

Munich, 10 May 2016

Press release

Munich Re with a profit of €436m in the first quarter of 2016 – Result expectations adjusted to €2.3bn for full financial year 2016

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Munich Re started into 2016 with a quarterly profit of €436m (same period last year: €790m). It is now aiming for a profit of €2.3bn for the full financial year; until now, its forecast had been in the range of €2.3–2.8bn.

CFO Jörg Schneider emphasised: "The result for the first quarter is below our expectations. The first three months of the year were marked by a below-average random incidence of major losses. However, we had to cope with significant strains on our investment result." With a view to the profit guidance for 2016, Schneider said: "The decrease in profits in the first quarter has dampened our optimism with regard to the annual result. It is looking more and more likely that there will be high costs for implementing the strategy programme at ERGO. The amount is not yet definitive, but it is unlikely that ERGO will post a positive annual result this year. In view of these strains, we now envisage a consolidated result of €2.3bn, which is at the lower end of our predicted profit guidance." Details of the ERGO strategy programme are to be released in June.

The quarterly result was dominated by a lower investment result. The development of investment results in Munich Re's fields of business was not uniform, given the differing investment strategies deriving from the various business models. Whilst lower interest rates meant that ERGO Life and Health posted high gains on the derivatives used in its interest-rate hedging programme, the investment results of the other segments were adversely affected by losses in the equity portfolio.

Summary of the figures for the first quarter 2016

The operating result of €726m was below the figure for the same quarter last year (€995m). The amount posted under "other non-operating result" was down by €88m to –€82m (6m), mainly due to foreign-exchange effects. Taxes on income totalled €157m (151m). Despite share buy-backs amounting to €235m and negative currency translation effects of €660m, equity rose by 2.7% to €31,794m (30,966m), mainly due to on-balance-sheet net unrealised gains on investments.

The annualised return on risk-adjusted capital (RORAC) amounted to 7.3%. The return on the increased overall equity (RoE) totalled 5.6%. Gross premiums

written declined by 4.0% to €12,511m (13,038m). If exchange rates had remained the same, premium volume would have fallen by 2.0% year on year.

Reinsurance: Result of €445m

The reinsurance field of business contributed €445m (668m) to the consolidated result. The operating result was down by €243m to €514m. Gross premiums written decreased by 3.9% to €6,733m (7,009m).

Life reinsurance accounted for €20m (70m) of the consolidated result, and was thus below expectations. While claims experience was very satisfying overall, the result was nevertheless impacted by individual losses involving higher sums insured.

Property-casualty reinsurance contributed €425m (598m) to the result for the first three months of the year. The combined ratio amounted to 88.4% (92.3%) of net earned premiums – a significant improvement on Munich Re's target of around 98%. As claims notifications for "basic losses" from prior years remained appreciably below the expected level overall, Munich Re was able to release reserves in the amount of around €250m, corresponding to 6.0 percentage points of the combined ratio. 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.

In the first quarter, overall loss expenditure for major losses was randomly below average, totalling –€100m (–255m). Natural catastrophe losses amounted to around +€11m (–66m) and man-made major losses to –€111m (–189m), representing –0.3% and 2.7% of net earned premiums respectively. The largest man-made loss – a fire in a hydroelectric power station – came to €37m.

During the renewals at 1 April 2016, pressure on prices, terms and conditions remained high. Munich Re continued to adhere to its consistent cycle management. A premium volume of around €1.2bn was up for renewal at 1 April 2016, as against €9.1bn in January. About a fifth of this volume concerned the Japanese market, and another 60% North America and worldwide business. At slightly over 30%, natural catastrophe business, which is subject to significant price pressure, accounted for a relatively high percentage of this volume. The 1.5% fall in prices was therefore greater in comparison with January, but far less pronounced than in the renewals of April 2015. However, selective opportunities were exploited in individual markets, including a number of structured major treaties. Premium volume therefore increased significantly to around €1.9bn.

