Munich RE

Munich, 07 May 2010
Press release

Munich Re starts the financial year 2010 with a quarterly profit of €485m

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

In the first quarter of 2010, Munich Re achieved a consolidated profit of €485m (same period last year: €437m). Large gains from the disposal of investments were the basis for the good quarterly result, whereas the natural catastrophe burden was unusually high. Munich Re has announced another share buy-back: shares with a volume of up to €1bn are to be repurchased before the Annual General Meeting in 2011.

CFO Jörg Schneider emphasised the two different factors which shaped the result for the first quarter: “It was an eventful start to the financial year 2010, with earthquakes, storms and volatility on the capital markets. The natural catastrophe losses were offset by high investment profits. Overall, I am very satisfied with our result for the quarter.” On the investment side, Munich Re had realised gains largely from the disposal of corporate bonds, he said. In primary insurance, Schneider emphasised the profit trend in recent quarters: “With its profit improvements, ERGO is on track.”

Together with the results for the first quarter, Munich Re also announced a further share buy-back programme: Before the next AGM on 20 April 2011, shares with a volume of up to €1bn are to be repurchased. The buy-back is conditional upon no major upheavals occurring on the capital markets or in underwriting business. On the basis of the current share price, around nine million shares or approximately 5% of the share capital would be bought back. The repurchased shares are to be retired, and the buy-back is scheduled to start shortly. “We are using this instrument to return unneeded capital. This programme benefits all shareholders”, said CFO Jörg Schneider. “Our good capitalisation enables us to continue taking selective advantage of opportunities for profitable growth despite the share buy-back.”

Since November 2006, Munich Re has carried out share buy-backs with a total volume of €5bn. Apart from the buy-back just announced, the share buy-backs launched as part of Munich Re’s Changing Gear programme in May 2007 are complete. Since the 2006 financial year, the shareholders have also received over €4bn in dividends.

Summary of the figures for the first three months
From January to March, the Group recorded an operating result of €770m (736m). Compared with year-end 2009, equity rose by 4.1% to €23.2bn. Annualised the return on risk-adjusted capital (RORAC) amounted to 10.7% and the return on equity (RoE) to 8.5%. Gross premiums written rose by 12.4% to €11.7bn (10.4bn). If exchange rates had remained the same, premium volume would have increased by 11.0% compared with the previous year.

Primary insurance: Positive trend continues – Result of €165m
The operating result for the first three months of 2010 was €251m (63m). Before elimination of intra-Group transactions across segments, the consolidated result amounted to €165m (–59m). The ERGO Insurance Group posted a significantly improved consolidated result of €78m (–80m).

In the first quarter, the combined ratio for the property-casualty segment (including legal expenses insurance) amounted to 98.7% (96.3%). Natural hazard events such as Winter Storm Xynthia and the long, harsh winter – notably also outside Germany – led to this increase.

ERGO CEO Torsten Oletzky stated: “The profit in the first quarter confirms the positive trend of the preceding quarters. The winter left its mark on the property-casualty segment but we were nonetheless again able to achieve a pleasing result in that area in particular.”

Overall premium income across all lines of business increased by 7.3% to €5.1bn (4.8bn) from January to March. As in the previous quarters, ERGO grew mainly in international business.

In the life segment, total premium income rose to €2.0bn (1.8bn) since January, whilst premium in international business grew by 25.0% to €0.5m (0.4m) in the first quarter. Total domestic premium income was €1.43bn (1.37bn) in the first quarter – a rise of 4.0%. German new business was higher than in the same quarter last year (25.8%), thanks to the favourable development of single-premium business. In this area, double-digit growth rates were achieved, especially in traditional annuity covers. Based on German new business, the annual premium equivalent (APE = regular premium income plus 10% of single-premium volume) was up 0.9% on last year at €117m (116m).

In the health insurance segment, premium income in the first three months of 2010 climbed by 5.7% to €1.4bn (1.3bn). Unlike in previous years, the segment now contains only German business and the travel insurance business, as international health business is now posted in the Munich Health segment. Premiums in Germany grew by 5.8% to €1.33bn (1.26bn). Alongside premium adjustments at the start of the year, the conclusion of a major contract also had a positive effect.

