2000

Munich Re Group
Annual Report

SEEING THE WHOLE PICTURE

>>

Münchener Rück
Munich Re Group

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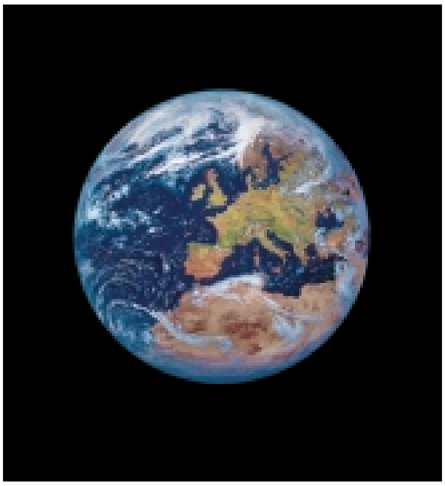
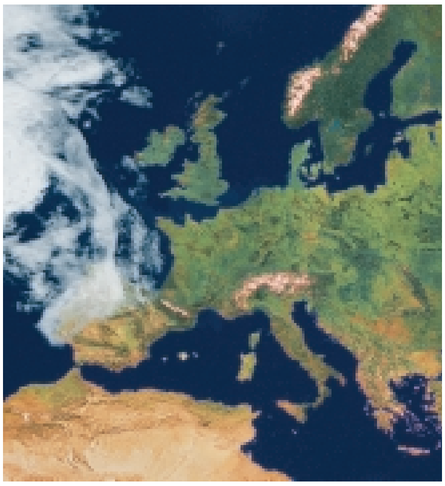
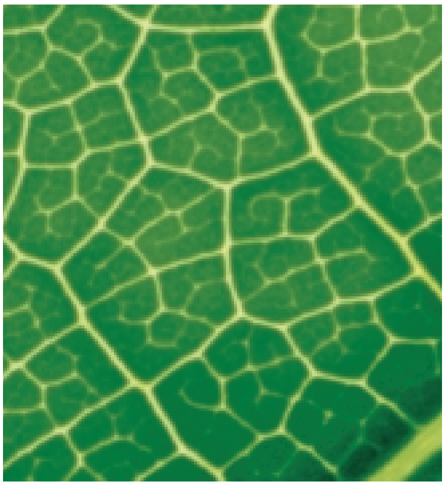
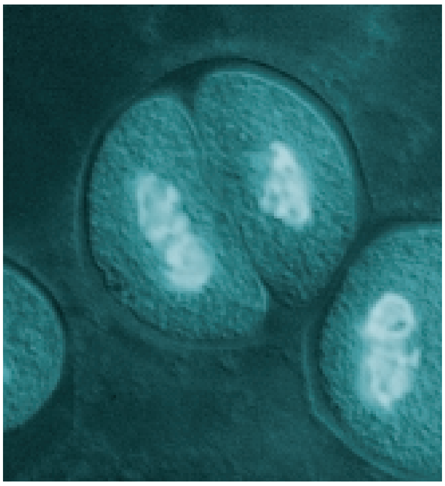
Annual Report

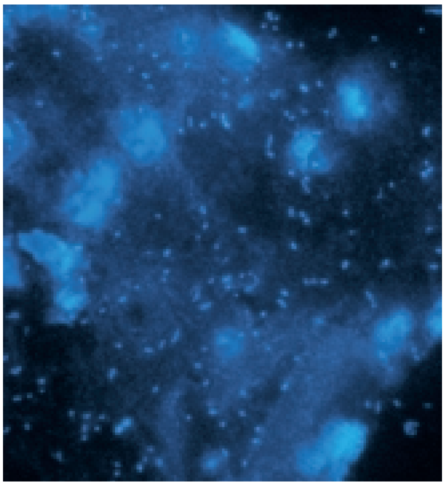
SEEING THE WHOLE PICTURE











A new view of the whole picture: of an increasingly networked, ever-smaller world, in which bigger and bigger challenges are awaiting innovative solutions.

The Munich Re Group – value-oriented and with strong growth

As a Group we aspire to be one of the leading risk carriers and providers of financial services.

We create lasting value by systematically building on our strengths:

- the competence and skills of our staff
- our global knowledge base
- our financial strength
- partnership and trust within our business relationships

Reinsurance, primary insurance and asset management complement each other in our Group in an optimum way.

Reinsurance: Since 1880 Munich Re has embodied competence in handling risks to an extent virtually unparalleled worldwide. 5,000 insurance companies in around 150 countries rely on our expertise and financial strength. We assume a part of their risk and find solutions for the whole spectrum of risk management.

Primary insurance: Our primary insurers – ERGO, Karlsruher and Europäische Reiseversicherung – offer the highest degree of security and service to their more than 25 million clients. Having a strong footing in primary insurance, especially personal lines business, is an important part of our strategy. Given current demographic trends, there is great potential for growth in insurances of the person in particular.

Asset management: MEAG, established in 1999, offers its investment products and its services to institutional investors – primarily other insurance companies – and to private clients. We intend to develop MEAG into one of the top asset management companies.

IMPORTANT EVENTS IN 2000

JANUARY
No losses for the Munich Re Group caused by the date changeover from 1999 to 2000.

ITERGO commences operations as the central IT service provider in the ERGO Group.

FEBRUARY
Munich Re converts its par-value shares into no-par-value shares.

MARCH
Rating agency Standard & Poor's reaffirms its top rating of AAA for Munich Re.

APRIL
Since 1st April MEAG has been managing a large portion of the Munich Re Group's assets.

ERGO reaches agreement with Deutsche Telekom on a joint venture: the creation of an Internet marketplace on which ERGO offers its insurance products and MEAG's financial services.

Retroactively, with effect from 1st January, Munich Re acquires the majority of shares in Alte Leipziger Europa; this holding company has sizeable shareholdings in insurance companies in Central and Eastern Europe. With effect from 1st July, ownership of Alte Leipiziger is transferred to ERGO.

A good 90% of the portfolio of Alte Leipziger Rück is assumed by Munich Re.

MAY
Munich Re and Allianz announce their intention to reduce their reciprocal shareholdings of 25% to around 20% by the end of 2003. In addition, shareholdings in various jointly held companies are to be restructured.

Munich Re issues a bond exchangeable into Allianz shares.

At its balance sheet conference and its analysts' conference, Munich Re informs the public about the results of the business year 1999.

JULY
The German Parliament passes the Tax Reduction Act.

The AGM authorizes the Board of Management to buy back Munich Re shares up to a total amount of 10% of the share capital.

