

Munich, 05 November 2015

Press release

Munich Re generates third-quarter profit of €25m in a challenging environment

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Munich Re posted a consolidated profit of €2.4bn for the first nine months of 2015 (same period last year: €2.4bn). In the third quarter, the Group realised a profit of €25m (736m). For the current financial year, Munich Re is still aiming for a profit of at least €3bn.

CFO Jörg Schneider summed up the figures: "With a quarterly profit of €25m, we remain on course for another gratifying result for the year." As regards the developments in the third quarter, Schneider said: "The capital market turbulences have left their mark on the investment result, with below-average realised gains on disposals, write-downs of equities, and losses from derivative hedging instruments."

Summary of the figures for the third quarter 2015

In the third quarter, the operating result was below the figure for the same quarter last year at €579m (908m). The amount posted under "other non-operating result" totalled –€97m (–127m). Overall, the result for the third quarter was marked by one-off effects that were negative on balance, particularly with regard to investments. These negative effects were offset by a below-average random incidence of major losses in reinsurance and tax income of €101m (11m). Compared with the year-end 2014, shareholders' equity remained stable at €30.0bn (30.3bn), with a decrease in the third quarter being due primarily to the reduced balance of unrealised gains and losses in Munich Re's portfolio.

Since the Annual General Meeting at the end of April, shares with a volume of around €496m have been repurchased as part of the share buy-back programme announced in March.

The annualised return on risk-adjusted capital (RORAC) in the first nine months amounted to a good 11.8%, and the annualised return on overall equity (RoE) totalled 10.1%.

Gross premiums written increased in the third quarter by 3.6% to €12.5bn (12.1bn). If exchange rates had remained the same, premium volume would have fallen by 1.5% year on year.

Reinsurance: Result of €379m

In reinsurance business, the operating result for the third quarter came to €424m (603m). The reinsurance field of business accounted for €379m (531m) of the Group consolidated result for the third quarter. The deterioration was mainly attributable to the low investment result owing to losses on strategic derivatives and write-downs on equities. Reinsurance business contributed €1,889m (1,928m) to the consolidated result for the period from January to September.

The technical result in life reinsurance developed positively in the third quarter at €114m (55m). The chief reason for this was overall claims experience being within the range of expectations across the whole portfolio.

Property-casualty reinsurance accounted for €330m (497m) of the result for the third quarter. The combined ratio totalled 94.5% (91.3%) of net earned premiums; the figure for the first nine months was 93.4% (93.2%). As claims notifications for "basic losses" from prior years remained appreciably below the expected level overall, in the third quarter Munich Re was able to release reserves in the amount of €200m, corresponding to 4.8 percentage points of the combined ratio for the third quarter. For the first nine months, Munich Re thus released reserves totalling €500m, or approximately 4.0% of net earned premiums. Munich Re is also continuing to aim 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.

Overall loss expenditure for major losses totalled €386m (257m) in the third quarter, and €847m (914m) for the period from January to September. Natural catastrophe losses in the third quarter amounted to €62m (100m) and man-made major losses to €324m (158m), representing 1.5% (natural catastrophes) and 7.7% (man-made) of net earned premiums respectively. The highest natural catastrophe expenditure for the third quarter resulted from a severe earthquake off the coast of Chile in mid-September, for which Munich Re anticipates net major-loss expenditure of €45m. Munich Re expects net expenditure of €175m for the largest man-made loss for the third quarter, namely the explosion disaster in the port of Tianjin, China.

Gross premiums written in the reinsurance field of business climbed in the third quarter by 5.7% year on year to €7.1bn (6.7bn). If exchange rates had remained the same, premium volume would have fallen by 3.0%. In the life reinsurance segment, gross premiums written increased in the third quarter by 3.6% to €2.5bn (2.4bn), while premiums in property-casualty reinsurance showed a total increase of 6.9% to €4.6bn (4.3bn). If exchange rates had remained the same, premium volume in both reinsurance segments would have declined.

ERGO: Result of €100m

The operating result for the ERGO field of business fell to €113m (254m) from July to September. The consolidated result for the third quarter declined to €100m (152m). The reduction was mainly attributable to weaker results posted

by ERGO Life and Health Germany and ERGO International. ERGO generated a result of €418m (416m) for the period from January to September.