In the property-casualty insurance segment, ERGO posted premium income totalling €1.7bn (1.6bn) in the first three months of the year. International business grew appreciably – by 16.6% to €0.6bn (0.5bn) – partly due to favourable exchange-rate developments. German business also showed growth, with premium since the start of the year climbing by 2.5% to €1.2bn (1.1bn).

ERGO increased its premium income in commercial and industrial business in particular.

Reinsurance: Quarterly profit of €424m despite heavy loss burden
In the first quarter of 2010, reinsurance business was impacted by the considerably greater burden from major losses. The operating result decreased to €605m (857m). Thanks to a satisfying investment result of €935m (875m), reinsurance contributed €424m (678m) to the Group's overall profit.

The combined ratio for the first quarter was 109.2% (97.3%) of net earned premiums, with natural catastrophes accounting for 20.8 (5.6) percentage points. Approximately five percentage points of the originally projected annual loss ratio of 6.5% for natural catastrophes thus occurred in the first quarter of the current financial year. Claims costs for natural catastrophe losses totalled approximately €700m (187m). For Winter Storm Xynthia, which caused significant damage in Europe on 27 and 28 February 2010, Munich Re anticipates a reinsurance claims burden of around €70m. Provisions of around €160m have been established for the two hailstorms that occurred in Australia this March. The devastating earthquake in Chile on 27 February was responsible for the largest individual loss in the first quarter due to the high insurance penetration in commercial and industrial business. It impacted the result with around €500m in the first quarter. Torsten Jeworrek, Munich Re's Reinsurance CEO, stressed: "Carrying losses from catastrophes is not just one of our functions as a reinsurer – natural catastrophe covers are among Munich Re's profitable lines of business and we calculate risk-adequate prices and write business on that basis alone."

Premium income in the first three months was up 9.7% on the same period last year, rising to €5.9bn (5.4bn). €149m of this was attributable to the US subsidiary Hartford Steam Boiler, which was acquired in 2009. Adjusted to eliminate the effects of changes in exchange rates, premium volume would have increased by 8.4% in the first three months.

With a volume of approximately €1.1bn, the renewals at 1 April 2010 (in Japan, Korea and the USA, as well as with some global clients) involved around 10% of the total treaty business. As in the renewals as at 1 January 2010, the markets generally moved sideways, with a slight downward tendency. For the renewals as at 1 July 2010 (mainly in the USA, Australia and Latin America), Munich Re anticipates increases in the prices of some covers in loss-affected segments – especially for natural catastrophe covers and the insurance of offshore risks, e.g. oil platforms. In other business, the trends established in the previous renewals in 2010 are likely to continue. Jeworrek: "The renewal seasons this year were not easy, but thanks to our financial strength and our expertise, what we achieved was impressive: We have succeeded in maintaining the profitability of our portfolio at virtually the same level."

Munich Health: Premium volume increases markedly to €1.3bn
As from this year, Munich Re is reporting Munich Health as a separate segment under IFRS 8 for the first time. Munich Health brings together under one roof Munich Re's global healthcare insurance and reinsurance know-how, including the related services. Munich Health's business was previously disclosed in the

segments “life and health reinsurance” and “health primary insurance”. The figures for the previous year have been adjusted accordingly.

Munich Health generated a constant operating result of €4m (3m) (+33.3%), and contributed –€11m (–4m) to the Group’s overall result. Wolfgang Strassl, the member of the Board of Management responsible for Munich Health: “Munich Health has launched a large number of new initiatives in recent years. In a one- to two-year consolidation phase, we now intend to increase the profitability of our existing activities and continue to grow organically.”

The combined ratio for the period from January to March 2010 was 101.3% (100.5%). This ratio only relates to short-term health business, and not to business conducted like life insurance.

