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Press release

Munich Re posts a profit of around €1bn in the second quarter

Contact
Media Relations Munich,
Johanna Weber
Tel.: +49 (89) 3891-2695
Fax: +49 (89) 3891-72695
jweber@munichre.com

**Münchener Rückversicherungs-
Gesellschaft**
Aktiengesellschaft in München
Media Relations
Königinstraße 107
80802 München
Germany
Letters: 80791 München

www.munichre.com
<http://twitter.com/munichre>

In the second quarter of 2016, Munich Re posted a consolidated profit of €974m (same period last year: €1,075m). The profit for the first half-year amounted to €1,411m (1,866m). The high quarterly result was achieved despite expenses from major losses and planned investments as part of the ERGO Strategy Programme. Munich Re also successfully withstood the capital market turbulence in the wake of the Brexit referendum.

CEO Nikolaus von Bomhard said about the result: "With our half-yearly result of €1.4bn, we are well on track to reach our annual target of €2.3bn." Von Bomhard stressed the importance of the ERGO Strategy Programme that was presented in June: "With this Programme, we have set the course for future success. I am convinced that ERGO will become more agile, innovative, digital, competitive and – not least – successful thanks to the Strategy Programme. We are laying the foundations for future growth, and for a significant and sustainable contribution to the consolidated result."

With respect to the result for the second quarter, von Bomhard said: "Overall, we have achieved an above-average result of €974m for the second quarter. And that was despite higher natural catastrophe expenditure in the second quarter – arising from wildfires in Canada and earthquakes in Japan – after many quarters without major losses." Gross restructuring expenses of around €400m (around €160m net) were posted as part of the ERGO Strategy Programme in the second quarter.

Summary of figures for the second quarter

In the second quarter, the operating result of €1,463m was below the figure for the same quarter last year (€1,818m). The amount posted under "other non-operating result" showed an increase of €313m to –€120m (–432m), mainly due to positive foreign-exchange effects. Taxes on income totalled €302m (251m). Despite the dividend payment and share buy-backs, equity increased to €32.0bn in the second quarter.

The annualised return on risk-adjusted capital (RORAC) in the first six months amounted to 11.9%, and the return on overall equity (RoE) totalled 8.9%. Between the Annual General Meeting at the end of April and the end of July,

shares with a volume of around €220m were repurchased as part of the share buy-back programme announced in March.

Gross premiums written decreased by 4.3% to €11,928m (12,467m) in the second quarter. If exchange rates had remained the same, premium volume would have fallen by 1.4% year on year.

Reinsurance: Result of €92m in second quarter

In reinsurance business, the operating result came to €1,009m (1,436m) for the second quarter. The reinsurance field of business accounted for €92m (842m) of the consolidated result for the second quarter. This high quarterly result was mainly due to currency gains generated by Munich Re in deviating moderately from the principle of matching liabilities with investments in the same currencies – for example, through slight overcoverage in yen and US dollars, and undercoverage in British pounds. For the period from January to June, reinsurance business contributed €1,438m (1,510m) to the consolidated result.

The technical result in life reinsurance improved in the second quarter, and was in line with expectations at €103m (31m).

Property-casualty reinsurance accounted for €778m (789m) of the result in the second quarter. The combined ratio totalled 99.8% (93.3%) of net earned premiums; the figure for the half-year was 94.3% (92.8%). As claims notifications for "basic losses" from prior years remained appreciably below the expected level overall, in the second quarter Munich Re was able to release reserves in the amount of around €230m, corresponding to 5.1 percentage points of the combined ratio for the second quarter. For the first half-year, Munich Re thus released reserves totalling around €470m, or 5.6% of net earned premiums. Munich Re also still seeks 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 €542m (207m) in the second quarter, and €643m (462m) for the first six months of the year. Natural catastrophe losses in the second quarter amounted to €335m (21m) and man-made major losses to €207m (186m), representing 7.6% (natural catastrophes) and 4.7% (man-made) of net earned premiums respectively. In May, extensive wildfires in the Canadian Province of Alberta caused considerable damage, for which Munich Re anticipates net expenditure of around €400m. Further extensive losses were triggered by a series of earthquakes on the Japanese island of Kyushu in April of this year, resulting in expenditure of about €85m. In the second quarter, a contrary effect derived from the release of provisions for major losses in prior years.

Gross premiums written in the reinsurance business field from April to June fell by 2.1% year on year to €6,960m (7,108m). If exchange rates had remained the same, premium volume would have increased by 1.9%. In the life reinsurance segment, gross premiums written decreased by 12.3% to €2,371m (2,704m) in the second quarter, chiefly owing to the fact that a large treaty was renewed at a

reduced volume with effect from 2016. Premiums in property-casualty reinsurance showed a total increase of 4.2% to €4,589m (4,404m). Even if exchange rates had remained the same, premium volume in this reinsurance segment would have increased.