Munich Re Group 2000

Key figures (IAS)		2000 €	Prev. year €	Change in %
Gross premiums written	bn	31.1	27.4	13.5
Result before amortization of goodwill	m	2,615	1,821	43.6
Tax	m	399	383	4.2
Minority interests in earnings	m	321	185	73.5
Profit for the year	m	1,750	1,133	54.5
Investments	bn	159.4	150.9	5.6
Shareholders' equity	bn	23.6	18.5	27.9
Net underwriting provisions	bn	131.5	123.5	6.5
Staff as at 31st December		36,481	33,245	9.7

Our registered shares		2000 €	Prev. year €	Change in %
Earnings per share		9.89	6.45	53.3
Dividend per share		1.25	0.95	31.6
Amount distributed	m	221	168	31.5
Share price at 31st December		380.0	251.8	50.9
Munich Re's market capitalization at 31st December	bn	67.2	44.5	51.0

A. M. Best, Standard & Poor's and Moody's have each awarded Munich Re their top rating.

AUGUST
ERGO acquires a 70% stake in the Italian life insurer Bayerische Vita; it also acquires ownership of the property insurer Bayerische Assicurazioni.

SEPTEMBER
At a press conference Munich Re reports on the first half-year 2000: growth exceeds expectations, the result is satisfactory, but claims costs in reinsurance have continued to be high.

MEAG and Activest set up FondsServiceBank to collaborate in the management of investment deposits.

OCTOBER
MARC reaches agreement with CNA to acquire its life reinsurance business.

NOVEMBER
The World Map of Natural Hazards is now available as an interactive CD-ROM.

Munich Re acquires the majority of shares in Mercur Assistance.

DECEMBER
ERGO signs an exclusive cooperation agreement with Powszechny Bank Kredytowy, the second-largest bank in Poland.

Munich Re, together with several partners, opens the Internet-based reinsurance exchange "inreon" providing risk transfer for standardized reinsurance covers.

Munich Re presents an initial analysis of the natural hazard losses in 2000. According to this analysis, the number of natural catastrophes climbed to a new record high.

Rating agency A. M. Best confirms Munich Re's outstanding financial strength and reaffirms its top rating of A++ (Superior).

Munich Re Group
Report for the 121st year of business
1st January 2000 to 31st December 2000

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TO OUR SHAREHOLDERS

Dear Shareholders,
The business year 2000 marked the end of a decade in which we made striking advances: with the acquisition of American Re, we strengthened our leading global position in reinsurance; with the formation and expansion of the ERGO Insurance Group, we underpinned our interests in primary insurance; and with the development of MEAG, we reinforced our claim to being one of the best operators in the field of asset management as well.

The figures provide proof of our success: in the past ten years our Group premium income rose from €7.3bn to €31bn and the Group profit from €46m to €1.75bn. Munich Re's market capitalization, and thus shareholders' assets, grew over this period from €8bn to €67bn. The dividend has been raised eight times since 1990. We are proposing to increase the dividend payment for the business year 2000 from €0.95 to €1.25. This will raise the total amount distributed to €221m, as compared with €34m at the beginning of the nineties.

We have set ourselves five ambitious objectives:

- In reinsurance we plan to extend our market position worldwide as leading reinsurer and to be number one, or at least number two, in all important markets. We moved another step closer to this goal in the year under review. The acquisition of CNA Financial Corporation's life reinsurance portfolio by our subsidiary Munich American Reassurance Company shows our determination to exploit growth potentials in attractive markets.
- In primary insurance we are aiming, through ERGO, to become one of the most important groups in personal lines business in Europe. Through the acquisition of Alte Leipziger Europa, which is active primarily in Central and Eastern Europe, and the Italian life insurer, Bayerische Vita, we succeeded in substantially expanding ERGO's foreign business in strongly growing markets last year.
- MEAG, our asset management company, successfully commenced operations in April 2000. It now offers a range of 14 retail mutual funds, which includes the recent addition of three umbrella funds. Total assets under management have a market value of more than €143bn. Our objective is to have €200bn under management by 2005.
- We aim to increase our profit by 10% annually on average, and were certainly successful in this respect in the past business year: adjusted to eliminate special factors, our profit for 2000 was up by 50%.
- Munich Re's share price rose by 51% last year, whilst the DAX fell by around 7.5%. Our target of Munich Re shares outperforming the index was thus clearly surpassed in the year under review.

More than 35,000 staff in Germany and around the world have contributed to our corporate success through their skill and commitment. I wish to thank them all most sincerely for their hard work in the past year and pay tribute to their performance and dedication.

Our view of the future is optimistic. The global market for risk protection will continue to expand:

- In primary insurance we will see appreciable growth particularly in life and health insurance, given that more and more people will have to make greater private provision for old age and health care. Our primary insurers are very well prepared for the additional demand that will be triggered by planned government reforms.
- In reinsurance, too, there are promising growth perspectives for us in the medium term especially in life and health. Our outstanding capital strength makes us a preferred partner in this capital-intensive business. We will also continue to grow in non-life reinsurance.
- We expect demand for investment fund products to carry on rising over the next few years, especially as a result of the German pension reform. Through the close cooperation of MEAG with the powerful sales force of the ERGO Group, we will profit from this growth market and expand our business with private clients and institutional investors.

Our business environment, and with it the Munich Re Group, will change further in the next ten years – even more than in the past decade. Besides the above-mentioned demographic developments, the following four factors will play a significant part:

- The enormous capital requirements for investments in the high-tech sector
- The need for security deriving from the new lead technologies of microelectronics and genetic engineering
- The emergence of deregulated markets, whose benefits are not to be had without risks
- An increasing interdependency of risk potentials as a consequence of urbanization, climate change, concentration of values, and economic globalization.

Risks are growing, as are the demands on risk management. We take these very seriously. This year we have considerably expanded our risk report and inform you much more extensively about the individual risks of our business and the precautions we have taken to control them. We have also concerned ourselves intensely with corporate governance and taken further concrete measures in this connection.

The professional handling of risks also offers opportunities, however: everything points to Munich Re's products and services continuing to be in urgent and constant demand. We are prepared to keep offering our clients large amounts of reinsurance capacity – provided the conditions are right. During the renewals of reinsurance treaties for the current business year, we were able to achieve distinctly better prices and conditions in many markets.

Our primary insurance group is also well equipped for the future.

Much is in a state of flux. Thus at the end of March Munich Re and Allianz agreed to continue the restructuring of their shareholdings. Munich Re's minority stakes in Allianz Lebensversicherungs-AG and Dresdner Bank and – in accordance with the agreement of 2000 – its minority interests in Bayerische Versicherungsbank and Frankfurter Versicherungs-AG will be sold to Allianz. Besides this, Munich Re will make available shares of 4% in Allianz for Allianz's offer to Dresdner Bank shareholders. This will reduce our stake in Allianz to 21%.

We will use the substantial funds that accrue to us from these transactions in the year 2002 to increase our holding in the ERGO Insurance Group to up to 95% and to raise our interest in Hypo-Vereinsbank to 25.7%. Both moves will decisively improve the Munich Re Group's strategic position: they will lead to better utilization of the existing shareholders' equity and will open up additional avenues, especially owing to the permanent strengthening of the cooperation between the Munich Re Group and the HVB Group.

