The figures for the previous year have been adjusted accordingly.

With a carrying amount of €218.9bn (market value of €235.8bn), total investments (excluding insurance-related investments) as 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 effect for the year of –€1.1bn. The balance of gains and losses on disposals excluding

derivatives, on the other hand, was positive at €2.6bn. Overall, the investment result represents a pleasing return of 3.6% on the average market value of the portfolio.

Investments in infrastructure, renewable energies and new technologies amounted to around €1.8bn. Further expansion in this area is planned for 2015 subject to dependable investment conditions and appropriate returns.

The proportion of investments in equities including equity derivatives as at 31 December 2014 was down to 4.3% (31 December 2013: 4.6%). Fixed-interest securities, loans and short-term fixed-interest investments continued to make up the largest portion of Munich Re's investments, with a share of around 88% at market value.

CFO Jörg Schneider was satisfied with the investment result: "Thanks to our good portfolio mix and the long maturities of our fixed-interest investments, we have been able to largely ride out a capital market environment with extremely low interest rates, which is very pleasing. The low-interest rate policies of central banks come at a huge cost to savers and all forms of old-age pensions. As the representative of the interests of our policyholders in life insurance, we are openly voicing our criticism of these policies."

The Group's asset manager is MEAG, whose assets under management as at 31 December 2014 included not only Group investments but also segregated and retail funds totalling €13.9bn (12.9bn).

Outlook for 2015: Group result target of €2.5–3bn

Assuming exchange rates remain stable, the Group anticipates that for the financial year 2015 its gross premiums written will be in the range of €47–49bn. Gross premiums of €26–27bn are expected in reinsurance, and €16–16.5bn in the ERGO field of business. Total premium income in the ERGO field of business (including the savings element in unit-linked life insurance and capitalisation products) should amount to €17.5–18bn in 2015. Gross premiums written of slightly over €5bn are expected for Munich Health.

In property-casualty reinsurance, Munich Re is aiming for a combined ratio of around 98% of net earned premiums. The increase of more than 5 percentage points on the ratio achieved in 2014 is mainly due to the fact that in 2014 there were randomly fewer major losses than expected. For 2015, Munich Re anticipates major losses in the order of almost €2bn, corresponding to an unchanged 12% of net earned premiums. The combined ratio for the ERGO Property-casualty Germany segment should be at a very satisfying level of around 93% in 2015 provided major losses remain within normal bounds; a combined ratio of around 97% is expected for the ERGO International segment. The combined ratio for Munich Health is likely to be around 99%.

Munich Re anticipates that market interest rates will remain very low overall in 2015, with correspondingly lower regular income from fixed-interest investments.

Munich Re expects a total investment result of at least €7bn, representing a return on investments of at least 3%.

The consolidated result in reinsurance should be at least €2bn in 2015. For the ERGO field of business, Munich Re projects a consolidated result for 2015 of around €500m, considerably better than the 2014 result, which was adversely affected above all by the goodwill impairment in the ERGO International segment. The profit target for the Munich Health field of business is in the range of €50–100m due to lower investment income and special taxation effects falling away.

The Group is aiming for a consolidated result in the range of €2.5–3bn, subject to large losses being within normal bounds and to its profits not being affected by severe movements in exchange rates or the capital markets, significant changes in fiscal parameters, or other exceptional factors.

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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 2014, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €3.2bn on premium income of over €48bn. It operates in all lines of insurance, with over 43,000 employees throughout the world. With premium income of around €27bn 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 2014, 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 €227bn 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 fourth quarter of 2014*					
(in €m unless otherwise indicated)					
		4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
Gross premiums written		12,015	12,470	-455	-3.6
Net earned premiums		12,075	12,360	-285	-2.3
Net expenses for claims and benefits		-9,909	-9,817	-92	-0.9
Technical result		610	1,026	-416	-40.5
Investment result		1,972	1,821	151	8.3
Thereof:	Realised gains	1,494	946	548	57.9
	Realised losses	-882	-616	-266	-43.2
Insurance-related investment result		52	174	-122	-70.1
Non-technical result		42	245	-203	-82.9
Operating result		652	1,271	-619	-48.7
Net finance costs		-58	-55	-3	-5.5
Taxes on income		610	241	369	153.1
Consolidated profit		729	1,194	-465	-38.9
Thereof attributable to	Munich Reinsurance Company equity holders	723	1,185	-462	-39.0
	Minority interests	6	9	-3	-33.3
Reinsurance					
		4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
Gross premiums written		6,615	6,852	-237	-3.5
Technical result		677	826	-149	-18.0
Non-technical result		139	327	-188	-57.5
Operating result		816	1,153	-337	-29.2
Result		962	1,084	-122	-11.3
Thereof:	Reinsurance Life	4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
	Gross premiums written	2,647	2,635	12	0.5
	Technical result	2	86	-84	-97.7
	Non-technical result	65	99	-34	-34.3
	Operating result	67	185	-118	-63.8
	Result	127	189	-62	-32.8
	Reinsurance – Property-casualty	4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
	Gross premiums written	3,968	4,217	-249	-5.9
	Combined ratio in %	91.2	89.3	1.9	
	Technical result	675	740	-65	-8.8
	Non-technical result	74	228	-154	-67.5
	Operating result	749	968	-219	-22.6
Result	835	895	-60	-6.7	