The renewals as at 1 July 2016 involved a volume of treaty business of approximately €2.1bn, mainly from the USA, Australia, Latin America, and global clients. Pressure on prices, terms and conditions remained high in this renewal round, in particular for natural catastrophe covers, which accounted for about 21% of the renewals. Prices were down by 0.4% (previous year's renewals as at 1 July 2015: decline of 2.1%); there were thus further signs of stabilisation. Premium volume remained approximately stable, as Munich Re was able to almost entirely offset price and cycle-management-related decreases in business volume by writing attractive new business. Torsten Jeworrek, Member of Munich Re's Board of Management, said: "Thanks to our strict cycle management, our portfolio remains profitable."

ERGO: Result of –€34m in second quarter

The operating result for the ERGO field of business increased to €445m (358m) from April to June, but the consolidated result fell to –€34m (215m) during the same period. For the period from January to June, ERGO generated a loss of €59m (317m), which includes restructuring expenses of around €400m gross (around €160m net) for the ERGO Strategy Programme.

Despite the storms Elvira and Friederike, there was a slight improvement in the combined ratio, which in the ERGO Property-casualty Germany segment amounted to 93.3% (93.4%) for the second quarter and 95.9% (95.7%) for the first half-year. The combined ratio in the ERGO International segment deteriorated to 103.6% (100.4%) in the second quarter, mainly due to strengthening of reserves, and amounted to 98.5% (99.6%) for the first six months.

Total premium income across all lines of business decreased by 2.8% to €4,179m (4,297m) in the second quarter, and gross premiums written fell by 3.6% to €3,792m (3,935m) in the same period. In the Life and Health Germany segment, gross premiums declined by 5.5% to €2,188m (2,315m). In the Property-casualty Germany segment, they were slightly up on the previous year at €646m (638m), but in the ERGO International segment they declined slightly by 2.3% to €958m (981m).

The Strategy Programme, which was presented in June, covers all of ERGO's material activities, from sales and products to managing the business. Markus Rieß, who is ERGO's CEO and also a member of the Board of Management of Munich Re, commented as follows: "ERGO is investing heavily to make itself fit for the future." For instance, ERGO will inject a net amount of €1bn by 2020, with most of the funds flowing into modernising its information technology. Rieß stressed: "We are leveraging the opportunities of digitalisation to ensure a successful future for ERGO."

Munich Health: Result of €16m in second quarter

Munich Health's operating result in the second quarter was €8m (23m); the consolidated result was €16m (18m). For the period from January to June, Munich Health generated a result of €32m (39m).

The combined ratio was 101.4% (99.8%) for April to June, and 100.8% (100.1%) for the first half-year.

In the second quarter, Munich Health's gross premiums written showed a year-on-year decrease of 17.4% to €1,176m (1,424m), due to currency translation effects and the reduction of Munich Re's share in a reinsurance treaty in North America.

Investments: Investment result of €2.8bn in second quarter

Total investments (excluding insurance-related investments) as at 30 June 2016 increased to €237,519m compared with the year-end figure (€230,529m).

For the period from April to June 2016, the Group's investment result (excluding insurance-related investments) showed a year-on-year improvement of 9.1% to €2,750m (2,521m). Changes in the value of derivatives had an impact of €176m in the second quarter, which was significantly more positive than in the first quarter of the year (€74m). Particularly the decline in interest rates in the second quarter resulted in appreciably higher valuations of the interest-rate hedging instruments. The balance of gains and losses on disposals excluding derivatives was around €900m. The investment result represents a return of 4.7%.

Munich Re's equity-backing ratio at 30 June 2016 fell to 3.6% (31 December 2015: 4.8%) including equity-linked derivatives. In the run-up to the referendum in the United Kingdom, Munich Re reduced its overall exposure to equities, including derivatives. Fixed-interest securities, loans and short-term fixed-interest investments continued to make up the largest portion of Munich Re's holdings, with a share of around 90% at market value.

The Group's asset manager is MEAG, whose assets under management as at 30 June 2016 included not only Group investments, but also third-party assets totalling €18.6bn (14.1bn).

Outlook for 2016: Unchanged Group profit guidance of €2.3bn

In the first six months of the year, some reporting segments saw results that varied from forecasts, and these are also reflected in the annual result – for example, random fluctuations in the incidence of major losses, or in the investment result. Munich Re is amending its forecast with respect to the figures stated in the quarterly report published in May 2016 as follows:

At the beginning of the year, a combined ratio of 95% had been forecast for the ERGO Property-casualty Germany segment. Munich Re is now expecting a figure of 98% owing to the investments arising as part of the ERGO Strategy Programme.

