Munich RE

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Press release

Munich Re with strong earnings of €1.6bn for the first half-year 2012 in a difficult environment

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 2012, Munich Re achieved a consolidated profit of €812m (same period last year: €738m). As in the first quarter of the year, underwriting business performed well, and the investment result showed a marked improvement on the same period of the previous year. With a profit of €1.6bn for the first half-year, the Group achieved well over half of its target of around €2.5bn. Munich Re is thus well on track to slightly surpass the originally envisaged profit for the year.

CEO Nikolaus von Bomhard summarised the first half-year's business performance: "Munich Re's Group performance was satisfying. Our conservative approach to business is proving robust in these uncertain times." Munich Re's claims expenditure was significantly lower than in the same period last year with its exceptional burden from natural catastrophes. Overall, Munich Re deems the challenge of the still very low interest rate levels to be far greater than that of the volatility of the financial markets or the worsened global economy.

Von Bomhard considers Munich Re well-equipped to operate successfully in what continues to be an economically challenging environment: "We began spreading our investments very broadly years ago. This approach, in combination with our consistent risk management, helps us to be prepared even for greatly varying scenarios." With regard to Munich Re's expected business performance for 2012 as whole, von Bomhard emphasised: "With a profit of €1.6bn for the first half-year, we have achieved well over half of our target of around €2.5bn. So we are well on track to slightly surpass the originally envisaged profit for the year."

Summary of the figures for the first six months
From January to June, the Group recorded an operating result of €2,304m (–437m). In the second quarter, it posted an operating result of €1,102m. Compared with year-end 2011, equity rose by 8.8% to €25.4bn. The annualised return on risk-adjusted capital (RORAC) amounted to 13.1% and return on equity (RoE) to the same figure. Gross premiums written were up 3.8% to €25.9bn (24.9bn), with €12.6bn attributable to the second quarter. If exchange rates had remained the same, premium volume would have increased by 0.3% compared with the same period last year.

Primary insurance: Result situation improved at €295m
The ERGO Insurance Group, in which Munich Re concentrates its primary insurance business, developed well in the first half of 2012, its operating result increasing in the first six months by 7.2% to €550m (513m), €293m of this in the second quarter. The consolidated result improved to €295m (237m), with the second quarter contributing €150m. ERGO's profit was significantly above the previous year's level at €255m (178m), €158m of which derived from the second quarter.

Overall premium income across all primary insurance lines decreased by 3.1% in the first six months to €9.5bn (9.8bn), with €4.5bn (4.8bn) from April to June. Gross premiums written remained virtually stable in the first six months at €8.86bn (8.92bn).

The combined ratio for the property-casualty segment (including legal protection insurance) amounted to 95.2% (95.9%) in the first half-year, and a good 95.1% (95.0%) in the second quarter. In the first half-year, a slightly higher combined ratio of 92.8% (89.0%) in Germany contrasted with a pleasingly significant improvement to 98.9% (106.2%) in international business.

In July, ERGO announced details of the plans for its sales quality and efficiency programme. "To improve the quality of advisory services, we aim to harmonise the various advisory and support functions in the sales organisations, and reduce the complexity of sales structures, thus significantly lowering costs", said Torsten Oletzky, CEO of the ERGO Insurance Group. To this end, the current five sales organisations are to be merged into two, and there is to be a single sales company.

Reinsurance: Half-year profit of €1.3bn
Whereas in the same period last year reinsurance business had been affected by extremely heavy burdens from earthquakes and other major losses, claims costs in the first six months of 2012 were substantially lower. The operating result totalled €1,702m (–1,033m), of which €796m (557m) derived from the second quarter. Altogether, the reinsurance field of business accounted for around €1,293m (–476m) of the Group consolidated result, the second quarter bringing in €659m (534m).