The renewals at 1 July 2016 mainly involve treaty business in the US market and in Australia and Latin America, with a premium volume of around €2.3bn up for renewal, of which natural catastrophe covers account for around 20%. Munich Re expects the environment to remain competitive provided the market is not affected by major loss events.

ERGO: Result of –€25m

In the first quarter, the ERGO field of business generated a result of –€25m (+102m). The three primary insurance segments were impacted by various one-off effects. The operating result fell by around 11.6% to €192m (217m). The combined ratio in the Property-casualty Germany segment worsened to 98.6% (98.1%) in the first three months, caused by the expansion of title insurance business in the United Kingdom. By contrast, the combined ratio in the ERGO International segment for the same period improved to 93.2% (98.7%).

Total premium income across all lines of business fell by 2.3% in the first quarter and came to €4,756m (4,870m), while gross premiums written decreased by 2.0% to €4,495m (4,585m) in the first three months. In the Life and Health Germany segment, gross premiums declined by 3.3% to €2,333m (2,412m). Gross premiums were up somewhat to €1,219m (1,193m) in the Property-casualty Germany segment, but fell by 3.8% to €943m (980m) in the ERGO International segment.

Munich Health: Profit of €16m

The Munich Health field of business generated a profit of €16m (21m) in the period from January to March, but the operating result declined to €20m (21m). Munich Health's gross premiums written showed a year-on-year contraction of 11.1% to €1,283m (1,443m). This decrease in premium income was attributable to a reduction in Munich Health's participation in a large reinsurance treaty and to negative currency translation effects, particularly from the exchange rate of the Canadian dollar. The combined ratio totalled 100.2% (100.4%).

Investments: Investment result of €1,572m

With a carrying amount of €214,828m (market value of €232,941m), total investments (excluding insurance-related investments) as at 31 March 2016 were down on the year-end 2015 figure of €215,093m (230,529m at market value). The decrease is mainly due to currency translation effects, which exceeded the gains from fixed-interest securities.

The Group's investment result (excluding insurance-related investments) decreased to €1,572m (1,820m). Although changes in the value of derivatives from the ERGO interest-rate hedging programme had a positive impact of €267m (213m) in the first three months, changes in the value of all derivatives overall accounted for only €74m (–706m). The balance of gains and losses on disposals excluding derivatives was down significantly to €218m (998m), in particular as a consequence of lower gains realised on fixed-interest securities and equities, and to losses on the disposal of high-yield corporate bonds. Munich Re also posted higher net year-on-year write-downs of €219m (152m) on non-derivative investments during the past quarter, mainly in its equity portfolio.

Overall, the investment result represents a return of 2.7% on the average market value of the portfolio. Munich Re's equity-backing ratio at 31 March 2016 fell to 3.9% (31 December 2015: 4.8%), including equity-linked derivatives.

The Group's asset manager is MEAG, whose assets under management as at 31 March 2016 included not only Group investments, but also a volume of €14.4bn (14.1bn) for third parties.

Outlook 2016: Group profit guidance of €2.3bn

Expectations for 2016 have changed in comparison with the figures given in the 2015 Annual Report published in March. Munich Re had previously projected a combined ratio of around 98% of net earned premium in property-casualty reinsurance, but now expects a ratio of around 95%. This adjustment results from two factors. Firstly, there were few major losses, not only up to February, but also in March and April. And, secondly, claims notifications from clients for prior years were once again significantly lower than anticipated, so that Munich Re now expects to release reserves for such claims in the amount of six percentage points, rather than four percentage points.

In its outlook at the start of the year, Munich Re forecast a consolidated result of €2.3–2.8bn. Munich Re now anticipates a consolidated profit of €2.3bn, which is at the lower end of its original result-corridor forecast. The revised figure includes possible expenses for the implementation of the ERGO strategy programme. This expenditure will have an adverse impact on ERGO's result for the year.

