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Press release

Munich Re optimistic for 2013 – Profit guidance of close to €3bn

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

Following the pleasing result for 2012, Munich Re is aiming for a profit of close to €3bn for the current year. CEO Nikolaus von Bomhard was optimistic about the further development of the Group's business as well. For the past financial year, as already announced and subject to the approval of the Annual General Meeting, Munich Re intends to pay a substantially increased dividend of €7.00 (6.25) per share in April 2013.

Looking back at the 2012 financial year, CEO Nikolaus von Bomhard said: "With a profit of €3.2bn, we achieved a very good result. This was chiefly due to our identifying and exploiting profitable business opportunities, backed by the solid foundations of our proven risk management and disciplined underwriting." Von Bomhard emphasised: "The Supervisory Board and the Board of Management want Munich Re's shareholders to participate in its success through a higher dividend, which – subject to approval by the Annual General Meeting – will rise to €7.00 per share."

Von Bomhard was optimistic regarding 2013: "Even though the consolidation of state finances and high unemployment will result in slower economic momentum in many industrialised countries, we remain optimistic for our business. For 2013, we are aiming for a result of close to €3bn."

At its meeting yesterday, Munich Re's Supervisory Board decided not to renew the contract of Wolfgang Strassl, member of the Board of Management responsible for Munich Health and Human Resources. The Supervisory Board wishes to thank Wolfgang Strassl for his many years of service in the Group, acknowledging his contribution and great commitment to Munich Re. His functions on the Board of Management will be split: Nikolaus von Bomhard will take charge of Munich Health, initially together with Wolfgang Strassl, and then alone with effect from 1 January 2014. Responsibility for Human Resources and the function of Board member responsible for personnel and welfare matters will be assumed by Joachim Wenning as from 1 October 2013, in addition to his responsibility for life reinsurance business.

Summary of the figures for the financial year 2012
In 2012, the Group posted an operating result of €5.4bn (1.2bn). Group equity moved up to €27.4bn (31 December 2011: €23.3bn). Alongside the consolidated result of €3.2bn, a further increase in the balance of unrealised gains and losses was mainly responsible for the rise in equity. The return on risk-adjusted capital after tax (RORAC) for 2012 amounted to 13.2% (3.2%), and the return on equity (RoE) to 12.6%. Gross premiums written rose significantly by almost 5.1% to €52.0bn (49.5bn).

In 2012, Munich Re further strengthened its equity capital according to its internal model, i.e. based on economic and risk-based calculations, as well as according to IFRS accounting: as at 31 December 2012, Munich Re's available financial resources were 129% (111%) of its self-defined economic risk-capital requirement ("economic solvency ratio"). This decidedly conservative internal capital requirement corresponds to 1.75 times the capital expected to be required under Solvency II. Calculated on the basis of its own internal model, Munich Re's solvency ratio is thus 225% applying the currently foreseeable Solvency II requirements.

Primary insurance: Result climbs to €247m
The 2012 operating result in primary insurance business grew appreciably to €895m (580m), while the consolidated result totalled €247m (155m). ERGO made progress especially in its international business. In the fourth quarter of 2012, ERGO posted provisions for one-off restructuring expenses in connection with the reorganisation of its sales units in Germany. These provisions totalled €258m across all segments and impacted the consolidated result in primary insurance with a total of €128m.

The ERGO Insurance Group, in which Munich Re concentrates its primary insurance business, showed a profit of €289m (349m). Without the burden of restructuring expenses, ERGO would have exceeded its target for the year of approximately €400m.

In international property-casualty insurance, the combined ratio improved to around 99.8% of net earned premiums. Following a series of major losses, the combined ratio for German business was 98.0%, the considerable relief from intra-Group reinsurance not being reflected in the consolidated accounting.

Overall premium income across all lines of business decreased by 3.4% to €18.6bn (19.2bn) in 2012. Gross premiums written in the primary insurance segment in the financial year 2012 fell by 2.1% to €17.1bn (17.5bn). In the health and property-casualty segments, gross premiums written reached roughly the same level as last year at €5.7bn (5.7bn) and €5.6bn (5.6bn) respectively.

ERGO CEO Torsten Oletzky commented: "The low-interest-rate phase has reached our business. In life insurance, for example, we have reduced policyholders' profit participation in the interests of keeping our value proposition sustainable. The very low interest-rate level had a noticeable effect on single-premium business, which receded appreciably both in Germany and abroad.

