Münchener Rück
Munich Re Group

Press release – Munich, 6 August 2008

Munich Re keeps on course: Medium-term profit targets affirmed

In the first half-year 2008, the Munich Re Group recorded a profit of €1.4bn (first half-year 2007: €2.1bn). As already published on 25 July 2008, despite marked reductions in share prices and the fall in the dollar, the profit for 2008 should be well above €2bn, notwithstanding strict application of IFRS impairment rules. Munich Re is adhering to its medium-term objectives: by 2010, more than €8bn is to be paid out to shareholders through share buy-backs and dividends, and earnings per share are to increase to at least €18.

Nikolaus von Bomhard, Chairman of the Board of Management, emphasised: “We identified the challenges of the future in good time. With our integrated business model and our risk management, we are earning a solid profit – even under the difficult conditions on the capital markets and the growing price pressure in reinsurance.” At the same time, with its conservative capitalisation, Munich Re is very well positioned to exploit opportunities in the current market environment. “In our Changing Gear programme, we are driving ahead with profitable business initiatives, such as expansion in specialty segments of US primary insurance”, said von Bomhard. Munich Re is also continuing to create value for shareholders: The dividend per share in 2009 is to amount to a minimum of €5.50, thus maintaining the high level of 2008.

The Group’s medium term profit goals are unchanged: as part of Changing Gear, Munich Re aims by 2010 to generate an additional profit of more than €250m from new reinsurance activities and to raise earnings per share to at least €18, excluding any positive one-off effects. In primary insurance, ERGO is moving purposefully ahead with its international business expansion and has set ambitious objectives to establish itself among the top group of European insurers.

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The share buy-back launched by Munich Re has been continuing since the AGM in May 2008. Before the next AGM in 2009, further shares with a volume of €1bn are to be repurchased. Shares with a volume of €0.5bn had already been acquired for this tranche by 31 July.

Summary of the Munich Re Group's figures for the first half-year

In the first six months, the Munich Re Group recorded an operating result of €2.2bn (2.8bn), a decrease of 23.7%. The marked price losses on the stock markets and the fall in the dollar impacted on the investment result, which fell by 42.2% to €3.3bn (5.6bn), with equity capital declining to €21.5bn since the beginning of the year (31.12.2007: €25.5bn).

CFO Jörg Schneider: "Given the turmoil on the financial markets, those are satisfactory results. Of course, we had impairments of equities and low gains on disposals, but thanks to our balanced investment portfolio, we have done relatively well."

Owing to negative currency exchange effects due to the strong euro, gross premiums written reduced slightly by 0.4% to €18.9bn. If exchange rates had remained the same, premium volume would have increased by 4.4% in the first half-year.

Primary insurance: ERGO systematically implementing programme to increase competitiveness and internationalisation

The Munich Re Group achieved relatively satisfying results in the primary insurance segment in the first six months. The operating result totalled €532m (610m) (–12.8%) and the consolidated result after tax €324m (410m) (–21.0%). The reduction is mainly due to the difficult capital market environment. Price losses on the stock markets necessitated write-downs of equities totalling €1.0bn, which were partially offset by €0.5bn in write-ups of derivative financial instruments held for hedging purposes. The investment result declined by 51.8 % to €1.6bn (3.3bn).

Following the first-quarter improvement in the combined ratio, natural hazard events such as Windstorm Hilal in Germany had a slightly negative influence on the combined ratio in the second quarter. Nevertheless, the half-year combined ratio was still very good at 91.0%, and lower than for the same period last year (93.3%).

The ERGO Insurance Group, which writes around 94% of the gross premiums in Munich Re's primary insurance segment, posted a profit of €269m (403m). In the same period last year, the result had benefited from the sale of a major real estate package and realised gains on equities. Gross premiums written by the primary insurers in the Munich Re Group in the first half-year totalled €9.0bn (8.8bn). In property-casualty business (including legal expenses insurance), premium climbed by 5.2% to €3.3bn (3.1bn). In the life and health segment, total premium income rose to €6.2bn (6.1bn), with gross premiums written amounting to €5.7bn (5.7bn). Unlike overall premium volume, gross premiums written do not include the savings premiums from unit-linked life insurance and capitalisation products such as “Riester” pensions in Germany – product lines that are playing an ever more important role for ERGO.

Sales in Germany – especially in life insurance – continued to be affected by changes resulting from the German insurance contract law reform. The performance of property business is pleasing. ERGO CEO Torsten Oletzky: “In non-life, we are expecting another very good underwriting result this year, with premium growth above the market average.”