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Munich Re is still aiming for a consolidated result of €2.3bn, 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.

Note for the editorial staff:
For further questions please contact

Media Relations Munich
Johanna Weber
Tel.: +49 (89) 3891-2695

Media Relations Asia Pacific
Nikola Kemper
Tel.: +852 2536 6936
Pia Steinberger
Tel.: +852 2536 6981

Media Relations North America
Beate Monastiridis-Dörr
Tel.: +1 (609) 235-8699
Sharon Cooper
Tel.: +1 (609) 243-8821

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 more than 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. Munich Re's primary insurance operations are concentrated in ERGO, one of the leading insurance groups in Germany and Europe. It 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.

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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Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München
Media Relations
Königinstrasse 107
80802 München
Germany

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Key figures (IFRS) for the Group in the second quarter of 2016 (in €m unless otherwise indicated)						
		2nd quarter 2016	2nd quarter 2015	Change		
				Absolute	in %	
Gross premiums written		11,928	12,467	-540	-4.3	
Net earned premiums		11,808	12,351	-544	-4.4	
Net expenses for claims and benefits		-10,070	-9,701	-370	-3.8	
Technical result		529	869	-340	-39.1	
Investment result		2,750	2,521	229	9.1	
Thereof	Realised gains	1,377	1,068	309	28.9	
	Realised losses	-467	-259	-208	-80.3	
Insurance-related investment result		31	-326	357	-	
Non-technical result		933	949	-16	-1.6	
Operating result		1,463	1,818	-355	-19.5	
Net finance costs		-58	-60	2	3.8	
Taxes on income		-302	-251	-52	-20.6	
Consolidated profit		974	1,075	-101	-9.4	
Thereof attributable to	Munich Reinsurance Company equity holders	974	1,070	-96	-9.0	
	Minority interests	0	6	-5	-97.2	
Reinsurance						
		2nd quarter 2016	2nd quarter 2015	Change		
				Absolute	in %	
Gross premiums written		6,960	7,108	-148	-2.1	
Technical result		392	670	-278	-41.5	
Non-technical result		617	766	-149	-19.4	
Operating result		1,009	1,436	-426	-29.7	
Result		992	842	150	17.8	
Thereof	Reinsurance – Life		2nd quarter 2016	2nd quarter 2015	Change	
					Absolute	in %
	Gross premiums written		2,371	2,704	-333	-12.3
	Technical result		103	31	72	236.0
	Non-technical result		119	159	-40	-25.3
	Operating result		222	190	32	16.8
	Result		214	53	161	304.0
	Reinsurance property-casualty		2nd quarter 2016	2nd quarter 2015	Change	
					Absolute	in %
	Gross premiums written		4,589	4,404	185	4.2
	Combined ratio in %		99.8	93.3	6.5	
	Technical result		289	639	-350	-54.7
	Non-technical result		498	607	-109	-17.9
Operating result		788	1,246	-458	-36.8	
Result		778	789	-11	-1.4	

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ERGO		2nd quarter 2016	2nd quarter 2015	Change		
				Absolute	in %	
Gross premiums written		3,792	3,935	-143	-3.6	
Technical result		153	194	-41	-21.1	
Non-technical result		292	165	128	77.6	
Operating result		445	358	87	24.2	
Result		-34	215	-249	-	
Thereof	ERGO Life and Health Germany	2nd quarter 2016	2nd quarter 2015	Change		
				Absolute	in %	
	Gross premiums written		2,188	2,315	-128	-5.5
	Technical result		119	122	-4	-3.0
	Non-technical result		227	-9	236	-
	Operating result		346	114	232	204.0
	Result		55	53	2	3.5
		ERGO Property-casualty Germany	2nd quarter 2016	2nd quarter 2015	Change	
					Absolute	in %
	Gross premiums written		646	638	8	1.2
	Combined ratio in %		93.3	93.4	0.0	
	Technical result		69	67	2	3.4
	Non-technical result		2	124	-121	-98.2
	Operating result		72	191	-119	-62.5
	Result		-68	149	-216	-
		ERGO International	2nd quarter 2016	2nd quarter 2015	Change	
					Absolute	in %
	Gross premiums written		958	981	-23	-2.3
Combined ratio in %		103.6	100.4	3.2		
Technical result		-35	4	-39	-	
Non-technical result		63	50	13	27.0	
Operating result		28	54	-26	-47.9	
Result		-21	14	-35	-	
Munich Health		2nd quarter 2016	2nd quarter 2015	Change		
				Absolute	in %	
Gross premiums written		1,176	1,424	-248	-17.4	
Combined ratio in %		101.4	99.8	1.6		
Technical result		-16	5	-21	-	
Non-technical result		24	18	5	29.4	
Operating result		8	23	-16	-66.2	
Result		16	18	-2	-13.5	
Shares		2nd quarter 2016	2nd quarter 2015	Change		
				Absolute	in %	
Earnings per share in €		6.05	6.42	-0.37	-5.8	