But within the Munich Re Group, too, things are in motion. This includes making timely adjustments to our organization and to our operational processes and tools in order to take account of changes in our business environment. A current example: the far-reaching restructuring of our organization in reinsurance business, which we initiated at the end of 2000 and which will be implemented at the beginning of July this year.

Ladies and gentlemen, in the past it has been worth your while being shareholders of Munich Re – not least for the long-term investors amongst you. We will do our utmost to ensure that this will continue to be the case in future.

Yours sincerely,

H. J. Schinzler

BOARD OF MANAGEMENT

Dr. jur. Hans-Jürgen Schinzler
(Chairman)

Executive Offices
Press
Internal Auditing

Dr. jur. Wolf Otto Bauer

Corporate Underwriting/
Global Clients
together with Stefan Heyd

Dr. jur. Heiner Hasford

Finance
General Services
Company Structure and
Organization

Stefan Heyd

Corporate Underwriting/
Global Clients
together with
Dr. jur. Wolf Otto Bauer

Dr. jur. Jörg Schneider
(from 1st April 2000)

Accounting
Controlling
Taxes
Information Technology

Dr. jur. Hans-Wilmar von Stockhausen

Europe 1
together with Christian Kluge
Europe 2 and Latin America
together with
Dr. jur. Nikolaus von Bomhard

Dr. jur. Nikolaus von Bomhard

Europe 2 and Latin America
together with
Dr. jur. Hans-Wilmar
von Stockhausen

Clement Booth

Special and Financial Risks
Investor Relations
Strategic Planning

Christian Kluge

Europe 1
together with
Dr. jur. Hans-Wilmar
von Stockhausen
Corporate Communications

Dr. phil. Detlef Schneidawind

Life and Health
Personnel

Karl Wittmann

Asia, Australasia, Africa
North America

Dieter Göbel
(until 30th June 2000)

Dr. jur. Claus Helbig
(until 30th June 2000)

Division of responsibilities as from 1st July 2001

REPORT OF THE SUPERVISORY BOARD

Ladies and gentlemen,
In the business year 2000 Munich Re took important strategic steps to consolidate and extend its position in the insurance and reinsurance markets. In so doing, it was able to continue building on very solid financial foundations.

During the period under review we monitored the Board of Management and gave counsel where appropriate. The Board of Management regularly informed us about business progress and the state of the company.

Meetings of the Supervisory Board
At four meetings, the Supervisory Board obtained detailed information from the Board of Management on the situation in the main insurance and reinsurance markets, the development of business and the position of the company and its main participating interests. We discussed these reports and important individual measures intensively. Between the meetings, the Chairman of the Supervisory Board remained in close contact with the Chairman of the Board of Management and obtained ongoing information on all relevant business transactions.

All members of the Supervisory Board were notified without delay, as well as at the meetings, about transactions that were of particular significance for the further development of the Group. This included the plans of Munich Re and Allianz to restructure their shareholdings in jointly held companies and to reduce their reciprocal shareholdings to around 20% each.

The Board of Management explained at length why Munich Re is being given a new organizational structure in its reinsurance business.

We were informed in detail by the Board of Management about the strategic planning for the business year 2001. In this context we closely considered the existing tools for performance measurement and the possibilities for refining the planning and controlling processes within Munich Re. We were given additional reports about specific features of marine insurance and about the consequences for the Munich Re Group resulting from the German government's pension reform plans.

Fundamental questions of corporate governance and risk management for Munich Re featured several times on the agenda of Supervisory Board meetings. We are convinced that Munich Re meets all the main requirements of modern, transparent monitoring of corporate activities. In addition, Munich Re is in a position to promptly identify, evaluate and control risks that could have a significant adverse effect on the assets, liabilities, financial position or results of the Munich Re Group.

The Annual General Meeting on 19th July 2000 adopted a number of amendments to the Articles of Association. In particular, the approval of a new amount for capital increases and the authorization to buy back shares were discussed with the Supervisory Board as a preparatory measure.

The Board of Management also informed us regularly about the problems in connection with the Holocaust and forced-labour compensation, and consulted us before Munich Re joined the Foundation Initiative of German Enterprises: Remembrance, Responsibility and Future.

Supervisory Board committees
The Standing Committee met three times in 2000. Its work included matters for which the Supervisory Board's approval was required under the internal rules of procedure. The Board of Management Committee also met three times in order to deal with personnel matters involving members of the Board of Management. No meeting of the Conference Committee was required.

Annual financial statements
KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the following documents and gave them an unqualified auditor's opinion: the Munich Reinsurance Company's bookkeeping, its company financial statements and the consolidated financial statements as at 31st December 2000, as well as the management reports for the company and the Group. The auditor's reports were promptly given to all the members of the Supervisory Board. After a detailed discussion between the Chairman of the Supervisory Board and the auditor, there was also extensive consideration of the company financial statements and the consolidated financial statements, the management reports and the auditor's reports at the meeting of the Supervisory Board on 28th May 2001, at which the auditor was present.

The Supervisory Board has examined the company financial statements, the consolidated financial statements, the management reports and the proposal of the Board of Management for appropriation of the balance sheet profit. No objections resulted from the examination.

At the balance sheet meeting of the Supervisory Board, the annual financial statements drawn up by the Board of Management were approved and adopted. We agree to the Board of Management's proposal for the appropriation of the balance sheet profit, which provides for a dividend of €1.25 per share.

Composition of the Supervisory Board and the Board of Management
With effect from 30th June 2000, Mr. Dieter Göbel ceased to be a member of the Board of Management, having reached retirement age. At the same date Dr. Claus Helbig retired prematurely from the Board by mutual agreement. The area of investments, which he had successfully taken care of on the Board since 1st March 1993, was transferred to MEAG MUNICH ERGO AssetManagement GmbH when it commenced operations on 1st April 2000. Both gentlemen served our company with great personal dedication. We thank them for their responsible and successful work on behalf of Munich Re.

With effect from 1st January 2000, we appointed Dr. Nikolaus von Bomhard (44) a member of the Board of Management. He has been with the company for many years, and most recently headed Munich Re's business unit in São Paulo. With effect from 1st April 2000, we also appointed Dr. Jörg Schneider (42) to the Board of Management. He joined the company in 1988 and headed the Group section of the Asset Management Division prior to becoming a Board member. On being appointed to the Board of Management, Dr. Schneider gave up his seat on the Supervisory Board as at 31st March 2000. Mr. Klaus Biebrach was appointed his successor on the Supervisory Board.

The Supervisory Board wishes to express its thanks and appreciation to the members of the Board of Management and all staff for their hard work and commitment.

