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Munich Re posts profit of €1.4bn for the first three quarters

The Group's third-quarter result amounted to €12m (same period last year: €1.2bn). Munich Re's capital base remains solid at €21.5bn – the same level as after the first six months of the year, despite the market turmoil. The Group has retained its conservative approach to the application of accounting regulations.

CFO Jörg Schneider: "The 2008 financial year is proving difficult on account of the financial crisis, but the Munich Re Group is acquitting itself well compared with its competitors thanks to its well-balanced investment portfolio. All the same, the upheavals on the markets demand caution with regard to profit guidance: in view of the considerable share price losses, our annual profit will probably not reach €2bn, or earnings per share of €10." The ongoing volatility of the markets does not permit a reliable profit forecast for the year as a whole, Schneider continued, stating that the dividend per share for the 2008 financial year should nevertheless again reach the previous year's high level of €5.50. Munich Re is also adhering to its objective of increasing earnings per share to at least €18 by 2010.

The Group sees good opportunities for profitable business in the current market environment, setting its sights on improvements in prices and conditions in reinsurance business, given the increased importance of security and stability and the simultaneously expected rise in demand. "Munich Re's capital base remains solid", says Schneider. He emphasised that Munich Re is maintaining its existing accounting policies in the interests of transparency and continuity.

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Last year, Munich Re had already made significant cutbacks in the proportion of its investments held in equities, and also considerably reduced the influence of value fluctuations by taking active hedging measures. As at 30 September 2008, the equity-backing ratio was 4.6% (31 December 2007: 10.8%), based on the Group's total investments at

market values including hedging instruments, and had sunk even further as at 31 October.

Schneider was optimistic about business development: "Not only has the significance of our financial strength increased appreciably in the financial market crisis; so too has the importance of expertise in risk assessment and risk management. These are core competencies of the Munich Re Group, and will ensure that we emerge stronger from the current situation than other market players. We are therefore holding to our objective of increasing our earnings per share to at least €18 by 2010." Schneider also confirmed the Group's intention to pay a dividend of €5.50 per share for the 2008 financial year. "Even in these times of uncertainty, we are offering our shareholders reliability and an excellent dividend yield", he said.

Summary of the Munich Re Group's figures for the first nine months

In the first nine months, the Munich Re Group recorded an operating result of €2.4bn (4.0bn), a decrease of 38.8%. The marked price losses on the stock markets impacted the investment result, which fell by 48.4% to €3.9bn (7.6bn). Equity decreased to €21.5bn since the beginning of the year (31 December 2007: €25.5bn), but compared with the figure at 30 June 2008, there was only a very slight reduction of €8m. The book value per share now stands at €105.32 following figures of €118.95 at the turn of the year and €103.51 at 30 June 2008.

Despite negative currency exchange effects due to the strong euro, gross premiums written were up slightly (by 0.2%) to €28.13bn (28.08bn). At unchanged exchange rates, premium volume would have increased against the same quarter last year by 5.4%, and by 4.8% in the first three quarters.

Primary insurance: Focus on security for clients

The operating result in the Munich Re Group's primary insurance segment for the first nine months was €674m (923m) (-27%), of which €142m (313m) was in the third quarter. The consolidated result after tax totalled €370m (752m) (-50.8%), of which €46m (342m) relates to the third quarter. The decrease against the same period in 2008 was mainly due to the investment result and the positive taxation effects posted in the third quarter of the previous year from the German Business Tax Reform Act 2008. The investment result declined by 53.3% to €2.1bn (4.5bn). Given the share-price losses on the world's stock markets, the envisaged annual profit target of over €500m is unlikely to be achieved.

The ERGO Insurance Group, which contributes around 95% of the premium income in Munich Re's primary insurance segment, posted a profit of €300m (701m). In the same period last year, the result had benefited from the sale of a major real estate package and realised gains on equities.

