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Munich Re sees turnaround in the cycle

The financial crisis has led to dramatic changes in the capital markets. Although governments worldwide have initiated extensive measures over the past weeks to curb the crisis, the consequences for the financial markets and the real economy will be felt for a long time to come. The financial crisis is increasing the demand for reinsurance. Munich Re will benefit from its competence in risk management and above-average financial strength.

“To master the challenges connected with the financial crisis, primary insurance companies are more dependent than ever on reliable and financially resilient reinsurers as partners. Munich Re is in an excellent position to meet these needs, thanks to its competence in risk management and its financial strength. The current special importance of security and stability presents opportunities that we intend to resolutely exploit. We therefore expect to expand our profitable business and emerge stronger from this crisis”, said Ludger Arnoldussen, member of Munich Re’s Board of Management.

Since the Reinsurance Rendezvous in Monte Carlo at the beginning of September, which traditionally launches the year-end renewal season in reinsurance, the world’s ten biggest insurers in terms of market capitalisation have alone lost more than a quarter of their market value. “Given the erosion of many insurers’ capital, the significance of reinsurance as a direct capital substitute is growing. With our capacities, we are able to give primary insurers more headroom, thus also playing a part in counteracting the financial crisis and stabilising the economy”, stressed Arnoldussen.

Munich Re writes risks only at adequate prices and conditions. “Quality and security have their price in reinsurance. In view of the increased cost of capital, the growing demand and the changed risk environment, we

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expect significantly higher prices, with percentage increases definitely going into the double-digit range. Where Munich Re is unable to obtain the requisite prices, we will not write the business," said Arnoldussen.

The burden for Munich Re from man-made losses increased in the first-half year from €71m in 2007 to €352m in 2008. This development is just one example of the changing risk environment. Another is the persistent trend towards higher costs for severe personal injuries in motor liability insurance, resulting partly from medical advances and partly from social changes, such as care by professional providers rather than by members of the family.

Munich Re's client focus and technical competence were affirmed in the latest Flaspöhler survey, the most important opinion poll of clients in the reinsurance industry. Clients again rated Munich Re Best Overall Reinsurer in both life and non-life business in the Europe-wide study, putting it top in nearly all subcategories – another marked improvement on its 2006 ratings. Munich Re also achieved top place in the Flaspöhler survey in Asia, which was conducted for the first time in 2008.

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The **Munich Re Group** operates worldwide, turning risk into value. In the financial year 2007, it achieved a profit of €3,937m, the highest since the company was founded in 1880, on premium income of approximately €37bn. The Group operates in all lines of business, with around 43,000 employees at over 50 locations throughout the world and is characterised by particularly pronounced diversification, client focus and earnings stability. With premium income of around €21.5bn from reinsurance alone, it is one of the world's leading reinsurers. Its 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 34 million clients in 26 countries place their trust in the services and security it provides. The global investments of the Munich Re Group amounting to €176bn are managed by MEAG, which also makes its competence available to private and institutional investors outside the Group.

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