Munich, 28th May 2001

For the Supervisory Board

Ulrich Hartmann
Chairman

SUPERVISORY BOARD

CHAIRMAN
Ulrich Hartmann
Chairman of the Board of Management
of E.ON AG

DEPUTY CHAIRMAN
Herbert Bach
Employee of the Munich Reinsurance Company

DEPUTY CHAIRMAN
Dr. jur. Henning Schulte-Noelle,
Chairman of the Board of Management
of Allianz AG

Hans-Georg Appel
Employee of the Munich Reinsurance Company

Klaus Peter Biebrach (from 12th April 2000)
Employee of the Munich Reinsurance Company

Dr. jur. Rolf-E. Breuer
Spokesman of the Board of Management
of Deutsche Bank AG

Peter Burgmayr
Employee of the Munich Reinsurance Company

Rudolf Ficker
Former Member of the Board of Management
of the Munich Reinsurance Company

Prof. Dr. rer. nat. Henning Kagermann
Co-Chairman of the Executive Board and Chief
Executive Officer of SAP AG

Gertraud Köppen
Employee of the Munich Reinsurance Company

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch
Chairman of the Board of Management
of Volkswagen AG

Dr. jur. Dr.-Ing. E. h. Heinrich von Pierer
President and Chief Executive Officer
of Siemens AG

Dr. jur. Albrecht Schmidt
Spokesman of the Board of Management
of Bayerische Hypo- und Vereinsbank AG

Dr. jur. Jörg Schneider (until 31st March 2000)
Member of the Board of Management of the
Munich Reinsurance Company (from 1st April 2000)

Dr. rer. nat. Klaus Schumann
Employee of the Munich Reinsurance Company

Dr. phil. Ron Sommer
Chairman of the Board of Management of
Deutsche Telekom AG

Wolfgang Stögbauer
Employee of the Munich Reinsurance Company

Josef Süßl
Employee of the Munich Reinsurance Company

Dr. rer. pol. Alfons Titzrath
Chairman of the Supervisory Board
of Dresdner Bank AG

Judy Võ
Employee of the Munich Reinsurance Company

Ludwig Wegmann
Employee of the Munich Reinsurance Company

Seen from a distance, our solar system looks like a gigantic, bewildering mass of lights. A puzzle. But the closer you look, the more system you discover, until finally you recognize that each part belongs to the whole. >>

>>______Munich Re's wide-ranging and globally diversified operations may also appear confusing to some people at first sight. However, the capital market has long recognized the clear strategy that lies behind these operations and the growth potential that it promises. And so, in the past year, Munich Re's shares recorded an outstanding performance of plus 51%.

> www.munichre.com

MUNICH RE SHARES

Munich Re shares

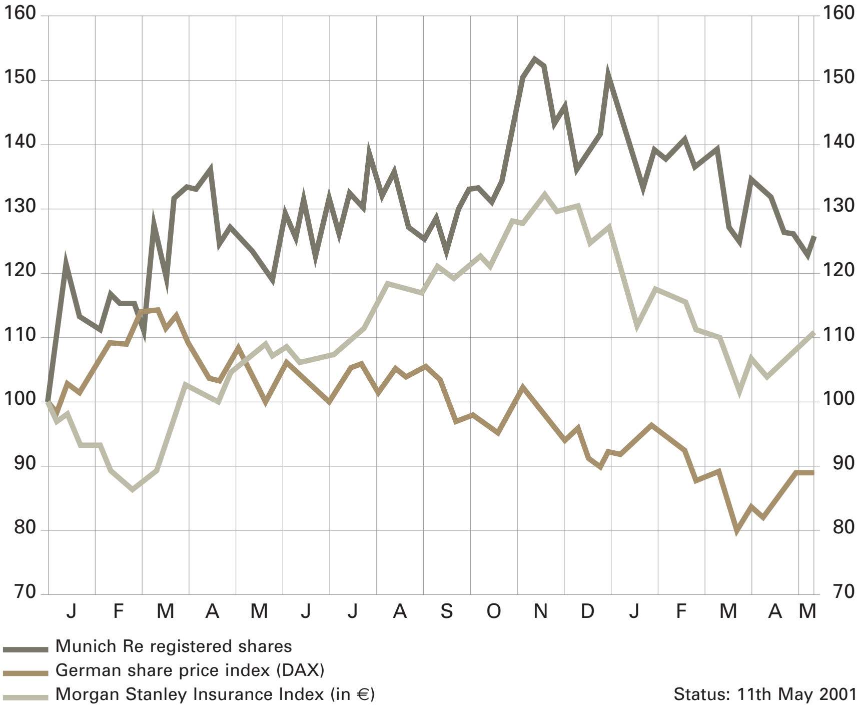
Stock market year 2000 – a roller-coaster ride
The year 2000 began much as 1999 had ended: with a further upturn. But in the second quarter, the DAX already began showing the first signs of weakness: what first appeared to be consolidation, turned into a downhill slide in nearly all sectors over the remaining course of the year. The year low was reached just before Christmas with a DAX level of 6,201 points. Overall, the DAX produced a negative performance in 2000, falling by 7.5%.

Well into the first quarter of 2001, the market's underlying trend remained unclear. As at 11th May 2001 the DAX stood at 6,141 points.

A good year for insurance stocks
The insurance sector succeeded in detaching itself from the general stock market performance in the past year. New government plans for private old age pensions and the German tax reform resulted in a sustained positive mood. The insurance sector as a whole benefited from the trend towards switching from boom stocks in the technology sector to defensive stocks.

Munich Re shares on the up
With growth in value of 50.9% in the year 2000, Munich Re shares produced an outstanding performance. Also in comparison with the Morgan Stanley Insurance Index, their performance was well above average.

Share performance
1st January 2000 = 100



Status: 11th May 2001

Our share price started the year at €251.80. It received a strong boost from the largely loss-free millennium changeover, so that on 13th April it had climbed to its first peak of €358.50. At the same time, Standard & Poor's affirmed its top rating of AAA, which also had a positive effect. Turnover was generally at a high level, the annual average being 441,500 shares in Xetra trading.

When the downturn in the DAX and the Neuer Markt began, Munich Re shares had already begun to buck the trend. After a temporary wobble – owing to the new weighting of important share price indices on the basis of free floats – another intermediate high was reached following the passing of the tax reform bill by the Federal German Parliament in July. On publication of our half-year report, the share price began to rise again, climbing to its year high of €391.00 on 9th November.

Profit-taking in December led to the price ending the year at €380.00. Our market capitalization as at 31st December totalled €67.2bn, having risen by 50.9% year on year. Our shares are one of the biggest stocks on the German market.

