Münchener Rück
Munich Re Group

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Munich Re: Continuing on a solid path

The Munich Re Group mastered the year 2008 comparatively well, despite the worst financial crisis for many decades. As already published, Munich Re's bottom-line result totalled €1.5bn (previous year: €3.9bn). In a difficult capital market environment, Munich Re will continue to focus on sustaining its earnings capacity based on a strong capitalisation.

Nikolaus von Bomhard, Chairman of the Board of Management: "The financial year 2008 confronted companies with huge challenges – and not only in the financial sector. We have mastered the crisis comparatively well so far. We are continually adjusting the risk profile of our business portfolio to take account of the difficult environment, thus safeguarding our solid capital base and enabling us to continue implementing our strategy systematically in the individual fields of business. We remain guardedly optimistic."

With a view to the envisaged target of €18 earnings per share for 2010, von Bomhard said: "The focus is on securing sustained profitable development rather than on short-term maximisation of profits. Interest rates for low-risk investments are at a historically low level. We would not be acting in the interests of our shareholders if we tried to compensate for low returns with higher risk tolerance." Therefore, and in the light of the developments of the past year, the target of €18 earnings per share that Munich Re set itself for 2010 before the beginning of the capital market crisis is no longer realistic. Munich Re continues to adhere to the target of a 15% return on risk-adjusted capital (RORAC) over the cycle.

Von Bomhard also pointed out: "With our Changing Gear programme, we have launched a raft of initiatives to expand our business further in the last two years. This includes the acquisition of the US specialist insurer Hartford Steam Boiler. Munich Re is in good financial shape and, from this position of relative strength, can exploit opportunities in the market." At the

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same time, Munich Re has followed up on its announcements regarding capital management: since the start of Changing Gear in May 2007, a total of €3bn has been paid out for share buy-backs and €2bn in dividends (subject to approval of the dividend for the financial year 2008 by the Supervisory Board and the Annual General Meeting). “We are thus one of the few companies that can maintain an attractive dividend in these turbulent times”, said von Bomhard.

Torsten Jeworrek, member of Munich Re’s Board of Management, had the following to say on business development in reinsurance: “Our expertise in risk assessment and risk management is now more important than ever. As a result, there are opportunities for profitable business even in the recession.” Jeworrek stressed at the same time that Munich Re would reduce its business in reinsurance segments and regions that were particularly exposed to the recession. Examples he cited were D&O and professional liability. “We are basically proceeding on the assumption that the hardening of the market that began with the January renewals will continue”, said Jeworrek. “We will now be able to profit especially from our capital strength and our good competitive position, and will be an even more attractive partner for our clients.”

With reference to the financial market crisis, ERGO CEO Torsten Oletzky said: “The fact that we have come through the crisis reasonably well so far in primary insurance is mainly thanks to our very good underwriting. With a combined ratio of 90.7% in property-casualty insurance, we are not only well within our long-term target but are once again in the top group among our competitors. We currently see opportunities for life insurance products with guarantees, whose attractiveness grows in uncertain times.”

Summary of the Munich Re Group’s figures
The Munich Re Group recorded an operating result of €3.3bn (5.1bn) in 2008, a decrease of 35.5%. The marked price losses on the stock markets impacted the investment result, which fell by 36.8% to €5.8bn (9.3bn). Equity decreased to €21.3bn over the year as a whole (31 December 2007: €25.4bn) but there was only a very slight reduction compared with the figure at 30 September 2008. Return on risk-adjusted capital amounted to 6.9% (20.2%). After the customary valuation adjustments, the Group’s economic equity plus subordinated bonds issued amounted to €24.6bn. This contrasts with a risk capital requirement of €16.5bn, so that the capital buffer available – even if less than in the previous year – is still solid.

Gross premiums written rose by 1.5% to €37.8bn (37.3bn). If exchange rates had remained the same, premium volume would have increased by 5.1% compared with the previous year.

Primary insurance: Profit lower due to financial market crisis
In the Munich Re Group’s primary insurance segment, which largely comprises the ERGO Insurance Group, the operating result for 2008 totalled €477m (1,253m), a drop of 61.9%. Primary insurance contributed €163m (984m) to the Group profit. The main reasons for the substantial

reduction compared with the previous year were the investment result, a high write-down of the goodwill for Bank Austria Creditanstalt Versicherung, and the absence of the positive tax effect from the 2008 business tax reform booked in the previous year.