In the first quarter, premium income grew appreciably by 62.8% to €1,252m (769m) compared with the same period last year. International health primary insurance business showed a moderate increase of 5.7% to €504m (477m), with premium growth particularly in Spain and Belgium. Sterling Life’s premium income was down because the US regulatory framework has been tightened for the senior segment on which it focuses. The growth in reinsurance premium income to €748m (292m) is essentially due to the conclusion of large-volume quota share treaties which clients are using for capital relief in the wake of the financial crisis. These are only being booked since the second quarter of 2009. If exchange rates had remained the same, premium volume would have been 58.4% higher than in the first three months of 2009.

Investments: Good result of €2.5bn due to high gains on disposals
Owing partly to currency translation effects, total investments at 31 March 2010 increased by €5.6bn or 3.1% compared with year-end 2009 to €187.8bn.

For the period January to March 2010, the Group’s investment result showed a major year-on-year improvement of 80.0% to €2,460m (1,367m). Annualised, the result represents a return of 5.2% in relation to the average market value of the portfolio. The equity-backing ratio increased slightly to 3.1% (31 December 2009: 2.8%), based on the Group’s total investments at market value, including hedging instruments. “As announced, we are carefully expanding the proportion of our investments held in equities”, said CFO Jörg Schneider. Munich Re’s main aim continues to be a solid return on a well-balanced investment portfolio. When taking interest-rate change scenarios into account, the Group also intends to be able to take advantage of opportunities for returns. The portfolio continues to focus on fixed-interest investments, €159bn of which are fixed-interest securities and loans. A good 45% of this portfolio (which includes short-term items) is in government bonds or similar instruments for which public institutions are liable, an area in which the Group invested more strongly in the year under review. Approximately 33% and 15% of these were apportionable to German and US issuers respectively, and 16% to Greece, Spain, Italy, Ireland and Portugal. Overall, Schneider considers that Munich Re’s current level of investment in bonds of countries viewed critically at present can be “well absorbed” within the context of its broadly diversified portfolio as a whole.

The Group realised good net gains on disposals of €655m (359m) in the period from January to March. “We will not be able to maintain this level and with it the high returns in the next few quarters”, Schneider emphasised. Munich Re realised net gains on disposal of €551m (–89m) in its portfolio of fixed-interest securities available for sale, especially on corporate bonds. In so doing, the Group benefited from its 2009 strategy of investing more strongly in corporate bonds, which subsequently record market-value gains as risk spreads fall.

The overall balance of write-ups and write-downs plus net gains on disposals amounted to €562m (–184m) for the first quarter.

The Group's asset manager is MEAG MUNICH ERGO AssetManagement GmbH. In addition to Group investments, MEAG had segregated and retail funds totalling €8.2bn (7.9bn) under management as at 31 March 2010.

Outlook for 2010: Profit target of over €2bn
For the current financial year 2010, Munich Re expects gross premiums written in its primary insurance and reinsurance business including Munich Health (total consolidated premium) to be between €43bn and €45bn. If exchange rates remain stable and the cyclical losses in premium income for primary insurers and their impact on reinsurance covers keep within reasonable bounds or can be offset by additional business, the Group anticipates that its gross premium volume in the reinsurance segment will range between €22bn and €23bn. For primary insurance (excluding health primary insurance business written outside Germany by Munich Health) gross premiums of €17–18bn are expected. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should range between €18bn and €19bn. Just over €4.5bn is expected for Munich Health.

Munich Re envisages a combined ratio of around 97% of net earned premiums over the market cycle as a whole. However, the latter figure is likely to be exceeded in 2010, since the long-term estimate is based on an average major-loss burden of only 6.5% from natural catastrophes. The first quarter of 2010, however, was already affected by very severe accumulation-loss events, whose costs of around €700m alone accounted for approximately five percentage points of the loss ratio. The month of April was also impacted by further major losses. As a consequence of the sinking of the oil platform Deepwater Horizon in the Gulf of Mexico, Munich Re anticipates a material-damage burden of approximately €60m, and claims in the liability segment, which cannot be predicted accurately owing to their complexity. Overall, Munich Re expects its claims burden to amount to a low triple-digit million euro amount at most.

By contrast, in primary insurance, the 2010 goal is another combined ratio within the long-term target of 95%.