Launching the reorganisation of our sales forces impacted our result in 2012. But we will benefit from this in the long term, because the realignment will lead to uniform sales advice while reducing complexity and costs.”

Reinsurance: Excellent result of €3.1bn

Reinsurance business delivered very good results in 2012. The operating result amounted to 4,315m (379m). Altogether, the business field of reinsurance accounted for around €3,056m (503m) of the Group consolidated result. Major losses were slightly below expectations.

Munich Re posted premium income in reinsurance of €28.2bn (26.0bn) in 2012, a significant improvement of +8.2% compared with the previous year. With a gross volume of €11.1bn (9.5bn), premium income in life reinsurance was up 17.4% on the previous year, and 9.6% when adjusted for currency translation effects. This was partly due to the continuing dynamic expansion of the primary insurance markets in Asia. In property-casualty reinsurance business, premium income climbed by 3.0% to €17.1bn (16.6bn). At unchanged exchange rates, the premium volume would have decreased by 3.2%. The termination of large-volume treaties in China led to a fall in premium income. By contrast, organic growth in motor business as a consequence of cooperation with a strategic partner and expansion of agricultural reinsurance had a favourable effect on premium.

The combined ratio in property-casualty reinsurance was 91.0% (113.8%) of net earned premiums for the year as a whole. Munich Re’s customary review of reserves resulted in a reduction in the claims provisions for prior years amounting to around €900m for the full year, equivalent to 5.5 percentage points of the combined ratio.

Natural catastrophe losses amounted to around €1.3bn (4.5bn) for the entire year, and man-made major losses to €0.5bn. The year’s biggest loss event was Windstorm Sandy, which cost Munich Re around €800m before tax. The exceptional burdens for claims under crop failure covers due to the persistent drought in large agricultural areas of the USA totalled approximately €160m. Moreover, Munich Re raised its claims estimate for the floods in Thailand in 2011 by around €80m. These factors contrasted with positive claims settlements for other natural catastrophes. Of the man-made major losses, the accident involving cruise ship Costa Concordia and an explosion in a German industrial estate in March 2012 were the most significant events, with claims costs of approximately €80m and €70m respectively.

Torsten Jeworrek, Munich Re’s Reinsurance CEO: “Our bespoke consultancy services and the comprehensive solutions we offer our clients present us with further good business opportunities. In addition, we partner our clients in the often challenging task of adjusting to changes in regulatory requirements, which will become significantly more demanding in many countries in the coming years. In life reinsurance, we foresee continued dynamic growth in Asia.”

For the renewals at 1 April 2013 (Japan and Korea) and 1 July 2013 (mainly parts of the US market, Australia and Latin America), a prior-year premium volume of around €3.3bn will be up for renewal, with a greater proportion of natural catastrophe business than the renewals in January. Here Munich Re projects that the markets will move sideways at a good level. Munich Re remains strictly geared to profitability: "We provide capacity where there are appropriate earnings opportunities. The low interest rates support the positive price trend in casualty insurance", said Jeworrek.

Munich Health: Negative result of €92m due to losses in US primary insurance business

Munich Health's operating result sank to €108m (159m), leading to a negative consolidated result of –€92m (36m). The loss for the year was chiefly attributable to losses of €86m in US business written by the Windsor Health Group (WHG). The deterioration of the medium-term earnings situation at WHG also led to write-downs of €166m for impairments of goodwill and other intangible assets of Munich Health. WHG aside, Munich Health's business developed positively, achieving significant bottom-line growth.

Gross premium income climbed markedly by 12.3% to €6.7bn (6.0bn) in 2012. In reinsurance this was primarily due to higher premiums from large-volume treaties and to organic growth in North America. If exchange rates had remained the same, premium volume would have increased by 5.8% compared with the previous year. The combined ratio for 2012 came to 100.2% (99.5%).

Investments: Investment result rises to €8.4bn

At €213.8bn (224.5bn at market values), total investments at 31 December 2012 increased by €12.1bn or 6.0% compared with year-end 2011, chiefly due to the decline in risk-free interest rates.

The Group's investment result for 2012 showed a year-on-year rise of nearly 25% to €8.4bn (6.8bn). At €603m, a sizeable portion of this was due to earnings from unit-linked life insurance. The previous year's result had been significantly impacted by write-downs on Greek government bonds. The result for 2012 represents a return of 3.9% in relation to the average market value of the portfolio. Munich Re's equity-backing ratio at 31 December 2012 increased to 3.4% (31 December 2011: 2.0%) including equity-linked derivatives. Fixed-interest securities, loans and short-term fixed-interest investments continued to make up the bulk of Munich Re's investments at market value, with a share of 86%.