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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 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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Key figures (IFRS) for the Group in the first quarter of 2016					
(in €m unless otherwise indicated)					
		1st quarter 2016	1st quarter 2015	Change	
				Absolute	in %
Gross premiums written		12,511	13,038	-527	-4.0
Net earned premiums		11,342	11,860	-518	-4.4
Net expenses for claims and benefits		-8,969	-10,196	1,228	12.0
Technical result		945	912	33	3.6
Investment result		1,572	1,820	-248	-13.6
Thereof	Realised gains	562	1,118	-556	-49.7
	Realised losses	-344	-120	-224	-186.7
Insurance-related investment result		-208	579	-787	-
Non-technical result		-219	84	-303	-
Operating result		726	995	-270	-27.1
Net finance costs		-51	-60	10	15.8
Taxes on income		-157	-151	-6	-3.9
Consolidated profit		436	790	-354	-44.8
Thereof attributable to	Munich Reinsurance Company equity holders	430	790	-360	-45.5
	Minority interests	6	0	6	>1,000.0
		31.3.2016	31.12.2015		
Investments		223,873	224,256	-383	-0.2
Equity capital		31,794	30,966	828	2.7
Staff		43,686	43,554	132	0.3
Reinsurance		1st quarter 2016	1st quarter 2015	Change	
				Absolute	in %
Gross premiums written		6,733	7,009	-277	-3.9
Technical result		825	761	64	8.4
Non-technical result		-311	-4	-307	<-1,000.0
Operating result		514	757	-243	-32.1
Result		445	668	-222	-33.3
Thereof	Reinsurance – Life	1st quarter 2016	1st quarter 2015	Change	
				Absolute	in %
	Gross premiums written	2,205	2,412	-207	-8.6
	Technical result	70	103	-33	-32.1
	Non-technical result	-72	-20	-52	-257.9
	Operating result	-3	82	-85	-
	Result	20	70	-50	-71.0
	Reinsurance – Property-casualty	1st quarter 2016	1st quarter 2015	Change	
				Absolute/ in % points	in %
	Gross premiums written	4,528	4,598	-70	-1.5
	Combined ratio in %	88.4	92.3	-3.9	
	Technical result	755	658	97	14.7
	Non-technical result	-238	16	-255	-
	Operating result	517	675	-158	-23.4
Result	425	598	-173	-28.9	

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ERGO		1st quarter 2016	1st quarter 2015	Change	
				Absolute	in %
Gross premiums written		4,495	4,585	-90	-2.0
Technical result		124	157	-34	-21.4
Non-technical result		68	60	8	14.2
Operating result		192	217	-25	-11.6
Result		-25	102	-127	-
Thereof:					
	ERGO Life and Health Germany	1st quarter 2016	1st quarter 2015	Change	
				Absolute	in %
Gross premiums written		2,333	2,412	-79	-3.3
Technical result		83	89	-5	-5.9
Non-technical result		95	29	66	226.5
Operating result		178	118	61	51.5
Result		14	52	-39	-73.6
	ERGO Property-casualty Germany	1st quarter 2016	1st quarter 2015	Change	
				Absolute/ in % points	in %
Gross premiums written		1,219	1,193	26	2.2
Combined ratio in %		98.6	98.1	0.5	
Technical result		14	28	-14	-48.8
Non-technical result		-48	36	-84	-
Operating result		-34	64	-97	-
Result		-25	38	-62	-
	ERGO International	1st quarter 2016	1st quarter 2015	Change	
				Absolute/ in % points	in %
Gross premiums written		943	980	-37	-3.8
Combined ratio in %		93.2	98.7	-5.6	
Technical result		26	41	-15	-36.4
Non-technical result		21	-5	26	-
Operating result		47	36	11	31.9
Result		-14	12	-26	-
Munich Health					
		1st quarter 2016	1st quarter 2015	Change	
				Absolute/ in % points	in %
Gross premiums written		1,283	1,443	-160	-11.1
Combined ratio in %		100.2	100.4	-0.1	
Technical result		-4	-7	3	42.3
Non-technical result		24	28	-4	-14.7
Operating result		20	21	-1	-5.7
Result		16	21	-5	-22.9
Shares					
		1st quarter 2016	1st quarter 2015	Change	
				Absolute	in %
Earnings per share in €		2.65	4.71	-2.06	-43.7