The combined ratio for Property-casualty Germany deteriorated to 96.1% (93.5%) in the third quarter, and the figure for ERGO International worsened to 104.1% (100.0%).

Total premium income across all lines of business decreased by 1.0% to €4,262m (4,303m) in the third quarter, and gross premiums written fell by 1.2% to €3,970m (4,017m) in the same period. In the Life and Health Germany segment, gross premiums declined by 4.6% to €2,298m (2,409m), whilst in the Property-casualty Germany segment they were slightly up on the previous year at €698m (682m). In the ERGO International segment, gross premiums increased by 5.2% to €974m (926m).

Markus Rieß, the new Chairman of ERGO, commented as follows: "In order to make ERGO more competitive across the board in future, we will be reviewing the entire value chain. We are currently discussing and developing initial ideas in conjunction with staff and the Board." A specific action programme is likely to be ready at the beginning of the second quarter of 2016.

Munich Health: Profit of €46m

Munich Health's operating result in the third quarter was €42m (51m); the consolidated result was €46m (53m). For the period from January to September, Munich Health contributed a consolidated result of €84m (95m).

The combined ratio amounted to 98.5% (96.7%) for July to September and to 99.6% (98.5%) for the first nine months.

Munich Health's gross premiums written for the third quarter showed a year-on-year increase of 6.9% to €1,393m (1,303m) due to positive currency translation effects.

Investments: Investment result of €1.5bn

With a carrying amount of €235.4bn, total investments (excluding insurance-related investments) as at 30 September 2015 were almost unchanged from the year-end 2014 figure of €235.8bn.

For the period July to September 2015, the Group's investment result (excluding insurance-related investments) showed a year-on-year decrease of 8.3% to €1.5bn (1.7bn). The investment result represents an overall return of 2.6%.

Changes in the value of derivatives had an adverse impact of €160m in the third quarter, which was significantly more negative than in the second quarter of the year (€133m). Owing to the decline in commodity prices and decreased inflation expectations, the third quarter saw high losses posted on commodity and inflation derivatives, especially in reinsurance. By contrast, in primary insurance the decline in interest rates in the third quarter had a positive impact on interest-

rate hedging instruments, and equity-based derivatives also saw a price-related increase in value.

The balance of gains and losses on disposals excluding derivatives was €514m in the third quarter. Owing to temporarily sharp setbacks in prices on the stock exchanges, gains on the disposal of equities were relatively low in the third quarter. Gains realised on fixed-interest securities were also lower than in the previous quarters.

Munich Re's equity-backing ratio at 30 September 2015 fell to 4.2% (31 December 2014: 4.3%) including equity-linked derivatives. With a share of around 88% at market value, fixed-interest securities, loans and short-term fixed-interest investments continued to make up the largest portion of Munich Re's investments.

CFO Jörg Schneider commented as follows on the investment result: "In view of the low-interest-rate environment, we are very satisfied with the 3.3% return on our investments for the first nine months of the year."

The Group's asset manager is MEAG, whose assets under management as at 30 September 2015 included not only Group investments, but also segregated and retail funds totalling €13.8bn (13.9bn).

Outlook for 2015: Group profit guidance of at least €3bn

In the first three quarters, some reporting segments saw results that varied from the forecasts, which also have an impact on the annual result – for example, random fluctuations in the incidence of major losses, or the investment result. Munich Re is amending its forecast as follows with respect to the figures stated in the half-year report published in August 2015:

Gross premiums written should be around €50bn, which is the median of the range of €49–51bn previously projected. Of this figure, around €28bn relates to reinsurance, €16.5bn to ERGO (previously: €16–16.5bn), and slightly over €5.5bn (previously around €5.5bn) to Munich Health.

In property-casualty reinsurance, Munich Re is aiming for a combined ratio of around 95% (previously: 96%) of net earned premiums in 2015. ERGO is expected to achieve a combined ratio for property-casualty primary insurance of 96% (previously 95%) in Germany, and 101% (previously 99%) internationally. The combined ratio for the Munich Health field of business should be around 100% (previously: around 99%).

After business development fell below expectations in the second quarter in particular, Munich Re now anticipates a technical result in life reinsurance of around €300–350m. The technical result for future financial years is expected to be in the region of €400m again.

Munich Re now projects a return on investment of around 3.0% (previously: around 3.3%); the lower expectation is due to negative impacts in the third quarter as mentioned previously.