With reference to the financial market crisis, ERGO CEO Torsten Oletzky said: "ERGO has a very conservative investment mix, so there is no

reason for our clients to be concerned. And given the demographic trend in Germany, private provision for old age is more important than ever.” Oletzky also stressed that especially in these times of uncertainty, the professional advice provided by the sales forces of the ERGO brand companies and membership of the Munich Re Group are of great benefit: “We can now score on quality and financial strength.”

The already excellent combined ratio in property-casualty insurance improved again significantly in the first nine months to 90.2% (92.9%) and even reached 88.7% (92.1%) in the quarter under review.

Premium income written by the primary insurers in the Munich Re Group totalled €13.8bn (13.5bn) in the first nine months of the year. In property-casualty business (including legal expenses insurance), premiums climbed by 5.2% to €4.7bn (4.4bn), driven mainly by international business with a growth rate of 11.7%. In the life and health segment, total premium income rose marginally to €9.11bn (9.05bn).

Reinsurance: Munich Re sees turnaround in the cycle

Despite the major losses in the third quarter (especially Hurricanes Gustav and Ike), reinsurance business performed satisfactorily overall. The operating result sank by 16.0% to €2.7bn (3.2bn) from January to September, €132m (798m) of which was in the third quarter. Altogether, reinsurance contributed €2.0bn (2.8bn) to the Group profit, and –€35m (857m) in the period from July to September. 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 stood at 100.2% (98.0%) for the months of January to the end of September, and at 101.3% (97.1%) for the third quarter. The biggest loss events of the third quarter were the Hurricanes Ike and Gustav. The total burden before tax was approximately €300m from Ike, and around €90m from Gustav. The burden from major losses in the first nine months of the year totalled €1.2bn (0.8bn), with natural catastrophes accounting for €760m (697m) of this.

Compared with the same period last year, gross premiums written fell by 2.0% to €16.1bn (16.5bn), particularly as a result of the strong euro. At unchanged exchange rates, premium volume would have increased by 6.0% in the first nine months. The life and health segment contributed €5.2bn (5.5bn), and property-casualty €11.0bn (10.9bn). New acquisitions Midland and Sterling were consolidated in the Group financial statements as from 1 April 2008 with gross premium income amounting to €344m and €338m respectively.

At the “Rendez-Vous de Septembre” in Monte Carlo, which is where negotiations for the 1 January renewals traditionally start, Munich Re had already forecast a turnaround in the cycle. The spiralling financial market crisis and higher losses are indeed currently driving a trend reversal, as

Board member Torsten Jeworrek emphasised: "We will take our clients' individual situations into account, bearing in mind the different markets and classes of business. And we will support our clients: as long as we can achieve risk-adequate prices, we will make our high capacities available to them on a sustained basis as usual."

Investments: Prudent investment policy limits the impact of the capital market crisis

The financial market crisis has come to a head dramatically in recent months. 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 September 2008 receded by 2.7% to approximately €171bn (176bn) due to the financial market turbulence, but was still €5.1bn higher than at 30 June 2008. In comparison with the outstanding result for the same period of the previous year, the investment result sank by 48.4% to €3.9bn (7.6bn), equivalent to an annualised return of 3.1% based on the average market value of the portfolio.

From January to September, Munich Re posted net realised gains on disposal of €1,141m (2,579m), of which €471m (6m) was generated using derivative financial instruments. The bulk of these are derivatives purchased to hedge the Group's equity portfolio and whose performance had benefited from the bear market. Besides this, in the third quarter of 2008, Munich Re also sold a block of hedged shares. The Group posted a result of €523m (2,498m) for the sale of equities in the first nine months of 2008. In the first half of 2007, it had exploited the favourable stock market performance, realising considerable gains on disposals.

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. Consequentially, in the first six months of the year, the negative development of the market had already led Munich Re to make write-downs in its equity portfolio totalling €2,221m. Share prices dropped again significantly in the third quarter, requiring an additional €1,789m worth of write-downs. The revaluation of the Munich Re Group's fixed-interest securities in the first nine months of the year only resulted in write-downs totalling approximately €101m.