In its investments, Munich Re does not expect any significant further increases in capital market interest rates for 2010, so regular income from its largely fixed-interest-based portfolio is likely to be comparatively reduced. The Group is therefore reckoning with a return on investment (RoI) of under 4% for 2010, despite the much higher returns realised in the first quarter.

For 2010, Munich Re is aiming at another profit of over €2bn. CFO Schneider explained: “Given the high loss burdens, this target is increasingly ambitious.” Munich Re continues to assess its medium- to long-term business opportunities as positive. “That is why we are adhering to our target of a 15% return on risk-adjusted capital over the cycle”, Schneider emphasised.

Note for the editorial staff:
For further questions please contact

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

Media Relations Asia, Nikola Kemper
Tel.: +852 2536 6936

Media Relations USA, Terese Rosenthal
Tel.: +1 (609) 243-4339

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 2009, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €2.56bn on premium income of around €41bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €25bn 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. 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 Germany and Europe. 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 €182bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

Munich, 07 May 2010

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

At a glance:

- Munich Re starts the financial year 2010 with a quarterly profit of €485m
- CFO Schneider: "Overall, I am very satisfied with the quarterly result."
- Primary insurance: Clear profit of €165m in the first quarter confirms positive trend of preceding quarters
- Reinsurance: Quarterly profit of €424m despite heavy loss burden
- Munich Health: Premium volume increases markedly to €1.3bn

Key figures (IFRS) for the Group in the first quarter of 2010*
(in €m unless otherwise indicated)

	1st quarter 2010	1st quarter 2009	Change absolute	%
Gross premiums written	**11,657**	10,367	1,290	12.4
Net earned premiums	**10,153**	8,997	1,156	12.8
Net expenses for claims and benefits	**9,394**	7,355	2,039	27.7
Technical result	**138**	540	–402	–74.4
Investment result	**2,460**	1,367	1,093	80.0
Thereof realised gains	**1,083**	1,404	–321	–22.9
realised losses	**428**	1,045	–617	–59.0
Non-technical result	**632**	196	436	222.4
Operating result	**770**	736	34	4.6
Finance costs	**69**	82	–13	–15.9
Taxes on income	**73**	256	–183	–71.5
Consolidated profit	485	437	48	11.0
Thereof attributable				
to Munich Reinsurance Company equity holders	482	433	49	11.3
to minority interests	3	4	–1	–25.0
	31.3.2010	31.12.2009		
Investments	**187,768**	182,175	5,593	3.1
Equity	**23,190**	22,278	912	4.1
Employees	**47,017**	47,249	–232	–0.5

REINSURANCE**	**1st quarter 2010**	1st quarter 2009	Change absolute	%
Gross premiums written	**5,928**	5,404	524	9.7
Thereof life	**1,843**	1,358	485	35.7
property-casualty	**4,085**	4,046	39	1.0
Combined ratio in %	**109.2**	97.3	11.9	
Technical result	**108**	320	–212	–66.3
Non-technical result	**497**	537	–40	–7.4
Operating result	**605**	857	–252	–29.4
Result	**424**	678	–254	–37.5

PRIMARY INSURANCE**	**1st quarter 2010**	1st quarter 2009	Change absolute	%
Gross premiums written	**4,714**	4,468	246	5.5
Combined ratio in %	**98.7**	96.3	2.4	
Technical result	**51**	244	–193	–79.1
Non-technical result	**200**	–181	381	–
Operating result	**251**	63	188	298.4
Result	**165**	–59	224	–

MUNICH HEALTH**	**1st quarter 2010**	1st quarter 2009	Change	
			absolute	%
Gross premiums written	**1,252**	769	483	62.8
Combined ratio in %	**101.3**	100.5	0.8	
Technical result	**–5**	5	–10	–
Non-technical result	**9**	–2	11	–
Operating result	**4**	3	1	33.3
Result	**–11**	–4	–7	–175.0

SHARES	**1st quarter 2010**	1st quarter 2009	Change	
Earnings per share in €	**2.54**	2.22	0.32	14.4

* Previous year's figures adjusted owing to recognition of Munich Health as a separate segment and pursuant to IFRS 3.62, IFRS 8 and IAS 8.

** Before elimination of intra-Group transactions across segments.