Münchener Rück
Munich Re Group

Press release – Hong Kong, 25 November 2008

Munich Re sees opportunities in Asia from financial crisis with growing significance of reinsurance as direct capital substitute

The financial crisis has sent stock markets plunging around the world and resulted in growing levels of risk aversion. Stringent risk management and transparency are increasingly important. Lower investment returns have placed pressure on primary insurers' capital. Together with restricted refinancing options on the capital markets the significance of reinsurance as a direct capital substitute is growing. This has prompted immediate change in the reinsurance industry, with demand swiftly increasing.

"We are certainly seeing a trend where insurance companies are looking to shift risk away from their books as they simply don't have the capital strength to support high risk exposure," said Ludger Arnoldussen, member of the Munich Re Board of Management, speaking in Hong Kong at the East Asian Insurance Congress. "This is benefiting strong reinsurers like Munich Re, as primary insurance companies attach increasing importance to a reinsurer's financial strength, stability and risk management capabilities."

Arnoldussen added that while Munich Re cannot fully escape the wider effects of the crisis, which includes falling equity markets and the implications of a worldwide recession, the Group will emerge stronger from the turmoil. It will benefit from rising reinsurance prices, the expansion of profitable business and opportunities for acquisitions, as well as its conservative investment strategy and core skills in risk assessment.

The capital base of Munich Re, one of the world's leading reinsurers, remains solid: as at 30 September 2008 it totalled €21.5bn – the same level as after the first six months of the year, despite the market turmoil. The Group reported a net income of €1.4bn for the first nine months on 7 November 2008. Munich Re also reiterated that it plans to pay a dividend of at least €5.50 per share this year, matching the payout for 2007.

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Arnoldussen pointed out that Munich Re's reinsurance group will continue to focus on organic growth in the region. Asia and Australasia accounted for around 10% of Munich Re's reinsurance premium volume in 2007. The Group operates in all major countries in the region. "We view the current crisis as an opportunity for Munich Re in Asia-Pacific and believe our strong capital base and risk management skills will continue to prove a very attractive value proposition. The demand for highly rated reinsurance will increase as the greater risk environment produces a flight to quality."

Munich Re expects a significantly higher reinsurance price level and differential terms for the upcoming renewals in January throughout Asia. This projection is based on the increased cost of capital, growing demand for reinsurance, shrinking capacity of the reinsurance industry in general and the changed risk environment.

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. Munich Re was voted "Best overall reinsurer non-life and life" both in Asia and Europe. Confidence in Munich Re's capital structure and financial stability can also be seen in the very low CDS spread (five years) compared to the rest of the financial industry. Munich Re is rated AA– (Very strong) by S&P, and Aa3 (Excellent) by Moody's.

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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.