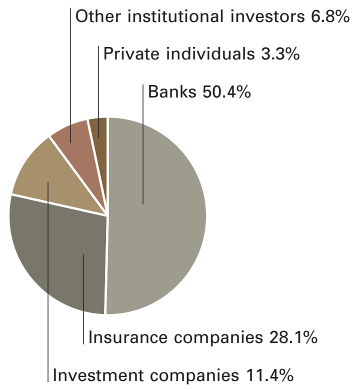
Following more profit-taking at the beginning of the current year, our share price mainly developed sideways, before following the general downward trend in mid-March. On 11th May 2001 it stood at €315.00.

Key figures for our shares		**2000**	**Prev. year**
Number of shares as at 31st December	m	176.9	176.9
Year high	€	391.00	256.00
Year low	€	237.00	159.50
Year-end closing price	€	380.00	251.80
Annual performance	%	50.9	22.1
Market capitalization as at 31st December	€bn	67.2	44.5
Average daily turnover in Xetra trading	’000	441.5	293.3
Price/earnings ratio as at 31st December		38.4	39.0
Earnings per share	€	9.89	6.45
Dividend per share	€	1.25	0.95
Tax credit per share (for German shareholders)	€	0.54	0.41
Overall dividend amount	€m	221	168

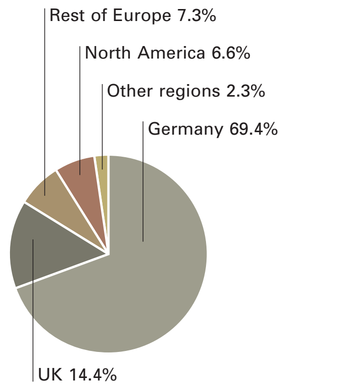
Munich Re shares are no-par-value registered shares. They are traded on all the German stock exchanges and are also included in Xetra computer trading. Their current price can be followed on our website (www.munichre.com). Besides this, of course, information can be obtained from the daily papers or from Reuters, Bloomberg and other providers of financial market data.

Reuters	MUVGn
Bloomberg	MUV2
WKN	843 002

Investor groups



Regional distribution



Index weighting in %
Status: 11th May 2001

DAX 30	6.63
Euro STOXX 50	1.46
FTSE EURO TOP 100	1.13
MSCI	1.77
S&P Europe 350	0.40
STOXX 50	0.88

Shareholder profile
Our most important shareholder Allianz, with a stake of just under 25% at present, followed by HypoVereinsbank with 13.3% and Deutsche Bank with 9.6%. When the extensive shareholding transactions with Allianz have been completed, the latter's stake will have fallen to approximately 23% and our free float will have increased to around 54%. The larger free float and resultant higher weighting in important share price indices will enhance the attractiveness of our shares.

Dividend development
We will continue our consistent dividend policy this year by raising the dividend payment again, namely to €1.25 (0.95) per share. The overall amount distributed will thus total over €221m, having increased more than sixfold in the last ten years.

Investor relations
In 2000 Munich Re considerably stepped up its investor relations activities. Our first analysts' conference took place in May and was very well received. During the course of the year Munich Re also held a large number of company presentations and telephone conferences. Besides this, the newly formed investor relations team conducted over 100 individual discussions with analysts and fund managers both in Germany and abroad and took part in several international conferences. Separate events on insurance-related topics have also met with a positive response from analysts and fund managers and helped give them a better understanding of our business operations.

There is great interest in our shares, and it is continuing to grow. To take account of this, we will be staging an analysts' conference not only in Munich on 5th June 2001 but also in London the following day. We will also be intensifying our other investor relations activities in the current year.

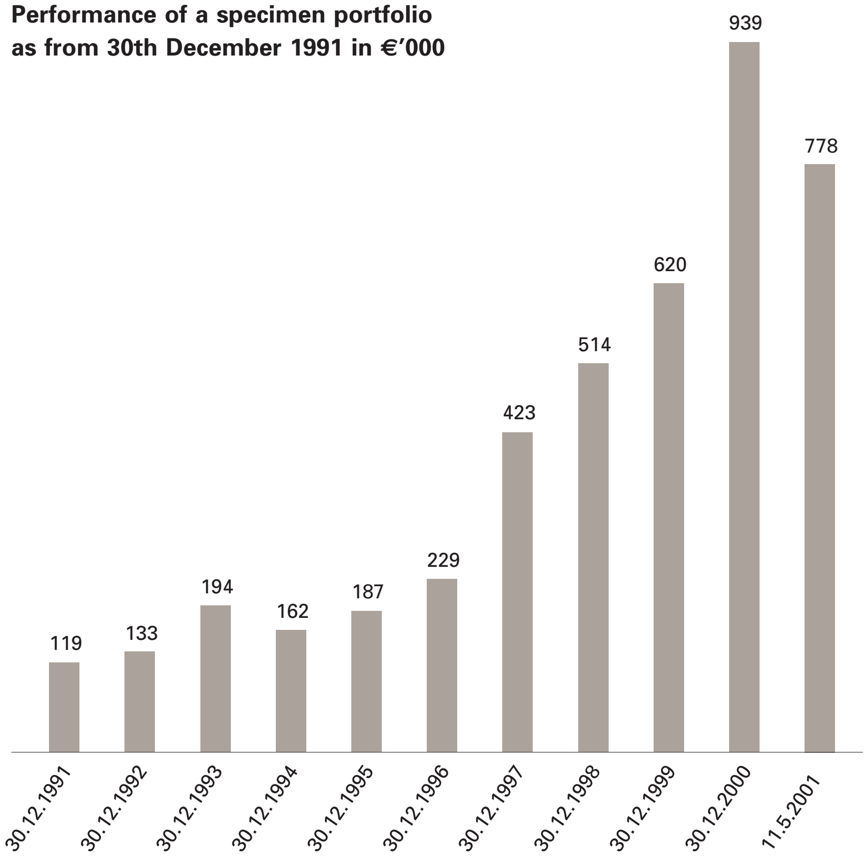
Performance of a specimen portfolio
Munich Re shares represent an attractive investment with a well-above-average return for the long-term investor. In the ten-year period from 1991 to 2000 the share price rose on average by an outstanding 25.1% annually, compared with growth of only 18.2% in the DAX. The shares continue to be among the winners within the insurance sector as well. This is shown by a comparison with the Morgan Stanley Insurance Index, whose average annual increase in the same period was 18.6%.

At the end of December 1991, with the share price at DM 2,320 (= €1,186.20), a portfolio of 100 Munich Re registered shares (par value then: DM 100 = €51.13) required a total investment of €118,620 (not including transaction costs). After the two stock splits on 18th August 1997 and 25th January 1999, this investment today amounts to a portfolio of 2,000 registered shares.

By reinvesting dividends to purchase further shares and making use of opération blanche (i.e. reinvesting the proceeds of subscription rights), a German shareholder would have been able to add a total of 467 no-par-value shares and 16 warrants to the portfolio.

On the basis of a price of €315.00 per share and €78.00 per warrant on 11th May 2001, the value of the portfolio amounts to €778,353, equivalent to an increase of 556%. According to the internal rate of return method, this works out at an average annual return of 22.3%.