A further component of ERGO’s strategy is to significantly reduce its expense ratios. Oletzky: “Here, too, we remain on track with a view to further improving ERGO’s price-performance ratio for clients and, by 2012, firmly establishing ourselves among the top group of European insurers in terms of competitiveness and profitably.” Targets for ERGO’s expense ratios (based on German GAAP) had already been communicated at the end of 2007: by the year 2010, ERGO aims to reduce administrative expense ratios in life insurance to 2.9% (2007: 3.3%) and in health insurance to 2.8% (3.0%); in property-casualty insurance, the operating expense ratio is to total 30.5% (32.2%). In the meantime, concrete measures have been decided on to achieve the cost targets: ERGO plans to save around €180m in office and personnel expenses by 2010. This means a reduction of 1,570 jobs throughout Germany. In addition, another 360 vacant positions are to be cut, amounting to a total reduction of 1,930 jobs.

At the same time, ERGO is continuing to pursue expansion abroad, especially in the promising markets of eastern and southern Europe, India and other Asian countries.

ERGO is also adhering to its longer-term objectives: “By 2012, our profit on a sustained basis – that is, excluding exceptionally good or exceptionally adverse capital markets – is to increase to €900m”, said Oletzky.

Reinsurance: Active cycle management to the fore

Despite the higher number of major losses in the first quarter, reinsurance business performed satisfactorily overall. The operating result grew by 6.2% to €2.6bn (2.4bn). Altogether, reinsurance contributed €2.0bn (1.9bn) 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 was 95.4% (94.9%) for the second quarter, and 99.6% (98.4%) for January to June. The biggest loss events in the natural catastrophe sector in the second quarter were the severe earthquake in the Chinese province of Sichuan, the floods in the US Midwest, and Windstorm Hilal over Germany, for which €30–40m each has been earmarked. The largest man-made loss events comprise a fire in a switching station in Moscow and a blaze at Universal Studios, California, for which another €30–35m each has been set aside. Major loss expenditure for the whole first half-year amounted to €777m (615m). The reason for the increase is the high number of medium-sized major losses that led to a significant burden in the first quarter of 2008. Compared with the first six months of 2007, expenditure for natural catastrophes dropped to €425m (544m), whereas the burden from man-made loss events climbed to €352m (71m).

Owing to currency translation effects, gross premiums written in reinsurance fell by 2.8% to €10.7bn (11.0bn). Without these effects, they would have risen by 5.6%. The life and health segment accounted for €3.4bn (3.7bn), and property-casualty for €7.3bn (7.3bn). New acquisitions Midland and Sterling were consolidated in the Group financial statements with effect from 1 April 2008, with gross premium income amounting to €166m and €161m respectively.

Munich Re's treaty renewals in property-casualty reinsurance at 1 April 2008 (in the USA, India, Japan and Korea) and at 1 July 2008 (mainly in the USA, Australia and Latin America) showed varied development. In some markets and sectors, growing price competition was observable. Through its risk expertise and expansion into often complex, profitable niche markets, Munich Re was able to buck the market trend to a certain extent. Board member Torsten Jeworrek stressed: “There is only one answer to increasing price pressure: active cycle management.” And he again underlined: “If necessary, we will shed business.”

Besides active cycle management, purposeful international business expansion is set to contribute to a sustained increase in Munich Re’s profit. Thus the integration of the US insurance companies Midland and Sterling, acquired last year and consolidated for the first time in Munich Re’s financial statements for the second quarter, is making gratifying progress. Especially the integration of Midland as a platform for profitable growth in primary insurance niche segments in the USA is proceeding apace.

Investments: Investment result of €3.3bn hit by negative performance on the stock markets

The financial market crisis in Europe and the US is persisting. Against this background, the Munich Re Group’s well-balanced investment portfolio, which is managed by MEAG, held up comparatively well.

Compared with year-end 2007, the value of the Group’s investments as at 30 June 2008 showed a decrease of 5.6% to approximately €166bn (176bn), mainly due to currency translation effects, stock market trends and increases in interest rates. In comparison with the outstanding result of the first half-year 2007, the investment result sank by 42.2% to €3.3bn (5.6bn), equivalent to an annualised return of 3.8% based on the average market value of the portfolio. In the same period last year, the sale of a real-estate package comprising residential and commercial properties throughout Germany had alone led to gains on disposal of around €550m. Also in the first half of 2007, Munich Re took advantage of the favourable stock market situation to realise substantial capital gains, whereas in 2008 it has largely refrained from such disposals in view of the softening markets.