Significant increases occurred in the value of hedging instruments: almost all of the total write-ups of €2,958m (798m) came from derivatives, with an amount of €2,901m (609m). Of this, €1,199m (307m) was recorded in the third quarter.

The equity-backing ratio decreased still further to 4.6% as at 30 September 2008 (31 December 2007: 10.8%) based on the Group's total investments at market values including hedging instruments. This decreased ratio is mainly attributable to the greater use of additional hedging in the third quarter.

Munich Re has taken advantage of the considerable widening of risk spreads in comparison to government bonds to restructure its portfolio accordingly and earn higher interest income. As at 30 September 2008, asset-backed securities and mortgage-backed securities accounted for around 4% of its total investment portfolio at carrying amounts (31 December 2007: approx. 3%).

As yet, the spread of the crisis to companies such as American International Group (AIG) and Washington Mutual has had no notable impact on Munich Re's results. Its business relations with Lehman Brothers, which involve various capital market transactions, have led to write-downs of around €115m net following the company's application for creditor protection.

On 13 October 2008, the IASB (International Accounting Standards Board) fast-tracked an amendment of IAS 39 "Financial Instruments" relating to the reclassification of financial instruments. In the light of the crisis on the financial markets, the changes made are intended to eliminate the potential competitive advantages of US banks by aligning IFRS with US GAAP, and to provide balance-sheet relief in the financial sector. As Munich Re already recognised its investments according to relatively conservative standards and does not require relief thanks to its well-balanced investment policy and solid capitalisation, the Group will be abiding by its existing approach in the interests of transparency and continuity. It will further abstain from reclassifying financial instruments in the future – as long as this practice does not cause any serious competitive disadvantages.

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 €8.9bn (9.2bn) under management as at 30 September 2008.

Outlook for 2008: Marked decrease in profit for 2008; Changing Gear programme objectives reaffirmed

The persistently negative capital market situation in the third quarter and uncertain future trends means that the Group is unlikely to reach the previously envisaged consolidated profit for the year of €2bn after consolidation.

If exchange rates remain stable, Munich Re anticipates that its gross premium volume in the reinsurance segment will be around €21.0bn. The slight year-on-year decline is attributable to exchange-rate developments and consistently result-oriented underwriting. Gross premium income of approximately €17.5bn (2007: €17.3bn) is forecast in primary insurance, with a consolidated figure for the whole Munich Re Group in the region of €37.5bn (€37.3bn).

Due to high cost burdens from natural catastrophes and man-made losses in 2008, the targeted combined ratio of 98% for reinsurance (6.5 percentage points of which are budgeted for natural hazards) can

only be achieved if such random major losses remain significantly below expectations in the fourth quarter. In primary insurance, the combined ratio for 2008 should be well within the target of 95%.

Despite the financial market crisis, Munich Re is adhering to its medium-term Changing Gear objectives: In the period May 2007 to 2010, more than €3bn is to be paid out to shareholders through share buy-backs and dividends, and earnings per share are to increase to at least €18. Furthermore, the Munich Re Group aims to achieve a return of at least 15% on risk-adjusted capital (RORAC) over the cycle.

Thus far, since May 2007, Munich Re has paid out nearly €3bn for share buy-backs and €1.1bn in dividends. Share buy-backs of €2bn by 2010 and dividends of at least €1bn for each of the next two financial years are set to follow. Subject to the approval of the Supervisory Board and Annual General Meeting, a dividend of €5.50 is to be paid in April 2009. This is equivalent to a total of almost €1.1bn based on the shares currently in circulation.

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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 over 30 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.

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.

Key figures (IFRS) for the first nine months of 2008
 (in €m unless otherwise indicated)

At a glance:

- Profit of €1.4bn for the first nine months
- CFO Schneider: "Munich Re's capital base remains solid."
- Turnaround in reinsurance cycle
- ERGO CEO Oletzky: "We can now score on quality and financial strength."