Munich Re is aiming for a consolidated result of at least €3bn, subject to claims experience with regard to major losses being within normal bounds and to its income statement not being impacted by severe currency or capital market developments, significant changes in tax parameters, or other exceptional factors. CFO Schneider stressed that, as in previous years, a review of Munich Re's loss reserves, tax provisions and intangible assets may result in substantial income or expenses in the fourth quarter of the year. Existing uncertainties in forecasting the result mean that in the ERGO field of business the risks outweigh the opportunities, whereas in reinsurance it is the opportunities that predominate.

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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.

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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.

Munich, 05 November 2015

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Key figures (IFRS) for the Group in the third quarter of 2015*					
(in €m unless otherwise indicated)					
		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		12,481	12,053	428	3.6
Net earned premiums		11,956	11,709	247	2.1
Net expenses for claims and benefits		-9,678	-9,674	-4	0.0
Technical result		861	956	-95	-9.9
Investment result		1,531	1,670	-139	-8.3
Thereof	Realised gains	1,232	840	392	46.7
	Realised losses	-885	-586	-299	-51.0
Insurance-related investment result		-322	85	-407	-
Non-technical result		-282	-48	-234	-487.5
Operating result		579	908	-329	-36.2
Net finance costs		-58	-56	-2	-3.6
Taxes on income		101	11	90	818.2
Consolidated profit		525	736	-211	-28.7
Thereof attributable to	Munich Reinsurance Company equity holders	520	733	-213	-29.1
	Minority interests	5	3	2	66.7
Reinsurance		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		7,118	6,733	385	5.7
Technical result		686	712	-26	-3.7
Non-technical result		-262	-109	-153	-140.4
Operating result		424	603	-179	-29.7
Result		379	531	-152	-28.6
Thereof	Reinsurance – Life	3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
	Gross premiums written	2,537	2,449	88	3.6
	Technical result	114	55	59	107.3
	Non-technical result	-51	1	-52	-
	Operating result	63	56	7	12.5
	Result	49	34	15	44.1
	Reinsurance – Property-casualty	3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
	Gross premiums written	4,581	4,284	297	6.9
	Combined ratio in %	94.5	91.3	3.2	
	Technical result	572	657	-85	-12.9
	Non-technical result	-211	-110	-101	-91.8
	Operating result	361	547	-186	-34.0
Result	330	497	-167	-33.6	

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ERGO		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		3,970	4,017	-47	-1.2
Technical result		140	194	-54	-27.8
Non-technical result		-27	60	-87	-
Operating result		113	254	-141	-55.5
Result		100	152	-52	-34.2
Thereof					
ERGO Life and Health Germany		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		2,298	2,409	-111	-4.6
Technical result		91	91	-	-
Non-technical result		-8	15	-23	-
Operating result		83	106	-23	-21.7
Result		28	73	-45	-61.6
ERGO Property-casualty Germany		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		698	682	16	2.3
Combined ratio in %		96.1	93.5	2.6	
Technical result		44	70	-26	-37.1
Non-technical result		-53	4	-57	-
Operating result		-9	74	-83	-
Result		46	31	15	48.4
ERGO International		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		974	926	48	5.2
Combined ratio in %		104.1	100.0	4.1	
Technical result		5	33	-28	-84.8
Non-technical result		34	41	-7	-17.1
Operating result		39	74	-35	-47.3
Result		26	48	-22	-45.8
Munich Health					
		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Gross premiums written		1,393	1,303	90	6.9
Combined ratio in %		98.5	96.7	1.8	
Technical result		35	50	-15	-30.0
Non-technical result		7	1	6	600.0
Operating result		42	51	-9	-17.6
Result		46	53	-7	-13.2
Shares					
		3rd quarter 2015	3rd quarter 2014	Change	
				Absolute	in %
Earnings per share in €		3.14	4.28	-1.14	-26.6
* Previous year's figures adjusted owing to IAS 8.					

