Munich RE

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Press release

Munich Re to pay stable dividend of €8.60 per share despite high hurricane losses – Slight improvement in reinsurance prices

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Munich Re achieved a result of €392m in 2017 – thus attaining the adjusted "small profit" forecast it had projected for the year in the wake of the high losses resulting from Hurricanes Harvey, Irma and Maria. According to provisional calculations, in the fourth quarter of 2017 it posted a profit of €538m (previous year: €486m). Subject to approval by the Supervisory Board and Annual General Meeting, Munich Re will pay a dividend of €8.60 per share, as in the previous year.

CFO Jörg Schneider said: "Our dividend is reliable. Thanks to our capital strength, we were able to well withstand the high losses from natural catastrophes. In 2018, we will be pressing ahead with the digital transformation of Munich Re, and also seizing opportunities for profitable growth in traditional business. Reinsurance prices improved slightly in large sections of the market at the January renewals – a trend likely to strengthen in coming renewal rounds."

Summary of the preliminary figures for the 2017 financial year
Munich Re achieved an operating result of €1,241m (4,025m) in 2017, of which €864m (823m) related to the fourth quarter. The currency translation result amounted to –€294m (485m). There was tax income of €298m (previous year: tax expenditure of €760m) for the full financial year, mainly owing to the adverse impact from natural catastrophes. In the fourth quarter, the US tax reform led to tax relief of more than €70m.

Equity fell by around €3.6bn to €28.2bn in 2017 (31.12.2016: €31.8bn). The return on risk-adjusted capital (RORAC) – which serves as the key performance indicator for profitability in terms of risk capital requirements – was only 1.5% (10.9%), whilst the return on equity (RoE) amounted to 1.3% (8.1%).

According to a provisional indication, and with due consideration of dividends and potential capital measures in 2018, the solvency ratio under Solvency II – calculated on a like-for-like basis – was almost unchanged at ~240% (31.12.2016: 242%). Taking into account the Solvency II transitional measures applied for by ERGO Leben and Victoria Leben, the ratio increases to 295%.

Gross premiums written by the Group increased slightly in 2017 to €49,115m (48,851m).

With a carrying amount of €217.6bn (market value of €231.9bn), total investments (excluding insurance-related investments) as at 31 December 2017 were down on the year-end 2016 figure of €221.8bn (238.5bn at market value), in particular due to rising interest rates. The Group’s investment result (excluding insurance-related investments) remained nearly constant at €7,611m (7,567m). In the fourth quarter, the investment result amounted to €1,982m (1,625m). In the year as a whole and in the fourth quarter, high gains on disposal were realised on equities and fixed-interest securities, whilst expenditure on derivative financial instruments was comparatively low.

Considering the situation in the capital markets, this investment result represents a relatively high return of 3.2% for the year as a whole, and 3.4% for the fourth quarter.

Reinsurance: Result of €120m
The reinsurance field of business contributed €120m (2,540m) to the consolidated result in 2017. The operating result fell from €2,919m to €73m. Gross premiums written increased slightly to €31,569m (31,463m).

Life and health reinsurance contributed €596m (515m) to the consolidated result. The technical result, including the result from business that is not recognised in the technical result owing to insufficient risk transfer, was €428m (561m). Thanks to a strong technical result in the fourth quarter, life and health reinsurance fell only slightly short of its target of €450m for 2017 as a whole – despite the result being impacted by the recapture of loss-making portfolios in the USA in the second and third quarters.

Due to high natural catastrophe losses, the result in property-casualty reinsurance fell to –€476m (2,025m). For the same reason, the combined ratio for 2017 amounted to 114.1% (95.7%) of net earned premiums, and totalled 103.9% (101.9%) for the fourth quarter. Munich Re was able to release loss reserves (adjusted for commissions) of approximately €870m for the full year; the figure for the fourth quarter was around €130m. This corresponds to 5.2 percentage points of the combined ratio for the full year, and 3.1 percentage points for the fourth quarter. Munich Re still aims to set the amount of provisions for newly emerging claims at the 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 2017 amounted to €4,314m (1,524m), of which €493m (622m) was attributable to the fourth quarter. The major-loss burden amounted to 25.8% (9.1%) of net earned premiums, and was thus well above the average expected figure of 12% for the full year; it totalled exactly 12% in the fourth quarter. Natural catastrophe losses amounted to €3,678m (929m) for the full year, while the figure for the fourth quarter was €492m (460m). Hurricanes Harvey, Irma and Maria – with a total loss of €2.7bn – were the most expensive loss events of the year. Man-made major losses were slightly above the level of the previous year, and totalled €636m (613m) – which is equivalent to 3.8% (3.6%) of net earned premiums. In the fourth quarter, expenditure for new major losses and the release of provisions for major losses in prior years balanced each other out.