Performance of a specimen portfolio as from 30th December 1991 in €'000



Other capital market instruments
Munich Re's warrants 98/02 and the exchangeable bonds on Allianz shares are also attractive capital market instruments:

Reuters	DE 843 009
Bloomberg	MUVA
WKN	843 009

- During the exercise period, bearers of the warrants are entitled to subscribe for one Munich Re registered share for every two warrants held, at a strike price of €163.61. In the year 2000 the warrants increased in value by 104.6% to €108.00; on 11th May 2001 the price of the warrants on the stock exchange was €78.00. Of the original 3,500,000 warrants issued, a total of 49,562 have so far been exercised.

Reuters	DE 011153 968 =
Bloomberg	MUNRE
WKN	245 254

- The exchangeable bonds were issued on 8th May 2000 with an annual coupon payment of 1% on the face value. Investors are entitled to convert each of their exchangeable bonds into Allianz shares, so that the investment represents a combination of bond and call option. The bonds' volume totals €1.15bn or around 1% of Allianz's share capital. They were several times oversubscribed and at the end of the year stood at 102.38%. Their term ends on 8th June 2005 with a redemption rate of approximately108.6%.
- For institutional investors we also placed two natural catastrophe bonds with a total value of US$ 300m in December 2000; their three-year term began on 1st January 2001.

"An overwhelming sight, this planet ...!" The astronauts of Apollo 11 were among the first men to view our planet like this, and what they saw filled them with awe: seas and deserts, fine weather zones and even cloud vortexes were clearly visible from space. >>

>>_______If Armstrong, Aldrin and Collins could have taken a similar look at the economic year 2000, they would have reported three things: an economic high-pressure zone extending almost right round the earth, mild weather over Europe, and, towards the end of the year, a cooling down of the economy, spreading from North America. Whilst the climate in the insurance industry distinctly improved, turbulences continued to predominate on the world's stock markets.

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ECONOMIC PARAMETERS

General economic development in 2000

The year 2000 was a good one for the world economy. At 4.8%, **global economic** growth was significantly higher than the average for the last 30 years, and was once again well up on the previous year's figure (3.5%). The effects of the emerging markets crisis, which spread from Asia via Russia to Brazil, have now been overcome. Despite higher oil prices, inflation in the industrialized countries remained low. For the emerging markets, too, a growing trend towards monetary stability became evident.

Towards the end of 2000, however, growth in the world economy slowed down markedly. This applied above all to the **US,** which nevertheless continued to be the engine of the world economy again in 2000 (+5.0% real GDP). Owing to declining investment, economic momentum in the third and fourth quarters showed a noticeable downward trend here.

Driven by exports, the economy in the **European Monetary Union countries** began to pick up in 2000 (+3.4% real GDP), but in the second half-year signs of a slowdown were apparent here as well. In particular, higher oil prices compared to the previous year and a total of seven interest rate hikes by the European Central Bank (ECB) since November 1999 had a detrimental effect. The strongest growth in Western Europe was again in Ireland – followed by Luxembourg and Finland – whereas Germany, with growth of 3.0%, could only manage a mid-table place. But here, too, the upswing reached its highest level since 1991.

The good economic situation meant an expansion in employment. EU-wide the unemployment rate showed a pleasing fall by almost one percentage point to 8.2%.

At the EU summit in Nice, the heads of state and government took important steps to pave the way for the European Union's expansion into Central and Eastern Europe.

Among the world's major economies, growth remained low only in **Japan** – just 1.7%. The decoupling of the Japanese economy from growth in Europe and the US thus continued.

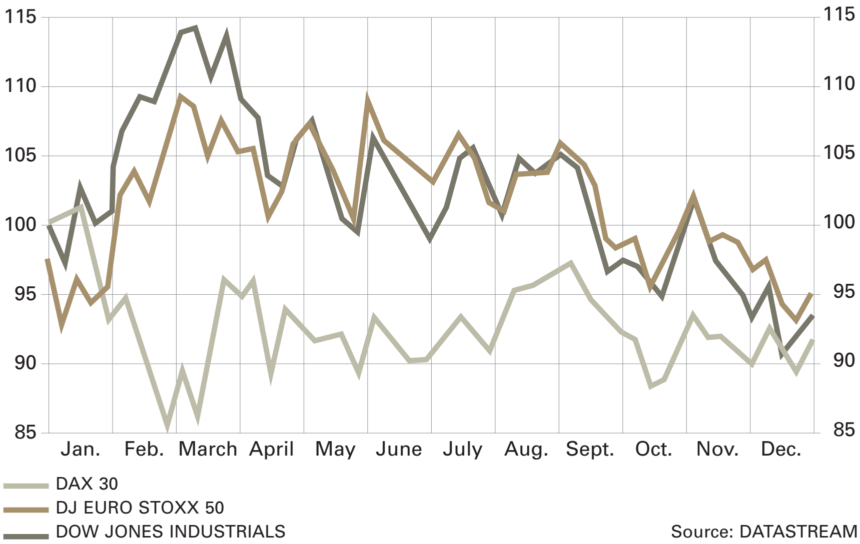
The **emerging markets** made good headway: with only a few exceptions, their growth curve showed an upward trend.

Central and Eastern Europe profited from increasing exports. Slovenia and Hungary showed particularly dynamic development (albeit with high dependency on Euroland), with real economic growth of 4.9% and 5.3% respectively. Russia proved to be the biggest positive surprise, with growth of around 7.5%. The **Asian tiger economies** maintained their recovery, helped by a sharp increase in their exports (up by 6%), but necessary structural reforms were left untackled in some countries. Growth in Indonesia, Thailand and the Philippines was below average. By contrast, the robust economic upturn in China and India (8.0% and 6.4% respectively) continued unbroken. After the crisis year 1999, the economy in **Latin America** rallied again, thanks in particular to strong exports to the US. Brazil seems to have overcome the loss of confidence connected with last year's devaluation, while Argentina is still being hampered by the real overvaluation of its currency (financial crisis in the autumn). The economic trend in the **Near and Middle East** was also pleasing. The large increase in the price of oil gave additional impetus to growth and visibly improved balances of payments.

Foreign exchange markets
Over the year the euro repeatedly fell to new lows against the dollar. The main reason for this was the unexpectedly strong US economic data at the start of the year, which led to a capital outflow from Euroland. At the turn of the year, the euro was again nearing parity, being quoted at US$ 0.95. Capital outflow from Euroland and the dollar-euro exchange rate have developed largely in parallel.

Stock markets
The global slowdown in growth which began at the end of the year was reflected on the international stock exchanges more clearly than in the real economy, with broad-based stock market indices falling considerably compared with their levels at the start of the year. The German DAX fell by 7.5% and the Euro STOXX 50 by 2.7%, while the Dow Jones in the US also dropped by more than 6%.