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Key figures (IFRS) for the Group in the first half-year of 2016 (in €m unless otherwise indicated)					
		Q1-Q2 2016	Q1-Q2 2015	Change	
				Absolute	in %
Gross premiums written		24,438	25,505	-1,067	-4.2
Net earned premiums		23,150	24,211	-1,062	-4.4
Net expenses for claims and benefits		-19,039	-19,897	858	4.3
Technical result		1,474	1,780	-306	-17.2
Investment result		4,322	4,341	-18	-0.4
Thereof	Realised gains	1,939	2,186	-246	-11.3
	Realised losses	-812	-380	-432	-113.7
Insurance-related investment result		-177	253	-430	-
Non-technical result		714	1,033	-318	-30.8
Operating result		2,188	2,813	-625	-22.2
Net finance costs		-108	-120	12	9.8
Taxes on income		-459	-401	-58	-14.3
Consolidated profit		1,411	1,866	-455	-24.4
Thereof attributable to	Munich Reinsurance Company equity holders	1,404	1,860	-456	-24.5
	Minority interests	6	6	1	9.7
		30.6.2016	31.12.2015	Change	
Investments		228,098	224,256	3,842	1.7
Equity capital		32,012	30,966	1,046	3.4
Staff		43,761	43,554	207	0.5
Reinsurance					
		Q1-Q2 2016	Q1-Q2 2015	Change	
				Absolute	in %
Gross premiums written		13,693	14,118	-425	-3.0
Technical result		1,217	1,431	-214	-14.9
Non-technical result		307	762	-456	-59.8
Operating result		1,523	2,193	-670	-30.5
Result		1,438	1,510	-72	-4.8
Thereof	Reinsurance – Life	Q1-Q2 2016	Q1-Q2 2015	Change	
				Absolute	in %
	Gross premiums written	4,576	5,116	-540	-10.6
	Technical result	172	133	39	29.4
	Non-technical result	47	139	-92	-66.5
	Operating result	219	272	-53	-19.5
	Result	234	123	111	90.4
	Reinsurance property-casualty	Q1-Q2 2016	Q1-Q2 2015	Change	
				Absolute	in %
	Gross premiums written	9,117	9,002	115	1.3
	Combined ratio in %	94.3	92.8	1.5	
	Technical result	1,044	1,298	-253	-19.5
	Non-technical result	260	623	-363	-58.3
	Operating result	1,305	1,921	-616	-32.1
	Result	1,203	1,387	-183	-13.2

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ERGO		Q1-Q2 2016	Q1-Q2 2015	Change		
				Absolute	in %	
Gross premiums written		8,287	8,520	-233	-2.7	
Technical result		277	351	-75	-21.2	
Non-technical result		361	224	136	60.8	
Operating result		637	575	62	10.7	
Result		-59	317	-376	-	
Thereof	ERGO Life and Health Germany	Q1-Q2 2016	Q1-Q2 2015	Change		
				Absolute	in %	
	Gross premiums written	4,520	4,727	-207	-4.4	
	Technical result	202	211	-9	-4.2	
	Non-technical result	322	20	301	>1,000.0	
	Operating result	524	231	293	126.5	
	Result	69	105	-37	-34.9	
	ERGO Property-casualty Germany	Q1-Q2 2016	Q1-Q2 2015	Change		
				Absolute	in %	
	Gross premiums written	1,865	1,831	34	1.9	
	Combined ratio in %	95.9	95.7	0.2		
	Technical result	84	95	-11	-12.0	
	Non-technical result	-46	159	-205	-	
	Operating result	38	254	-216	-85.1	
	Result	-92	186	-279	-	
	ERGO International	Q1-Q2 2016	Q1-Q2 2015	Change		
				Absolute	in %	
	Gross premiums written	1,901	1,961	-60	-3.1	
	Combined ratio in %	98.5	99.6	-1.1		
	Technical result	-9	45	-54	-	
	Non-technical result	84	45	40	88.8	
	Operating result	75	90	-15	-16.2	
	Result	-35	25	-60	-	
	Munich Health		Q1-Q2 2016	Q1-Q2 2015	Change	
				Absolute	in %	
Gross premiums written		2,459	2,867	-409	-14.3	
Combined ratio in %		100.8	100.1	0.7		
Technical result		-20	-2	-18	<-1,000.0	
Non-technical result		47	46	1	2.9	
Operating result		28	44	-17	-37.7	
Result		32	39	-7	-18.5	
Shares		Q1-Q2 2016	Q1-Q2 2015	Change		
				Absolute	in %	
Earnings per share in €		8.69	11.12	-2.43	-21.9	