Premium income grew by 4.8% in the first six months year on year and totalled €13.7bn (13.1bn), of which €6.8bn (6.3bn) was attributable to the second quarter. In the life reinsurance segment, gross premiums written rose in the first half-year by around 10.6% to €5.3bn (4.8bn). Large-volume reinsurance treaties concluded in recent years primarily for the purpose of capital relief contributed to this pleasing trend. Changes in exchange rates had a major positive effect on premium development. In property-casualty reinsurance business, premiums climbed by 1.4% to €8.4bn (8.3bn). Rate increases for natural catastrophe covers had a particularly positive impact.

In the first half-year 2012, the burden from major losses was below average. Total major-loss expenditure after retrocession to reinsurers and before tax fell to €716m (3,642m) for the first six months of 2012 and to €452m (638m) for the second quarter. Based on current estimates, Munich Re anticipates a net burden of approximately €160m (after retrocession and before tax) from losses under crop failure covers as a consequence of the persistent drought in large agricultural areas in the USA. These losses occurred in the second quarter but will only become more quantifiable over the further course of the year. In accordance with Munich Re's usual reserving policy, provisions for the claims expected were already posted in the second quarter. The combined ratio for the first half-year was 95.7% of net earned premiums (same period last year: 131.4% after risk transfer). For the second quarter, this figure was 96.9% (99.8%).

At 1 July 2012, property-casualty reinsurance treaties with a volume of nearly €1.9bn were up for renewal in parts of the US market, Australia and Latin America, as well as with global clients. This represents around 12% of Munich Re's total property-casualty business. Altogether, Munich Re's premium volume in this renewal season increased to €2.2bn or by 18.5% (around €350m) compared with the previous year. Rates, i.e. the price level, rose by around 2% year on year. Torsten Jeworrek, Munich Re's Reinsurance CEO: "The results of the renewals at 1 July reflect our maxim of always obtaining risk-adequate premiums for the risks we assume. We also need to ensure that, with the increasing duration of the low-interest-rate phase, the low interest rates are compensated for by a positive price trend in the risks we assume."

Munich Health: Result of €6m
In the first half-year, Munich Health posted an operating result of €35m (65m), €3m (28m) of which was attributable to the second quarter. The business field contributed €6m (35m) to the Group's overall profit, €1m of this in the second quarter. The decline in the result is chiefly due to costs from US Medicare business (private health insurance for seniors) with cost reimbursement products, which will expire at the end of 2012. In future, Munich Health will be conducting this business solely with managed care products, in which the quality and costs of the healthcare services are easier to control.

Gross premium income grew appreciably to €3,348m (2,959m) in the first half-year, or by 13.1% compared with the same period last year. International health primary insurance business showed a strong increase of 17.9% to €1,112m (943m), stemming especially from the European primary insurance companies. The growth in reinsurance premium income to €2,236m (2,016m) is due to large treaties concluded by clients for capital relief.

The combined ratio was 100.5% (99.9%) for the period January to June 2012 and 101.5% (99.9%) for April to June.

Investments: Investment result rises to €4.1bn
At €209.2bn (216.9bn at market values), total investments at 30 June 2012 increased by €7.5bn or 3.7% compared with year-end 2011.

For the period January to June 2012, the Group's investment result showed a year-on-year improvement of 16.8% to €4.1bn (3.5bn). Annualised, the result represents a return of 3.8% in relation to the average market value of the portfolio. Fixed-interest securities, loans and short-term fixed-interest investments continued to form the greater part of Munich Re's investments, and totalled €189bn – equivalent to 87% of the Group's total investments at market value. Equities make up 3.0% (31 December 2011: 3.2%) and real estate 2.4% (31 December 2011: 2.6%). Munich Re further reduced its investments in southern European government bonds.

At €3.9bn in the first half of 2012, regular income fell slightly against the same period of the previous year. Owing to lower yields from the reinvestment of funds from portfolio restructuring, and to the growth of the portfolio, the running yield sank from 4.2% to 3.6%. The overall balance of write-ups and write-downs plus net gains on disposals amounted to €225m (–166m) for the first half-year 2012. Write-ups were primarily on interest-rate derivatives due to a fall in interest-rate levels. Net gains on the disposal of investments totalled €380m (640m). A large portion of this came from switching investments in government bonds, pfandbriefs and corporate bonds, and from the realisation of gains on equities. On the equity derivatives with which Munich Re hedges its equity portfolio against price setbacks, however, the Group posted losses on disposal.