The combined ratio in property-casualty business amounted to a very good 91.2% (93.4%).

Premium income written by the primary insurers in the Munich Re Group totalled €18.5bn (18.3bn) in 2008. In property-casualty business (including legal expenses insurance), premiums climbed by 4.9% to €5.9bn (5.6bn), driven mainly by international business with a growth rate of 10.1%. In the life and health segment, overall premium income reached the same level as last year at €12.6bn (12.6bn). Growth in health business contrasted with premium reductions in life, where the financial market crisis triggered a considerable fall in single-premium business.

ERGO CEO Torsten Oletzky: “A very positive factor is that we succeeded in advancing the internationalisation of our business as planned in 2008 and now earn nearly one quarter of our premium income outside Germany. This is the result of strong organic growth again, especially in Poland, Turkey and the Baltic states. We took a further step towards the long-term strengthening of our position in the bancassurance sector with the acquisition of a majority stake in Bank Austria Creditanstalt Versicherung, even if this has initially had a negative effect on our result.”

Reinsurance: Turnaround in the cycle
Despite high costs for major losses, especially Hurricane Ike, reinsurance business performed satisfactorily as a whole. Its operating result decreased by 9.2% to €3.8bn (4.1bn). Altogether, reinsurance contributed €2.3bn (3.3bn) to the Group profit. Part of the reinsurance profit derived from the dividend of €947m paid by ERGO to Munich Re in the second quarter. This payment is eliminated in the consolidation of intra-Group transactions across segments and therefore does not influence the overall consolidated result.

The combined ratio for 2008 came to 99.5% (96.4%). The largest loss events were Hurricanes Ike and Gustav, with a combined claims burden of €560m (after retrocession). The burden from major losses for the whole year totalled €1.5bn (1.1bn), with natural catastrophes accounting for €832m (634m) of this.

Gross premiums written were up 1.2% compared with the previous year, rising to €21.8bn (21.5bn). At unchanged exchange rates, the premium volume for 2008 would have increased by 7.3%. The life and health segment accounted for €7.1bn (7.3bn), and property-casualty for €14.7bn (14.2bn). New acquisitions Midland and Sterling were consolidated in the Group financial statements with effect from 1 April 2008, with gross premium income amounting to €562m and €538m respectively.

Munich Re America shows a loss for the year of US$ 503m under IFRS accounting, mainly due to costs for natural catastrophes, loss reserve strengthening and write-downs of fixed-interest securities.

Investments: Limited losses thanks to balanced investment policy
The financial market crisis worsened dramatically in 2008. Against this background, the Munich Re Group's investment portfolio held up comparatively well.

Despite the turmoil on the capital markets, investments only showed a slight decrease of €1.2bn or 0.7% to €175.0bn at 31 December 2008. The investment result recognised in the income statement fell by 36.8% to €5.8bn (9.3bn) compared with the outstanding result of the previous year, which had benefited strongly from positive one-off effects. The result represents a return of 3.4% in relation to the average market value of the portfolio. Including the only slightly negative change in the valuation reserves, the overall return on investments ("total performance") amounts to 2.5% (2.9%). CFO Jörg Schneider singled this out as being "satisfactory in such a difficult stock market environment and even outstanding compared with competitors". Schneider continued: "For this, we have to thank our balanced investment portfolio managed by MEAG; that is the key to our capital strength."

The equity-backing ratio was reduced still further to 1.7% as at 31 December 2008 (31 December 2007: 10.8%), based on the Group's total investments at market values including hedging instruments.

In 2008, Munich Re's net gains on the disposal of investments was positive at €2.1bn (2.8bn), of which €1.0bn (0.2bn) alone came from the fourth quarter. In particular, 2008 saw an improvement in the Group's result from the sale of derivative financial instruments which had been purchased to hedge its equity portfolio and whose performance had benefited from the bear market.

The balance of write-ups and write-downs totalled –€2.8bn (–1.0bn). All in all, there were write-downs of €7.2bn (2.3bn), of which €4.9bn (0.6bn) were made on equity portfolios. Compared with the industry in general, the Munich Re Group applies a strict interpretation of the IFRS rules for recognising impairment losses in equity portfolios. Approximately one-third of these write-downs affected equity portfolios for which the losses in value were almost offset by price gains on hedging derivatives. A prudent valuation of the Munich Re Group's fixed-interest securities led to write-downs of approximately €478m in 2008. The write-ups of €4.3bn (1.2bn) were almost all apportionable to derivatives, which accounted for €4.2bn (0.9bn).