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ERGO field of business		4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
Gross premiums written		4,101	4,055	46	1.1
Technical result		-56	182	-238	-
Non-technical result		-115	-99	-16	-16.2
Operating result		-171	83	-254	-
Result		-247	54	-301	-
Thereof:	ERGO Life and Health Germany	4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
	Gross premiums written	2,498	2,560	-62	-2.4
	Technical result	-120	108	-228	-
	Non-technical result	-147	-161	14	8.7
	Operating result	-267	-53	-214	-403.8
	Result	130	31	99	319.4
	ERGO Property-casualty Germany	4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
	Gross premiums written	605	546	59	10.8
	Combined ratio in %	97.1	95.4	1.7	
	Technical result	41	59	-18	-30.5
	Non-technical result	-4	18	-22	-
	Operating result	37	77	-40	-51.9
	Result	19	11	8	72.7
	ERGO International	4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
	Gross premiums written	998	949	49	5.2
	Combined ratio in %	96.8	100.4	-3.6	
	Technical result	23	15	8	53.3
Non-technical result	36	44	-8	-18.2	
Operating result	59	59	-	-	
Result	-396	12	-408	-	
Munich Health		4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
Gross premiums written		1,299	1,563	-264	-16.9
Combined ratio in %		99.8	99.1	0.7	
Technical result		-11	18	-29	-
Non-technical result		18	17	1	5.9
Operating result		7	35	-28	-80.0
Result		14	56	-42	-75.0
Shares		4th quarter 2014	4th quarter 2013	Change	
				Absolute	%
Earnings per share in €		4.27	6.63	-2.36	-35.6
* Previous year's figures adjusted pursuant to IAS 8.					

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Key figures (IFRS) for the Group in the 2014 financial year*					
(in €m unless otherwise indicated)					
	2014	2013	Change		
			Absolute	%	
Gross premiums written	48,848	51,060	-2,212	-4.3	
Net earned premiums	47,384	49,172	-1,788	-3.6	
Net expenses for claims and benefits	-39,693	-39,927	234	0.6	
Technical result	3,243	3,645	-402	-11.0	
Investment result	8,002	7,245	757	10.4	
Thereof:					
Realised gains	4,240	3,355	885	26.4	
Realised losses	-2,391	-2,292	-99	-4.3	
Insurance-related investment result	414	412	2	0.5	
Non-technical result	785	753	32	4.2	
Operating result	4,028	4,398	-370	-8.4	
Net finance costs	-228	-257	29	11.3	
Taxes on income	312	-108	420	-	
Consolidated profit	3,171	3,333	-162	-4.9	
Thereof attributable to					
Munich Reinsurance Company equity holders	3,153	3,304	-151	-4.6	
Minority interests	18	29	-11	-37.9	
	31.12.2014	31.12.2013			
Investments (incl. insurance-related investment result)	227,388	209,474	17,914	8.6	
Equity	30,304	26,188	4,116	15.7	
Employees	43,316	44,665	-1,349	-3.0	
Reinsurance	2014	2013	Change		
			Absolute	%	
Gross premiums written	26,770	27,842	-1,072	-3.9	
Technical result	2,672	2,827	-155	-5.5	
Non-technical result	612	714	-102	-14.3	
Operating result	3,284	3,541	-257	-7.3	
Result	2,893	2,775	118	4.3	
Thereof:					
	Reinsurance Life	2014	2013	Change	
				Absolute	%
	Gross premiums written	10,040	10,829	-789	-7.3
	Technical result	280	359	-79	-22.0
	Non-technical result	180	183	-3	-1.6
	Operating result	460	542	-82	-15.1
	Result	410	403	7	1.7
	Reinsurance – Property-casualty	2014	2013	Change	
				Absolute	%
	Gross premiums written	16,730	17,013	-283	-1.7
	Combined ratio in %	92.7	92.1	0.6	
	Technical result	2,392	2,468	-76	-3.1
	Non-technical result	432	531	-99	-18.6
	Operating result	2,824	2,999	-175	-5.8
	Result	2,483	2,372	111	4.7

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ERGO field of business		2014	2013	Change	
				Absolute	%
Gross premiums written		16,736	16,667	69	0.4
Technical result		494	683	-189	-27.7
Non-technical result		132	6	126	>1,000.0
Operating result		626	689	-63	-9.1
Result		169	408	-239	-58.6
Thereof:					
	ERGO Life and Health Germany	2014	2013	Change	
				Absolute	%
Gross premiums written		9,812	9,987	-175	-1.8
Technical result		144	383	-239	-62.4
Non-technical result		-100	-195	95	48.7
Operating result		44	188	-144	-76.6
Result		269	158	111	70.3
	ERGO Property-casualty Germany	2014	2013	Change	
				Absolute	%
Gross premiums written		3,115	3,172	-57	-1.8
Combined ratio in %		95.3	96.7	-1.4	
Technical result		214	177	37	20.9
Non-technical result		90	114	-24	-21.1
Operating result		304	291	13	4.5
Result		176	156	20	12.8
	ERGO International	2014	2013	Change	
				Absolute	%
Gross premiums written		3,809	3,508	301	8.6
Combined ratio in %		97.3	98.7	-1.4	
Technical result		136	123	13	10.6
Non-technical result		142	87	55	63.2
Operating result		278	210	68	32.4
Result		-276	94	-370	-
Munich Health		2014	2013	Change	
				Absolute	%
Gross premiums written		5,342	6,551	-1,209	-18.5
Combined ratio in %		98.8	98.3	0.5	
Technical result		77	135	-58	-43.0
Non-technical result		41	33	8	24.2
Operating result		118	168	-50	-29.8
Result		109	150	-41	-27.3
Shares		2014	2013	Change	
				Absolute	%
Earnings per share in €		18.31	18.45	-0.14	-0.8
* Previous year's figures adjusted pursuant to IAS 8.					