The overall balance of write-ups and write-downs plus net gains on disposals amounted to €660m (–381m) for 2012. The Group made net write-ups of €172m (368m) on swaptions used by its life primary insurers to hedge against reinvestment risks in low-interest-rate phases. Gains were recorded on these swaptions and other interest-rate derivatives, as their market values had been bolstered by falling interest-rate levels. The result from the disposal of investments amounted to €652m (1,244m), primarily from gains realised on switching investments in equities, government bonds, covered bonds and corporate bonds.

CFO Jörg Schneider was satisfied with the investment result: “Our broadly diversified portfolio and the comparatively long terms of our fixed-interest securities help us to mitigate the effect of low interest rates on the running yield.”

With regard to the handling of valuation reserves deriving from the persistently low interest-rate levels for fixed-interest securities in particular, CEO Nikolaus von Bomhard said: “To maintain our markedly increased valuation reserves for the benefit of our clients, especially in life insurance, we have deliberately held back with portfolio restructurings which currently result in gains on disposal. In doing so, we are taking the interests of all our insureds into account.” The impact of the low-interest-rate environment is already clearly reflected in the Group’s regular income from investments and the return on reinvestment.

Provided an adequate return can be expected, Munich Re aims to invest more in renewable energy and new technologies in 2013 as well. In 2012, the Group’s portfolio was increased to around €1bn, with €2.5bn planned for the medium term. CFO Schneider emphasised: “To achieve a broad spread of the portfolio’s main risk drivers, i.e. technical and political risk, we will continue to attach great importance to diversifying our investments both by region and by sector. We will additionally be focusing on infrastructure projects in the next few years.” By the end of 2012, Munich Re had already invested around €500m in this sector. Its plan for the medium term is to invest a total of €1.5bn.

The Group’s asset manager, also for this important new investment class, is MEAG. Its assets under management as at 31 December 2012 included not only Group investments but also segregated and retail funds totalling €11.5bn (10.4bn).

Outlook for 2013: Group result target of close to €3bn
Assuming exchange rates remain stable, the Group anticipates that for the financial year 2013 its gross premiums written will range between €50bn and €52bn. Gross premium income of €27–28bn is expected in the reinsurance segment, and a figure of just over €17bn for primary insurance. Total premium income in primary insurance (including the savings premiums of unit-linked life insurance and capitalisation products) should be around €18.5bn. Gross premiums written of just over €6.5bn are projected for Munich Health.

For property-casualty reinsurance, Munich Re’s target is a combined ratio of around 94% of net earned premiums. In property-casualty primary insurance, the combined ratio for 2013 should be around 95%. The figure for Munich Health is expected to be around 100%.

Munich Re does not anticipate any rapid or significant rise in capital market interest rates in 2013, so regular income from investments is likely to be relatively low. Overall, the Group anticipates a return on investment of around 3.3%.

The consolidated result in reinsurance should total between €2.3bn and €2.5bn in 2013. For the primary insurance segment, Munich Re projects a consolidated result in the range of €400–500m, and €350–450m for the ERGO Group. The difference between the two figures is mainly attributable to intra-Group transactions between primary insurance and reinsurance. In Munich Re's smallest business field, Munich Health, a further loss cannot be ruled out for 2013 owing to the difficult situation at WHG.

Given average claims experience and in expectation of stable prices overall in reinsurance, Munich Re envisages a technical result for 2013 of the same level as in 2012. The Group aims to achieve a consolidated result of close to €3bn, subject to actual claims experience with regard to major losses being within normal bounds and to its income statement not being impacted by severe currency or capital market developments, significant changes in fiscal parameters, or other special factors.

As already announced, pending approval by the Annual General Meeting, Munich Re intends to pay an increased dividend for the 2012 financial year of €7.00 per share in April 2013, equivalent to a total payout of just under €1.3bn based on the shares currently in circulation. "We are very pleased that our dividend yield of 5.2% again puts us among the top performers of the DAX 30 in 2013", said CEO von Bomhard.