The overall balance of write-ups and write-downs plus net gains on disposals amounted to –€0.7bn for the year as a whole.

As a reaction to the crisis, Munich Re has invested in secure government bonds and, very selectively, in high-interest corporate bonds with a good rating and in credit structures.

In the interests of transparency and continuity, Munich Re is not changing its application of the accounting rules: it has not taken advantage of the option to reclassify financial instruments.

MEAG MUNICH ERGO AssetManagement GmbH is the asset manager of Munich Re and the ERGO Insurance Group. In addition to Group investments, MEAG had segregated and retail funds totalling €8.5bn (9.2bn) under management as at 31 December 2008.

Outlook for 2009: Focus on profitability in the recession
Owing to the still very difficult conditions for the global economy and the volatility on the financial markets, Munich Re is not giving a prognosis for the 2009 annual result. But despite the financial market crisis and the incipient recession, the Munich Re Group is adhering to its medium-term target: over the cycle, it aims to earn a return on risk-adjusted capital (RORAC) of 15%. “This objective is particularly important for us, since it corresponds to our internal performance measures and takes into account the risks entered into”, emphasised CEO von Bomhard.

For 2009 and 2010, the Group anticipates that given the very low risk-free market interest-rate level, the investment result will be well below the long-term target of 4.5%. This means that the objective of €18 earnings per share set in 2007 for 2010 is also out of reach. CFO Schneider: “We remain cautious and will not compensate for falling returns as a result of lower interest rates by taking higher investment risks. It would not be in the interests of our clients or shareholders if we now continued to pursue targets that we set ourselves prior to the financial crisis in a completely different environment.”

If exchange rates remain stable, Munich Re anticipates that its gross premium volume in the reinsurance segment will be in the range of €21–€22bn. Gross premium income of between €17.5bn and €18.5bn (2008: €17.4bn) is expected in primary insurance, with a consolidated figure for the Munich Re Group of between €37.5bn and €39.5bn (€37.8bn).

For reinsurance, the Group is aiming at combined ratio in the region of 97% (with 6.5 percentage points budgeted for natural hazards) for 2009 and over the market cycle as a whole. In primary insurance, another combined ratio well within the long-term target of 95% is the target for 2009.

As already announced, subject to the approval of the Supervisory Board and Annual General Meeting, a dividend of €5.50 per share for the financial year 2008 is to be paid in April 2009. This is equivalent to a total of almost €1.1bn based on the shares currently in circulation. Munich Re intends to carry out further share buy-backs. But CFO Schneider added: "Their benefits will have to be weighed up very carefully against the advantages of comfortable capitalisation, also with a view to opportunities for profitable growth."

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The **Munich Re Group** operates worldwide, turning risk into value. In the financial year 2008, it achieved a profit of €1,528m on premium income of around €38bn. The Group operates in all lines of business, with around 44,000 employees at over 50 locations throughout the world and is characterised by particularly pronounced diversification, client focus and earnings stability. With premium income of around €22bn from reinsurance alone, it is one of the world's leading reinsurers. Its primary insurance operations are mainly concentrated in the ERGO Insurance Group. With premium income of over €17bn, ERGO is one of the largest insurance groups in Europe and Germany. It is the market leader in Europe in health and legal expenses insurance, and 40 million clients in over 30 countries place their trust in the services and security it provides. The global investments of the Munich Re Group amounting to €175bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Key figures (IFRS) for the financial year 2008
(figures in €m unless otherwise stated)

At a glance:

- Profit of €1.5bn for the year 2008
- CEO von Bomhard: "The financial year 2008 was a huge challenge. We have mastered the crisis comparatively well so far."
- Turnaround in the cycle in reinsurance
- Primary insurance: Very good combined ratio in 2008