By industry standards, the Munich Re Group applies a strict interpretation of the IFRS rules for impairments of equities in the “available for sale” category. Under this approach, an impairment is recognised if the stock market price of shares falls below the average historical acquisition cost either for a sustained period, i.e. at least six months, or significantly, i.e. by at least 20%. Further declines in the prices of equities that have already been written down once are recognised immediately in the income statement. Subsequent share price increases will only have a positive impact on equity, not on the income statement.

In the first three months of the year, the negative development of the market had already led Munich Re to make write-downs in its equity portfolio totalling €1,332m. Following a slight recovery at the start of the second quarter, share prices dropped significantly again, requiring an additional €889m worth of write-downs in the second quarter of 2008. In the first six months of the year, the weak stock market performance led to increases in the value of derivative hedging instruments, allowing Munich Re to write up its derivatives by a total of €1,702m (302m) in the first half-year, €571m (217m) of which was in the second quarter. Overall, the balance of write-ups and write-downs of derivatives in the category “held for trading” was €1,128m (–407m) in the first half-year, €1,171m of which is attributable to equity derivatives. As at 30 June 2008, the equity-backing ratio decreased to 6.8% (31.3.2008: 7.2%) of the Group’s total investments at market values, including hedging instruments.

Taken together, the results of write-downs and write-ups of equities and equity-based derivatives place a burden of –€992m (–294m) on the investment result in the first half-year, –€591m (–122m) of which relates to the second quarter. Including gains and losses on the disposal of equities and real estate, the balance for the first half-year is –€267m (1,989m), which represents a decline of €2,256m compared with the first half of 2007, thus explaining the reduction in the investment result almost entirely.

Only around €10m of write-downs were necessary in the Group’s small portfolio of just €240m (less than 0.2% of total investment volume) exposed to the US subprime mortgage market.

At the reporting date, the portfolio of structured credit products totalled €6.7bn, which corresponds to an increase of approximately €1.2bn compared with the beginning of the year. €3.1bn of this involves securities of the US mortgage financers Fannie Mae and Freddie Mac. Besides this, the Group holds bonds of these two institutions worth around €550m.

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 €8.2bn (9.2bn) under management as at 30 June 2008.

Outlook for 2008: Consolidated profit of well over €2bn envisaged
The Munich Re Group aims to achieve a return of at least 15% on risk-adjusted capital (RORAC) over the cycle. In the light of depressed share prices, Munich Re expects a profit of well over €2bn for 2008, equivalent to a RORAC clearly exceeding 10%.

If exchange rates remain stable, Munich Re anticipates that its gross premium volume in the reinsurance segment will range between €20.0bn and €21.0bn. The slight year-on-year decline is attributable to exchange-rate developments and the softening reinsurance market. “That is why we are keeping firmly focused on profit-oriented underwriting and are still prepared to sacrifice business volume”, emphasised CEO von Bomhard.

Gross premium income of €17.5–18.0bn (2007: €17.3bn) is forecast in primary insurance, with a consolidated figure for the whole Munich Re Group of €36.0–37.5bn (€37.3bn).

The Group is targeting a combined ratio for reinsurance of 98% (6.5 percentage points of which are budgeted for natural hazards). After the high random major losses in the first quarter, this objective can only be attained if claims costs from such events remain below expected values during the rest of the year. In primary insurance, the combined-ratio target for 2008 is again under 95%. A sustained 4.5% return on investments is aimed at – based on their average market values. In view of the continuing adverse situation on the capital markets, Munich Re expects an RoI of below 4.0% for 2008.

All statements made today are, as always, conditional on normal claims and capital-market developments.