Performance of important share price indices in 2000

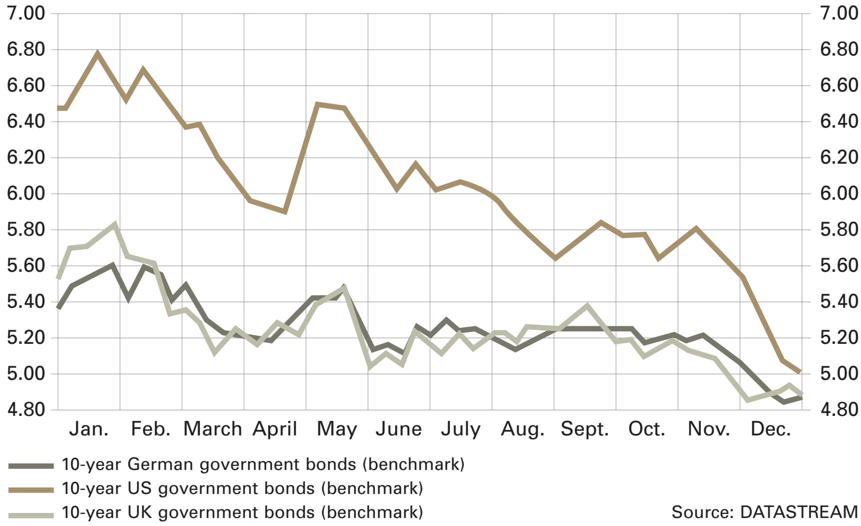


Source: DATASTREAM

Once again, these therefore proved to be a good early indicator of the real economic trend. The losses were even more extreme in the growth stock markets NASDAQ (–39%) and Neuer Markt (–42%), where some exaggeratedly high prices were corrected.

Bond markets
Development in the past year was unspectacular. After 1999's dynamic upward trend in interest rates, yields and volatility on the bond markets receded in 2000. In Euroland, yields on ten-year public-sector bonds fell from 5.35% at the start of the year to under 5% towards the end of the year, but they only fluctuated in a bandwidth of just over 80 basis points. A more pronounced movement, although tending in the same direction, was also to be seen in the US.

Yield trend in Germany, the UK and the US in 2000



Source: DATASTREAM

Particularly as from the middle of the year, however, increased risk aversion on the part of investors was evident. Triggered not least by the re-evaluation of risks in the IT sector, the interest rate differentials (spreads) between corporate and government bonds shot up.

Trend in the insurance industry
Insurances of the person again proved to be the driving force behind the insurance industry as a whole in the year 2000, while the property-casualty sector continued to struggle with meagre growth. Generally, the insurance industry benefited worldwide from the positive economic development.

We report on the individual insurance markets in detail in Section 05 (Management Report).

General economic outlook for 2001

Global economic growth is likely to decelerate in 2001 and fall slightly below the average for the last 30 years. The slowdown will be greatest in the **US** (mirrored by Canada) but here, too, initial indicators point to growth stabilizing in the course of the year. The US Federal Reserve is taking determined action to counter recessionary trends – since January it has reduced interest rates by a total of 200 basis points, and further interest rate cuts are expected.

In **Euroland,** growth will slow down somewhat in 2001 as well, though private consumption will continue to have a positive impact in the first half-year. Tax incentives in some countries (including tax cuts), higher employment and falling energy prices will not be able to completely offset the decline in export activity. On 10th May the ECB lowered its key interest rates by 25 basis points.

In **Japan** there is still a latent risk of the country sliding into a new recession. In addition, Japan's soaring public debt is increasingly becoming a risk factor.

The **emerging markets** are suffering particularly badly from the slowdown in the US economy. Apart from the Asian tiger economies (owing to falling US demand for IT goods, which account for up to 60% of total exports), it is mainly the countries of Latin America which are affected; the impact on Central and Eastern Europe, and also on India and China, has only been slight.

Risks to further development are to be found above all in the US. A prolonged weakening of the economy would have negative repercussions for other regions (especially Southeast Asia and Latin America) and the US dollar. Moreover, a renewed "flight to quality" by investors could lead to distortions induced by the financial markets, particularly in the emerging markets. Currency crises like the devaluation of the Turkish lira in February of this year harbour the risk of contagion effects.

Outlook for the capital markets
Assuming the general economic situation stabilizes, we expect the relatively quiet trend on the **bond markets** to continue in 2001. By the end of the year, long-term yields should lie above the level at the beginning of 2001, while short-term yields should be lower. If the economic situation deteriorates into a "hard landing", interest rates will fall further. At present, though, we do not think that this is very likely.

Looking beyond 2001, the structural trend towards low inflation rates in the world economy will continue – core inflation is currently hovering around the 2% level. The general interest rate level should therefore not move outside the range of 4.5% to 6.5% in the long run. The yield curve will be comparatively flat, and periods with inverted interest rates will occur more frequently.

By and large, provided inflation and interest rates remain low, companies' profits will gain in importance as the drivers of **share prices.** Nevertheless, even when productivity improvements achieved through the increased use of new technologies are taken into account, the general earnings performance of companies will still not show any extreme variation from the long-term average of around 7% p. a. Stock yields in the coming years should therefore settle down at their normal historical mean of high single figures.

On the **foreign exchange markets,** the euro is expected to make slight gains against the US dollar during the course of the year, essentially for two reasons: the relatively better economic situation in Euroland, and investors' uncertainty about how the US economy will perform.

Outlook for the insurance industry

We expect development in the insurance industry to be essentially the same as in the economy as a whole. The trend towards further disproportionate growth in insurances of the person in the industrialized countries will continue.

MANAGEMENT REPORT

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When, in 1957, six states got together to form the European Economic Community, scarcely anyone could have dreamt that it would grow into such a vital economic area. Back then, probably no one anticipated how this union would continue to develop, despite all national resistance, and that it would one day have a single currency. Today, Euroland even has the potential to become the engine of the world economy. >>

>>______The history of Munich Re is also a story of visions and growth. When Carl Thieme founded the company in 1880, scarcely anyone could have foreseen that this start-up would one day develop into a global risk carrier and provider of financial services. But this is precisely what happened.

THE BUSINESS YEAR 2000

In the business year 2000 we succeeded in substantially expanding our premium volume and increasing our profit for the year. However, the development of the reinsurance underwriting result was considerably worse than we had anticipated in the first few months of the year.

Growth
Premium growth in both reinsurance and primary insurance was stronger than initially expected in the business year 2000. Altogether, we managed to increase our gross premium by 13.5% to €31.1bn (27.4bn). Around €1.4bn (0.3bn) of this is due to changes in exchange rates. New subsidiaries contributed €470m (32m). Adjusted to eliminate these factors, premium growth totalled €1.9bn (1.6bn) or 6.7% (6.1%).