ERGO: Result of €273m
In 2017, the ERGO field of business reported a profit of €273m (41m). ERGO thus exceeded the profit guidance raised in August to a range of €200–250m. A significantly improved technical result in Germany and abroad and lower expenditure contributed to this gratifying result. ERGO achieved a profit of €48m (90m) in the fourth quarter, which was marked in particular by a good technical result for ERGO Life and Health Germany. This more than compensated for small losses in international and German property-casualty business caused by one-off effects in the fourth quarter.

Gross premiums written increased slightly to €17.5bn (17.4bn). The combined ratio for German property-casualty insurance was 97.5% (97.0%) for the full year, and amounted to 100.3% (100.0%) in the fourth quarter. The combined ratio for the ERGO International segment improved to 95.3% (98.0%) for the full year, mainly on account of good developments in Poland, and 94.7% (100.2%) for the fourth quarter.

The ERGO Strategy Programme reached important milestones in 2017: the online insurer "nexible" entered the renewal season in good time with a motor insurance product; new and agile IT units have started up operations; and new retirement provision products were brought to market.

Renewals of reinsurance treaties in property-casualty business at 1 January 2018
Prices for the reinsurance treaties increased in the renewals as at 1 January 2018, particularly in the markets most affected by natural catastrophes. Other markets and branches were also freed from the pricing pressures of previous years, and price development was stable or even slightly positive. Despite the high losses from natural catastrophes in 2017, the availability of reinsurance capital remained high during the January renewals, so price increases were moderate overall, due also to the slight rise in market interest rates.

As at 1 January 2018, around half of Munich Re's non-life reinsurance business was up for renewal, representing premium volume of €8.3bn. Of this, 14% (around €1.2bn) was not renewed. By contrast, Munich Re wrote new business with a volume of approximately €2.3bn. The volume of business written at 1 January thus increased by 19% to around €9.9bn, due partly to new large-volume treaties in the USA and Australia. Prices increased by around 0.8%; they had fallen by 0.5% on average in all 2017 renewal rounds.

Munich Re expects market conditions to continue to improve in the remaining renewal rounds in 2018, although claims experience in the individual market segments will play a major role. 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 2017, the Group – which combines primary insurance and reinsurance under one roof – achieved a profit of €0.4bn. It operates in all lines of insurance, with over 42,000 employees throughout the world. With premium income of around €32bn 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 ERGO, 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 2017, ERGO posted premium income of €17.5bn. Munich Re's global investments (excluding insurance-related investments) amounting to €218bn 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 Munich Re. Munich Re 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 2017*
(in €m unless otherwise indicated)

	4th quarter 2017	4th quarter 2016
Gross premiums written	12,112	12,070
Investment result	1,982	1,625
Operating result	864	823
Consolidated profit	538	486
Thereof attributable to		
Munich Reinsurance Company equity holders	530	491
Minority interests	8	-5
Reinsurance	**4th quarter 2017**	4th quarter 2016
Gross premiums written	7,799	7,838
Combined ratio in %	103.9	101.9
Operating result	523	511
Result	490	396
ERGO	**4th quarter 2017**	4th quarter 2016
Gross premiums written	4,312	4,232
Combined ratio for Germany in %	100.3	100.0
Combined ratio International in %	94.7	100.2
Operating result	342	311
Result	48	90

* Previous year's figures adjusted owing to a change in the composition of the reporting segments.

Preliminary figures (IFRS) for the Group in 2017*
(in €m unless otherwise indicated)

	2017	2016
Gross premiums written	49,115	48,851
Investment result	7,611	7,567
Operating result	1,241	4,025
Consolidated profit	392	2,581
Thereof attributable to		
Munich Reinsurance Company equity holders	375	2,580
Minority interests	17	1
	31.12.2017	31.12.2016
Investments (incl. insurance-related investments)	217,562	221,752
Shareholders' equity	28,198	31,785
Reinsurance	**2017**	2016
Gross premiums written	31,569	31,463
Combined ratio in %	114.1	95.7
Operating result	73	2,919
Result	120	2,540
ERGO	**2017**	2016
Gross premiums written	17,546	17,388
Combined ratio for Germany in %	97.5	97.0
Combined ratio International in %	95.3	98.0
Operating result	1,168	1,106
Result	273	41

* Previous year's figures adjusted owing to a change in the composition of the reporting segments and IAS8.