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Disclaimer

Key figures (IFRS) for the first half-year 2008
(in €m unless otherwise indicated)

At a glance:

- Profit guidance: Profit of well over €2bn envisaged
- CEO von Bomhard: “We are adhering to our medium-term objectives.”
- In reinsurance, focus on cycle management
- ERGO systematically implementing programme for more competitiveness and internationalisation

MUNICH RE GROUP	**1st half-year 2008**	1st half-year 2007	Change absolute	Change %
Gross premiums written	**18,857**	18,928	–71	–0.4
Net earned premiums	**17,245**	17,655	–410	–2.3
Investment result	**3,263**	5,646	–2,383	–42.2
Thereof realised gains	**2,592**	2,871	–279	–9.7
realised losses	**1,716**	858	858	100.0
Net expenses for claims and benefits	**14,023**	15,989	–1,966	–12.3
Operating result (before finance costs and taxes on income)	**2,174**	2,848	–674	–23.7
Finance costs	**181**	149	32	21.5
Taxes on income	**587**	567	20	3.5
Consolidated profit	**1,406**	2,132	–726	–34.1
Thereof attributable to Munich Re equity holders	**1,374**	2,098	–724	–34.5
to minority interests	**32**	34	–2	–5.9
	30.6.2008	31.12.2007		
Investments	**166,243**	176,154	–9,911	–5.6
Equity	**21,472**	25,458	–3,986	–15.7
Employees	**42,617**	38,634	3,983	10.3

REINSURANCE*	**1st half-year 2008**	1st half-year 2007	Change absolute	Change %
Gross premiums written	**10,683**	10,993	–310	–2.8
Thereof Life and health	**3,393**	3,658	–265	–7.2
Property-casualty	**7,290**	7,335	–45	–0.6
Combined ratio in % Property-casualty	**99.6**	98.4	1.2	
Thereof natural catastrophes	**6.6**	8.0**	–1.4	
Operating result***	**2,568**	2,417	151	6.2
Result****	**2,018**	1,922	96	5.0

PRIMARY INSURANCE*	**1st half-year 2008**	1st half-year 2007	Change absolute	Change %
Gross premiums written	**8,971**	8,813	158	1.8
Thereof Life and health	**5,658**	5,665	–7	–0.1
Property-casualty	**3,313**	3,148	165	5.2
Combined ratio in % for property-casualty, including legal expenses insurance	**91.0**	93.3	–2.3	
Operating result	**532**	610	–78	–12.8
Result	**324**	410	–86	–21.0

SHARES	**1st half-year 2008**	1st half-year 2007	Change	
Earnings per share in €	**6.73**	9.54	–2.81	–29.5

* Before elimination of intra-Group transactions across segments.
** Adjusted owing to a change in methodology.
*** Including ERGO dividend of €947m (114m).
**** Including ERGO dividend of €931m (112m).

Key figures (IFRS) for the second quarter of 2008
(in €m unless otherwise indicated)

MUNICH RE GROUP	**2nd quarter 2008**	2nd quarter 2007	Change absolute	Change %
Gross premiums written	**9,013**	8,908	105	1.2
Net earned premiums	**8,698**	8,861	–163	–1.8
Investment result	**1,576**	2,485	–909	–36.6
Thereof realised gains	**1,000**	832	168	20.2
realised losses	**866**	510	356	69.8
Net expenses for claims and benefits	**7,088**	7,568	–480	–6.3
Operating result (before finance costs and taxes on income)	**1,023**	1,535	–512	–33.4
Finance costs	**95**	79	16	20.3
Taxes on income	**307**	298	9	3.0
Consolidated profit	**621**	1,158	–537	–46.4
Thereof attributable to Munich Re equity holders	**599**	1,140	–541	–47.5
to minority interests	**22**	18	4	22.2

REINSURANCE*	**2nd quarter 2008**	2nd quarter 2007	Change absolute	Change %
Gross premiums written	**5,191**	5,173	18	0.3
Thereof Life and health	**1,715**	1,867	–152	–8.1
Property-casualty	**3,476**	3,306	170	5.1
Combined ratio in % Property-casualty	**95.4**	94.9	0.5	
Thereof natural catastrophes	**2.5**	3.6**	–1.1	
Operating result***	**1,706**	1,358	348	25.6
Result****	**1,432**	1,124	308	27.4

PRIMARY INSURANCE*	**2nd quarter 2008**	2nd quarter 2007	Change absolute	Change %
Gross premiums written	**4,168**	4,055	113	2.8
Thereof Life and health	**2,801**	2,810	–9	–0.3
Property-casualty	**1,367**	1,245	122	9.8
Combined ratio in % for property-casualty, including legal expenses insurance	**92.9**	85.1	7.8	
Operating result	**286**	294	–8	–2.7
Result	**161**	160	1	0.6

* Before elimination of intra-Group transactions across segments.
** Adjusted owing to a change in methodology.
*** Including ERGO dividend of €947m (114m).
**** Including ERGO dividend of €931m (112m).