MUNICH RE GROUP	**2008**	2007*	Change absolute	Change %
Gross premiums written	**37,829**	37,256	573	1.5
Net earned premiums	**35,724**	35,670	54	0.2
Investment result	**5,846**	9,253	-3,407	-36.8
Thereof realised gains	**7,795**	5,671	2,124	37.5
realised losses	**5,650**	2,868	2,782	97.0
Net expenses for claims and benefits	**28,719**	30,469	-1,750	-5.7
Operating result (before finance costs and taxes on income)	**3,262**	5,057	-1,795	-35.5
Finance costs	**361**	333	28	8.4
Taxes on income	**1,373**	801	572	71.4
Consolidated profit	**1,528**	3,923	-2,395	-61.1
Thereof attributable to Munich Re equity holders	**1,503**	3,840	-2,337	-60.9
to minority interests	**25**	83	-58	-69.9
	31.12.2008	31.12.2007*		
Investments	**174,977**	176,173	-1,196	-0.7
Equity	**21,256**	25,416	-4,160	-16.4
Employees	**44,209**	38,634	5,575	14.4

REINSURANCE**	**2008**	2007*	Change absolute	Change %
Gross premiums written	**21,782**	21,517	265	1.2
Thereof Life and health	**7,130**	7,293	-163	-2.2
Property-casualty	**14,652**	14,224	428	3.0
Combined ratio in %				
Property-casualty	**99.5**	96.4	3.1	
Thereof natural catastrophes	**6.2**	4.7***	1.5	
Operating result	**3,756**	4,138	-382	-9.2
Result	**2,328**	3,300	-972	-29.5

PRIMARY INSURANCE**	**2008**	2007	Change absolute	Change %
Gross premiums written	**17,411**	17,286	125	0.7
Thereof Life and health	**11,495**	11,647	-152	-1.3
Property-casualty	**5,916**	5,639	277	4.9
Combined ratio in % for property-casualty, including legal expenses insurance	**91.2**	93.4	-2.2	
Operating result	**477**	1,253	-776	-61.9
Result	**163**	984	-821	-83.4

SHARES	**2008**	2007*	Change	
Earnings per share in €	**7.48**	17.83	-10.35	-58.0
	31.12.2008	31.12.2007		
Dividend per share in €	**5.50******	5.50	-	-

* Adjusted pursuant to IAS 8.
** Before elimination of intra-Group transactions across segments.
*** Adjusted owing to a change in methodology.
**** Proposal for the Annual General Meeting on 22 April 2009.

Key figures (IFRS) for the 4th quarter of 2008
(figures in €m unless otherwise stated)

MUNICH RE GROUP	**4th quarter 2008**	4th quarter 2007*	Change	
			absolute	%
Gross premiums written	**9,706**	9,185	521	5.7
Net earned premiums	**9,627**	9,251	376	4.1
Investment result	**1,923**	1,625	298	18.3
Thereof realised gains	**3,851**	1,486	2,365	159.2
realised losses	**2,847**	1,262	1,585	125.6
Net expenses for claims and benefits	**7,745**	7,201	544	7.6
Operating result (before finance costs and taxes on income)	**844**	1,086	-242	-22.3
Finance costs	**89**	95	-6	-6.3
Taxes on income	**634**	410	224	54.6
Consolidated profit	**121**	581	-460	-79.2
Thereof attributable to Munich Re equity holders	**133**	552	-419	-75.9
to minority interests	**-12**	29	-41	-

REINSURANCE**	**4th quarter 2008**	4th quarter 2007*	Change	
			absolute	%
Gross premiums written	**5,639**	5,053	586	11.6
Thereof Life and health	**1,947**	1,774	173	9.8
Property-casualty	**3,692**	3,279	413	12.6
Combined ratio in %				
Property-casualty	**97.7**	91.7	6.0	
Thereof natural catastrophes	**2.0**	-1.8	3.8	
Operating result	**1,072**	932	140	15.0
Result	**356**	527	-171	-32.4

PRIMARY INSURANCE**	**4th quarter 2008**	4th quarter 2007	Change	
			absolute	%
Gross premiums written	**4,369**	4,466	-97	-2.2
Thereof Life and health	**3,113**	3,256	-143	-4.4
Property-casualty	**1,256**	1,210	46	3.8
Combined ratio in % for property-casualty, including legal expenses insurance	**94.2**	94.7	-0.5	
Operating result	**-197**	330	-527	-
Result	**-207**	232	-439	-

* Adjusted pursuant to IAS 8.
** Before elimination of intra-Group transactions across segments.