Munich RE

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Press release

Munich Re increases profit to €2.56bn in 2009 and raises dividend to €5.75

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On the basis of preliminary calculations, Munich Re increased its consolidated profit significantly to €2.56bn in 2009 (previous year: €1.58bn). The profit for the fourth quarter totalled €0.78bn (0.11bn). Shareholders are again set to benefit substantially from the Group's performance: subject to approval by the Supervisory Board and the Annual General Meeting, the dividend will rise by 4.5% to €5.75 (5.50) per share.

"This is another good result that demonstrates Munich Re's earnings strength. We are realistic in our expectations and remain dependable for investors", said CFO Jörg Schneider. "Despite the challenges posed by the market environment in 2009, we were even able to slightly exceed our ambitious return target of 15% on risk-adjusted capital after tax." Schneider emphasised: "We want our shareholders to participate in this success through a further increase in our already high dividend."

Gross premiums written by the Group in the financial year 2009 rose strongly by slightly less than 10% to €41.4bn (37.8bn). The combined ratio in reinsurance was 95.3% (99.4%) for January to December, and 92.5% (97.6%) for the fourth quarter. This includes 3.6 percentage points – or €0.5bn – for recession-related major losses, just under €0.2bn of which was incurred in the fourth quarter. However, the reinsurance business profited from exceptionally low claims costs for natural catastrophes (only 1.4% of net earned premiums). In primary insurance, the 2009 combined ratio for the property-casualty segment (including legal expenses insurance) amounted to 93.1% (90.9%). Its level in the fourth quarter was particularly good at 90.0% (93.8%).

Shareholders' equity rose by slightly less than €1.2bn in 2009. In the fourth quarter, it fell by nearly €0.4bn to around €22.3bn (30 September 2009: €22.66bn; 31 December 2008: €21.11bn). The underlying causes for the fourth-quarter reduction were Munich Re's ongoing share buy-backs, the acquisition of further ERGO shares, and a decrease in net unrealised gains on fixed-interest securities. The Group's investment result rose by over 33% to almost €7.9bn (5.9bn), benefiting from a significant reduction of over €4.7bn to just under €2.5bn in write-downs. Net gains on the disposal of investments were still high at €1.6bn (2.2bn).

In primary insurance, gross premiums written in 2009 were up 3% to €17.5bn (17.0bn), with €4.5bn (4.3bn) attributable to the fourth quarter – an increase of slightly less than 6%. In international business, the first full consolidation of Bank Austria Versicherung had a positive impact, whereas negative developments in exchange rates – especially of the Polish and Turkish currencies – curbed premium growth. In German business, property-casualty insurance grew at above the average market rate. Growth in German life insurance was below that of the market as a whole, with new regular-premium business declining: in the previous year, the fourth and last subsidisation stage for Riester policies had had a positive effect; also, demand in 2009 was weaker market-wide due to the state of the economy. ERGO's single-premium business in life insurance increased significantly, notwithstanding its strictly profit-oriented underwriting approach. On the basis of key preliminary figures, the ERGO Insurance Group posted a significantly improved consolidated result of €173m (73m), of which €100m was earned in the fourth quarter.

Reinsurance business performed very satisfactorily in 2009. Compared with the previous year, premium income grew by slightly less than 14% to €24.8bn (21.9bn), nearly €6.1bn (5.7bn) of which came from the fourth quarter. In the life and health reinsurance segment, gross premiums written were boosted by large-volume quota share treaties concluded by primary insurers as a capital substitute. The reinsurance segment contributed around €2.56bn (2.40bn) to the consolidated result. Premium growth was also driven by the integration of the Hartford Steam Boiler Group (HSB Group), consolidated in Munich Re's financial statements since 1 April 2009. With the acquisition of the HSB Group, one of the world's leading providers of specialty insurances and inspections of engineering risks, Munich Re is consistently implementing its US strategy.

CFO Schneider drew a positive conclusion for 2009: "Bearing in mind that the financial crisis reached its climax in the first quarter, we can be very satisfied with the figures for the year. The substantial increase in profit means shareholders can enjoy a good return on capital and approve a solidly earned dividend increase at the AGM."

Satisfactory renewal of reinsurance treaties at 1 January 2010
As expected, the market environment for the turn-of-the-year renewals was more difficult than in the previous year. The capital markets have recovered more quickly than expected and, as a result, so have the balance sheets of many insurers and reinsurers. There is sufficient capacity available in most lines of business. Generally, prices showed a slight downward trend, another important reason being the stagnation in demand for insurance and reinsurance cover as a consequence of the difficult economic environment. However, there were rate increases in segments hit by claims in 2009, such as credit, aviation and some natural catastrophe covers. Terms and conditions remained largely unchanged.

Torsten Jeworrek, Munich Re's Reinsurance CEO: "The renewals involved some tough negotiating. For us, there is no alternative to risk-adequate prices if we want to keep our business sustainable." Treaties that showed no sign of being profitable were consistently terminated. "Even in this somewhat testing

environment, we have maintained the quality of our portfolio and can therefore be satisfied with the renewals", he added.

In detail:
At 1 January 2010, Munich Re had reinsurance treaties with a premium volume of approximately €7.9bn up for renewal in the property-casualty segment. This represents around two-thirds of Munich Re's global property-casualty reinsurance business.

Of this, treaties with a volume of around €6.8bn (85.4%) were renewed and 14.6% (around €1.2bn) were terminated. The terminated business was partially compensated for by new business with a volume of approximately €0.7bn. Altogether, compared with last year, the volume of business renewed fell by 6.7% (around €530m) to approximately €7.4bn. The price level and thus the profitability of the renewed portfolio remained pleasingly stable (–0.3% compared with last year). This was only possible because Munich Re resolutely adhered to its profit-oriented underwriting policy and was prepared to forgo business if necessary. In the current market environment, the same or an increased level of premium income would have meant a reduction in profitability.

The composition of the portfolio written as at 1 January was virtually unchanged, with property business making up 45% (previous year: 46%), casualty 34% (33%), marine 11% (12%), credit 7% (7%) and aviation 3% (3%).

Munich Re succeeded in expanding business particularly where it could build on good business relations with clients, i.e. in long-term strategic partnerships, and where capacity with top security was required at short notice. There was also premium growth in niche segments due to its increased involvement there.

In areas where there is currently little prospect of profitable results, such as sectors of motor business in eastern Europe, China and Germany, but also in credit reinsurance and selected US liability segments, capacity was systematically reduced.

Torsten Jeworrek: "Our strategy of positioning ourselves somewhat more broadly in the Group and in reinsurance is bearing fruit. It enables us to take our opportunities in areas of business for which a high level of risk competence is required."

Although the traditional renewal date for non-life business in most countries is 1 January, for reinsurance treaties in Japan and Korea – and in some cases in the USA – it is 1 April. Moreover, the main renewal date in the USA (especially for natural catastrophe covers), and also in Latin America and Australia, is 1 July.

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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 2008, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €1.58bn on premium income of around €38bn. It operates in all lines of insurance, with around 44,000 employees throughout the world. With premium income of around €22bn from reinsurance alone, it is one of the world's leading reinsurers. Especially when clients seek solutions for complex risks, Munich Re is a much sought-after risk carrier. The 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. 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 €175bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Disclaimer
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