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

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

At a glance:

- CEO Nikolaus von Bomhard: "With a profit of €3.2bn, we achieved a very good result."
- Primary insurance: Segment result of €247m
- Reinsurance: Result of €3,056m
- Munich Health: Loss of €92m

Key figures (IFRS) for the Group in the financial year 2012*
(in €m unless otherwise indicated)

	2012	2011	Change	
			Absolute	%
Gross premiums written	51,969	49,452	2,517	5.1
Net earned premiums	50,499	47,292	3,207	6.8
Net expenses for claims and benefits	40,991	40,914	77	0.2
Technical result	3,876	186	3,690	>1,000.0
Investment result	8,436	6,756	1,680	24.9
Thereof realised gains	3,419	5,438	-2,019	-37.1
realised losses	2,767	4,194	-1,427	-34.0
Non-technical result	1,474	994	480	48.3
Operating result	5,350	1,180	4,170	353.4
Net finance costs	-297	-288	-9	-3.1
Taxes on income	866	-552	1,418	-
Consolidated profit	3,211	712	2,499	351.0
Thereof attributable to				
Munich Reinsurance Company equity holders	3,195	702	2,493	355.1
minority interests	16	10	6	60.0
	31.12.2012	31.12.2011		
Investments	213,823	201,707	12,116	6.0
Equity	27,423	23,309	4,114	17.6
Staff	45,437	47,206	-1,769	-3.7

REINSURANCE	**2012**	2011	Change	
			Absolute	%
Gross premiums written	28,182	26,038	2,144	8.2
Thereof life	11,130	9,481	1,649	17.4
property-casualty	17,052	16,557	495	3.0
Combined ratio in %	91.0	113.8**	-22.8	
Technical result	3,208	-459	3,667	-
Non-technical result	1,107	838	269	32.1
Operating result	4,315	379	3,936	>1,000.0
Result	3,056	503	2,553	507.6

PRIMARY INSURANCE

Gross premiums written	17,084	17,447	-363	-2.1
Combined ratio in %	98.7	99.1	-0.4	
Technical result	632	586	46	7.8
Non-technical result	263	-6	269	-
Operating result	895	580	315	54.3
Result	247	155	92	59.4

MUNICH HEALTH	**2012**	2011	Change	
			Absolute	%
Gross premiums written	6,703	5,967	736	12.3
Combined ratio in %	100.2	99.5	0.7	
Technical result	36	59	-23	-39.0
Non-technical result	72	100	-28	-28.0
Operating result	108	159	-51	-32.1
Result	-92	36	-128	-

SHARES	**2012**	2011		Change
Earnings per share in €	17.98	3.94	14.04	356.3

* 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; 112.4% after risk transfer.

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

	4th quarter 2012	4th quarter 2011	Change Absolute	%
Gross premiums written	12,931	12,373	558	4.5
Net earned premiums	12,949	12,338	611	5.0
Net expenses for claims and benefits	10,208	10,096	112	1.1
Technical result	1,044	398	646	162.3
Investment result	2,165	1,941	224	11.5
Thereof realised gains	417	1,396	-979	-70.1
realised losses	290	1,348	-1,058	-78.5
Non-technical result	568	380	188	49.5
Operating result	1,612	778	834	107.2
Net finance costs	-75	-74	-1	-1.4
Taxes on income	341	-144	485	-
Consolidated profit	481	632	-151	-23.9
Thereof attributable to				
Munich Reinsurance Company equity holders	477	627	-150	-23.9
minority interests	4	5	-1	-20.0

REINSURANCE	**4th quarter 2012**	4th quarter 2011	Change Absolute	%
Gross premiums written	6,996	6,445	551	8.5
Thereof life	2,939	2,377	562	23.6
property-casualty	4,057	4,068	-11	-0.3
Combined ratio in %	83.2	101.8	-18.6	
Technical result	1,065	307	758	246.9
Non-technical result	341	440	-99	-22.5
Operating result	1,406	747	659	88.2
Result	727	671	56	8.3

PRIMARY INSURANCE	**4th quarter 2012**	4th quarter 2011	Change Absolute	%
Gross premiums written	4,260	4,367	-107	-2.5
Combined ratio in %	104.0	101.5	2.5	
Technical result	17	85	-68	-80.0
Non-technical result	208	-124	332	-
Operating result	225	-39	264	-
Result	-86	-68	-18	-26.5

MUNICH HEALTH	**4th quarter 2012**	4th quarter 2011	Change	
			Absolute	%
Gross premiums written	1,675	1,561	114	7.3
Combined ratio in %	102.9	100.4	2.5	
Technical result	-38	6	-44	-
Non-technical result	15	44	-29	-65.9
Operating result	-23	50	-73	-
Result	-156	19	-175	-

SHARES	**4th quarter 2012**	4th quarter 2011		Change
Earnings per share in €	**2.69**	3.53	-0.84	-23.8

* 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.