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Key figures (IFRS) for the Group in the first nine months of 2015* (in €m unless otherwise indicated)						
		Q1-Q3 2015	Q1-Q3 2014	Change		
				Absolute	in %	
Gross premiums written		37,986	36,833	1,153	3.1	
Net earned premiums		36,167	35,309	858	2.4	
Net expenses for claims and benefits		-29,575	-29,788	213	0.7	
Technical result		2,641	2,629	12	0.5	
Investment result		5,872	6,030	-158	-2.6	
Thereof	Realised gains	4,416	2,745	1,671	60.9	
	Realised losses	-2,912	-1,509	-1,403	-93.0	
Insurance-related investment result		-69	362	-431	-	
Non-technical result		751	743	8	1.1	
Operating result		3,392	3,372	20	0.6	
Net finance costs		-178	-170	-8	-4.7	
Taxes on income		-300	-296	-4	-1.4	
Consolidated profit		2,391	2,439	-48	-2.0	
Thereof attributable to	Munich Reinsurance Company equity holders	2,380	2,427	-47	-1.9	
	Minority interests	11	12	-1	-8.3	
		30.9.2015	31.12.2014	Change		
Investments		228,357	227,388	969	0.4	
Equity capital		30,045	30,289	-244	-0.8	
Staff		43,078	43,316	-238	-0.5	
Reinsurance						
		Q1-Q3 2015	Q1-Q3 2014	Change		
				Absolute	in %	
Gross premiums written		21,236	20,155	1,081	5.4	
Technical result		2,116	1,991	125	6.3	
Non-technical result		501	473	28	5.9	
Operating result		2,617	2,464	153	6.2	
Result		1,889	1,928	-39	-2.0	
Thereof	Reinsurance – Life		Q1-Q3 2015	Q1-Q32 2014	Change	
					Absolute	in %
	Gross premiums written		7,653	7,393	260	3.5
	Technical result		247	274	-27	-9.9
	Non-technical result		88	115	-27	-23.5
	Operating result		335	389	-54	-13.9
	Result		172	280	-108	-38.6
	Reinsurance – Property-casualty		Q1-Q3 2015	Q1-Q3 2014	Change	
					Absolute	in %
	Gross premiums written		13,583	12,762	821	6.4
	Combined ratio in %		93.4	93.2	0.2	
	Technical result		1,869	1,717	152	8.9
	Non-technical result		413	358	55	15.4
	Operating result		2,282	2,075	207	10.0
Result		1,717	1,648	69	4.2	

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ERGO		Q1-Q3 2015	Q1-Q3 2014	Change			
				Absolute	in %		
	Gross premiums written	12,490	12,635	-145	-1.1		
	Technical result	492	550	-58	-10.5		
	Non-technical result	197	247	-50	-20.2		
	Operating result	689	797	-108	-13.6		
	Result	418	416	2	0.5		
Thereof	ERGO Life and Health Germany		Q1-Q3 2015	Q1-Q3 2014	Change		
					Absolute	in %	
		Gross premiums written	7,025	7,314	-289	-4.0	
		Technical result	302	264	38	14.4	
		Non-technical result	12	47	-35	-74.5	
		Operating result	314	311	3	1.0	
		Result	133	139	-6	-4.3	
		ERGO Property-casualty Germany		Q1-Q3 2015	Q1-Q3 2014	Change	
						Absolute	in %
		Gross premiums written	2,529	2,510	19	0.8	
		Combined ratio in %	95.8	94.7	1.1		
		Technical result	140	173	-33	-19.1	
		Non-technical result	106	94	12	12.8	
		Operating result	246	267	-21	-7.9	
		Result	233	157	76	48.4	
		ERGO International		Q1-Q3 2015	Q1-Q3 2014	Change	
						Absolute	in %
		Gross premiums written	2,936	2,811	125	4.4	
		Combined ratio in %	101.1	97.5	3.6		
		Technical result	50	113	-63	-55.8	
		Non-technical result	79	106	-27	-25.5	
		Operating result	129	219	-90	-41.1	
		Result	52	120	-68	-56.7	
	Munich Health		Q1-Q3 2015	Q1-Q3 2014	Change		
						Absolute	in %
		Gross premiums written	4,260	4,043	217	5.4	
		Combined ratio in %	99.6	98.5	1.1		
	Technical result	33	88	-55	-62.5		
	Non-technical result	53	23	30	130.4		
	Operating result	86	111	-25	-22.5		
	Result	84	95	-11	-11.6		
Shares		Q1-Q3 2015	Q1-Q3 2014	Change			
					Absolute	in %	
	Earnings per share in €	14.28	14.01	0.27	1.9		
* Previous year's figures adjusted owing to IAS 8.							