MUNICH RE GROUP	Q1–Q3 2008	Q1–Q3 2007	Change	
			absolute	%
Gross premiums written	28,127	28,076	51	0.2
Net earned premiums	26,104	26,423	–319	–1.2
Investment result	3,937	7,636	–3,699	–48.4
Thereof realised gains	3,944	4,185	–241	–5.8
realised losses	2,803	1,606	1,197	74.5
Net expenses for claims and benefits	20,985	23,271	–2,286	–9.8
Operating result (before finance costs and taxes on income)	2,434	3,980	–1,546	–38.8
Finance costs	272	238	34	14.3
Taxes on income	744	394	350	88.8
Consolidated profit	1,418	3,348	–1,930	–57.6
Thereof attributable to Munich Re equity holders	1,381	3,294	–1,913	–58.1
to minority interests	37	54	–17	–31.5
	30.9.2008	31.12.2007		
Investments	171,385	176,154	–4,769	–2.7
Equity	21,464	25,458	–3,994	–15.7
Employees	43,814	38,634	5,180	13.4
	Q1–Q3 2008	Q1–Q3 2007		Change
			absolute	%
Gross premiums written	16,147	16,469	–322	–2.0
Thereof Life and health	5,187	5,524	–337	–6.1
Property-casualty	10,960	10,945	15	0.1
Combined ratio in %				
Property-casualty	100.2	98.0	2.2	
Thereof natural catastrophes	7.8	6.9**	0.9	
Operating result	2,700	3,215	–515	–16.0
Result	1,983	2,779	–796	–28.6
	Q1–Q3 2008	Q1–Q3 2007		Change
			absolute	%
Gross premiums written	13,042	12,820	222	1.7
Thereof Life and health	8,382	8,391	–9	–0.1
Property-casualty	4,660	4,429	231	5.2
Combined ratio in % for property-casualty, including legal expenses insurance	90.2	92.9	–2.7	
Operating result	674	923	–249	–27.0
Result	370	752	–382	–50.8
	Q1–Q3 2008	Q1–Q3 2007		Change
Earnings per share in €	6.82	15.15	–8.33	–55.0
Book value per share in €	105.32	118.95		

* Before elimination of intra-Group transactions across segments.

** Adjusted owing to a change in methodology.

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

MUNICH RE GROUP	3rd quarter 2008	3rd quarter 2007	Change	
			absolute	%
Gross premiums written	9,270	9,148	122	1.3
Net earned premiums	8,859	8,768	91	1.0
Investment result	674	1,990	-1,316	-66.1
Thereof realised gains	1,352	1,314	38	2.9
realised losses	1,087	748	339	45.3
Net expenses for claims and benefits	6,962	7,282	-320	-4.4
Operating result (before finance costs and taxes on income)	260	1,132	-872	-77.0
Finance costs	91	89	2	2.2
Taxes on income	157	-173	330	-
Consolidated profit	12	1,216	-1,204	-99.0
Thereof attributable to Munich Re equity holders	7	1,196	-1,189	-99.4
to minority interests	5	20	-15	-75.0
REINSURANCE*	3rd quarter 2008	3rd quarter 2007	Change	
			absolute	%
Gross premiums written	5,464	5,476	-12	-0.2
Thereof Life and health	1,794	1,866	-72	-3.9
Property-casualty	3,670	3,610	60	1.7
Combined ratio in %				
Property-casualty	101.3	97.1	4.2	
Thereof natural catastrophes	10.0	4.7**	5.3	
Operating result	132	798	-666	-83.5
Result	-35	857	-892	-
PRIMARY INSURANCE*	3rd quarter 2008	3rd quarter 2007	Change	
			absolute	%
Gross premiums written	4,071	4,007	64	1.6
Thereof Life and health	2,724	2,726	-2	-0.1
Property-casualty	1,347	1,281	66	5.2
Combined ratio in % for property-casualty, including legal expenses insurance	88.7	92.1	-3.4	
Operating result	142	313	-171	-54.6
Result	46	342	-296	-86.5

* Before elimination of intra-Group transactions across segments.

** Adjusted owing to a change in methodology.