CFO Jörg Schneider was satisfied with the investment result: "We are remaining true to our risk-conscious investment policy. This has proved its worth in recent years under the shadow of the financial crisis. Our guiding principle is that investments are geared strictly to liabilities, with continued strong emphasis on the quality of the individual assets, combined with a broad mix and spread."

The Group's asset manager is MEAG, whose assets under management as at 30 June 2012 included not only Group investments but also segregated and retail funds totalling €10.7bn (10.4bn).

Outlook for 2012: Well on track after pleasing business performance in first half-year

Based on exchange rates remaining stable, the Group now anticipates that for the 2012 financial year its gross premiums written will range between €50bn and €52bn. Gross premium income of between €27bn and €28bn is expected in the reinsurance segment, and a figure of between €17bn and €18bn for primary insurance. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should be slightly under €19bn. Gross premiums written of around €6.5bn are expected for Munich Health.

For property-casualty reinsurance, Munich Re's target is a combined ratio of around 96% of net earned premiums over the market and interest-rate cycle as a whole. In the first half-year, despite the Group's deliberately conservative reserving practice, Munich Re bettered this mark slightly, with a low burden from major losses. In property-casualty primary insurance, the target remains a combined ratio of under 95%.

Munich Re still does not anticipate any rapid or significant rise in capital-market interest rates in 2012, so there is no change in its forecast that regular income from investments will continue to fall. The investment return is likely to be approximately 3.5%.

The consolidated result in reinsurance should now total over €2bn in 2012. Munich Re is targeting a consolidated result of around €450m for the primary insurance segment and €400m for the ERGO Group, not taking into account restructuring expenses that may be accounted for already in 2012 in connection with the sales reorganisation programme. Munich Re's projection for Munich Health's consolidated result is around €50m.

Given average claims experience, Munich Re anticipates a significantly improved underwriting result for 2012. CEO von Bomhard: "We are optimistic for 2012, despite the difficult business environment."

As always, the outlook is subject to actual claims experience and the impact of severe currency or capital market developments on the income statement.

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, Beate Monastiridis-Dörr
Tel.: +1 (609) 243-4622

alike. In the financial year 2011, the Group – which pursues an integrated business model consisting of insurance and reinsurance – achieved a profit of €0.71bn on premium income of around €50bn. It operates in all lines of insurance, with around 47,000 employees throughout the world. With premium income of around €27bn 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. Its primary insurance operations are concentrated mainly in the ERGO Insurance Group, one of the major insurance groups in Germany and Europe. ERGO is represented in over 30 countries worldwide and offers a comprehensive range of insurances, provision products and services. In 2011, ERGO posted premium income of €20bn. 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 €202bn 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 first half of 2012* (in €m unless otherwise indicated)

	1st half-year 2012	1st half-year 2011	Change	
			Absolute	%
Gross premiums written	25,897	24,949	948	3.8
Net earned premiums	24,887	23,245	1,642	7.1
Net expenses for claims and benefits	20,528	21,509	-981	-4.6
Technical result	1,703	-1,266	2,969	-
Investment result	4,050	3,468	582	16.8
Thereof realised capital gains	1,975	2,141	-166	-7.8
realised losses	1,595	1,501	94	6.3
Non-technical result	601	829	-228	-27.5
Operating result	2,304	-437	2,741	-
Net finance costs	-145	-138	-7	-5.1
Taxes on income	323	-470	793	-
Consolidated profit	1,594	-210	1,804	-
Thereof attributable to				
Munich Reinsurance Company equity holders	1,588	-211	1,799	-
minority interests	6	1	5	500.0
	30.6.2012	31.12.2011		
Investments (carrying amounts)	209,179	201,707	7,472	3.7
Equity	25,371	23,309	2,062	8.8
Employees	46,681	47,206	-525	-1.1

REINSURANCE	**1st half-year 2012**	1st half-year 2011	Change	
			Absolute	%
Gross premiums written	13,691	13,069	622	4.8
Thereof life	5,294	4,788	506	10.6
property-casualty	8,397	8,281	116	1.4
Combined ratio in %	95.7	134.2**	-38.5	
Technical result	1,244	-1,646	2,890	-
Non-technical result	458	613	-155	-25.3
Operating result	1,702	-1,033	2,735	-
Result	1,293	-476	1,769	-

PRIMARY INSURANCE	**1st half-year 2012**	1st half-year 2011	Change	
			Absolute	%
Gross premiums written	8,858	8,921	-63	-0.7
Combined ratio in %	95.2	95.9	-0.7	
Technical result	458	359	99	27.6
Non-technical result	92	154	-62	-40.3
Operating result	550	513	37	7.2
Result	295	237	58	24.5

MUNICH HEALTH	**1st half-year 2012**	1st half-year 2011	Change	
			Absolute	%
Gross premiums written	3,348	2,959	389	13.1
Combined ratio in %	100.5	99.9	0.6	
Technical result	1	21	-20	-95.2
Non-technical result	34	44	-10	-22.7
Operating result	35	65	-30	-46.2
Result	6	35	-29	-82.9
SHARES	**1st half-year 2012**	1st half-year 2011	Change	
Earnings per share in €	8.94	-1.18	10.12	-

* Previous year's figures adjusted due to changes in the calculation of technical interest rate and the changeover to segment reporting without a consolidation column.

** Before risk transfer to the capital markets; 131.4% after risk transfer.

Key figures (IFRS) for the Group in the second quarter of 2012* (in €m unless otherwise indicated)

	2nd quarter 2012	2nd quarter 2011	Change Absolute	Change %
Gross premiums written	12,632	11,969	663	5.5
Net earned premiums	12,477	11,575	902	7.8
Net expenses for claims and benefits	10,252	9,361	891	9.5
Technical result	731	616	115	18.7
Investment result	1,806	1,512	294	19.4
Thereof realised capital gains	989	1,087	-98	-9.0
realised losses	981	847	134	15.8
Non-technical result	371	331	40	12.1
Operating result	1,102	947	155	16.4
Net finance costs	-79	-69	-10	-14.5
Taxes on income	164	142	22	15.5
Consolidated profit	812	738	74	10.0
Thereof attributable to				
Munich Reinsurance Company equity holders	808	736	72	9.8
minority interests	4	2	2	100.0

REINSURANCE	**2nd quarter 2012**	2nd quarter 2011	Change Absolute	Change %
Gross premiums written	6,847	6,342	505	8.0
Thereof life	2,695	2,424	271	11.2
property-casualty	4,152	3,918	234	6.0
Combined ratio in %	96.9	99.8	-2.9	
Technical result	547	431	116	26.9
Non-technical result	249	126	123	97.6
Operating result	796	557	239	42.9
Result	659	534	125	23.4

INSURANCE	**2nd quarter 2012**	2nd quarter 2011	Change Absolute	Change %
Gross premiums written	4,117	4,155	-38	-0.9
Combined ratio in %	95.1	95.0	0.1	
Technical result	195	169	26	15.4
Non-technical result	98	177	-79	-44.6
Operating result	293	346	-53	-15.3
Result	150	184	-34	-18.5

MUNICH HEALTH	**2nd quarter 2012**	2nd quarter 2011	Change	
			Absolute	%
Gross premiums written	1,668	1,472	196	13.3
Combined ratio in %	101.5	99.9	1.6	
Technical result	-11	16	-27	-
Non-technical result	14	12	2	16.7
Operating result	3	28	-25	-89.3
Result	1	18	-17	-94.4
SHARES	**2nd quarter 2012**	2nd quarter 2011	Change	
Earnings per share in €	4.54	4.14	0.40	9.7

* Previous year's figures adjusted due to changes in the calculation of technical interest rate and the changeover to segment reporting without a consolidation column.