54% (51%) of the premium income derived from REINSURANCE. Here premiums grew by 19.2% (8.6%) to €18.3bn (15.4bn); the main contributors to this steep rise were life, motor and fire business. Regionally speaking, our business expanded particularly in the rest of Europe and in North America.

Growth in PRIMARY INSURANCE was also pleasing: we wrote premiums of €14.4bn (13.5bn), or 6.8% (6.5%) more than in the previous year. A particularly satisfying aspect is that our primary insurers continue to grow more quickly than the German market as a whole.

Result
Our RESULT BEFORE AMORTIZATION OF GOODWILL improved in the business year 2000 by 43.6% to €2.6bn (1.8bn).

AMORTIZATION OF GOODWILL increased to €145m (120m), owing to the acquisition of Alte Leipziger Europa, Bayerische Vita and other insurance companies.

TAX EXPENSES showed only a slight change at €399m (383m).

The CONSOLIDATED PROFIT FOR THE YEAR rose 54.5% to €1.75bn (1.1bn); in the previous year it had fallen by 5.6% compared with 1998. The result for 2000 was positively influenced by the first-time consolidation of investment funds classifying as “special funds” and the reduction of the corporation tax rate in Germany, which contributed €180m and €320m respectively. Without these two effects, the profit for the year would have been €1.25bn (0.8bn) or 50% up on the previous year.

Security

One of the main competitive strengths of the Munich Re Group and its companies is their outstanding CAPITALIZATION. Shareholders' equity increased to €23.6bn (18.5bn) in the year under review.

UNDERWRITING PROVISIONS grew to €131.5bn (123.5bn) and our INVESTMENTS reached €159.4bn (150.9bn).

For many years Munich Re has belonged to the small band of reinsurers awarded top ratings by the leading rating organizations A.M. Best, Standard & Poor's and Moody's (A.M. Best: A++; S&P: AAA; Moody's: Aaa).

Our subsidiaries currently assessed also received excellent ratings:

	A.M. Best	S&P	Moody's
Reinsurance group			
American Re-Insurance Company	A++	AAA	Aaa
American Alternative Insurance Company	A++	AAA	
Princeton Excess and Surplus Line Insurance Company	A++		
Munich American Reassurance Company	A++	AAA	
Great Lakes Reinsurance (UK) PLC	A++	AAA	
Munich Reinsurance Company of Canada	A++	AAA	
Munich Reinsurance Company of Africa	A++		
Munich Reinsurance Company of Australasia	A++	AAA	
Münchener Rück Italia	A++	AAA	
New Reinsurance Company, Geneva	A++	AAA	
Primary insurance group			
VICTORIA Lebensversicherung Aktiengesellschaft		AAA	Aa2
VICTORIA Versicherung Aktiengesellschaft		AAA	
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft		AAA	Aa2
Hamburg-Mannheimer Sachversicherungs-AG		AAA	
DKV Deutsche Krankenversicherung Aktiengesellschaft		AAA	

ERGO Versicherungsgruppe AG has been graded as AA+ (counterparty credit risk); this is the best rating that can normally be achieved by a non-operative insurance holding company under Standard & Poor's rules.

December 1999: a series of severe windstorms sweeps across Western Europe. Their effects are also felt in Munich, where Munich Re's climate researchers monitor and analyse natural catastrophes throughout the world. Much of what is perceived as a disaster by humans has a healing effect on nature. Forest fires or windstorms can help rejuvenate woods; many young trees only find room to grow after old or diseased trees have been uprooted. >>

>>_______1999, a year of major losses, had a very similar effect on reinsurance business: quite a few inadequately capitalized providers disappeared from the market. In the course of 2000 the prices for natural hazard covers rose, in some cases very appreciably. Our reinsurers were able to increase their gross premium in the past business year by 19.2% to €18.3bn

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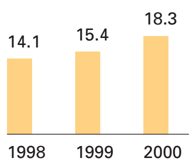
Reinsurance

Consolidation processes are continuing around the globe. They are also affecting demand for reinsurance cover. For the reinsurance sector, this harbours risks but also offers opportunities: mergers and acquisitions mean that the primary insurers remaining in the market are better capitalized on average, with the result that their reinsurance requirements are tending to diminish. Improved methods of risk assessment are having the same effect, while new players and changes in distribution channels are increasing the competitive pressure in many markets.

On the other hand, the global market for cover against risks continues to grow, not least because insured values and exposure to natural catastrophes are constantly increasing. The fact that many primary insurers seek comprehensive protection against risks and equalization of their results over time opens up many promising business opportunities for reinsurers.

Over the past year the Munich Re Group managed to increase its gross reinsurance premiums by 19.2% (8.6%) to €18.3bn (€15.4bn). Admittedly, more than 7.7 (2.8) percentage points of this were attributable to changes in exchange rates; without these changes, our premium income would have risen by 11.5% (5.8%). This growth also reflects price rises in individual insurance and reinsurance markets.

Gross premiums in €bn

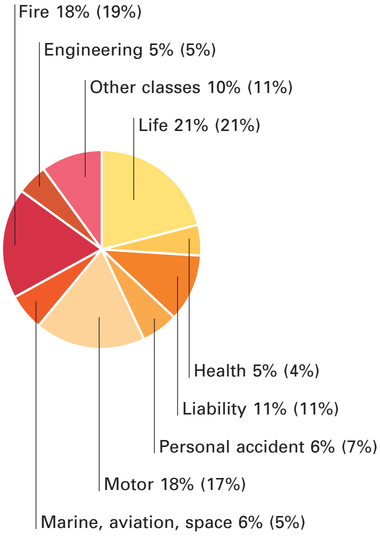


Reinsurance		2000	Prev. year
Gross premiums	€bn	18.3	15.4
Loss ratio non-life	%	85.0	88.2
Expense ratio non-life	%	30.3	30.7
Operating result before amortization of goodwill	€m	1,525	1,208
Investments	€bn	64.9	59.6
Net underwriting provisions	€bn	43.9	40.4

Results for the year 2000 were disappointing for the reinsurance sector worldwide. The reinsurance capacity available decreased in many markets, but there was still an oversupply. Although global reinsurers' underwriting results had declined considerably in the previous years and were heavily in deficit in 1999, it did not prove possible to achieve price increases and improved conditions across the board during the treaty renewals for the year 2000. Moreover, the losses caused by the gales of December 1999 came too late to be taken into account in the negotiations. Prices for reinsurance did rise in the course of 2000, however, and in some cases quite substantially – especially for business exposed to natural catastrophes. Original rates also rose in some primary insurance markets. These positive changes will only have an impact on the current year's results, however.

For the reporting on individual fields of business, the following principle applies: figures that derive from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included in the following data.

Gross premiums by class of business



Reporting by class of business

SUMMARY

In the year under review we were able to increase our premium in life and health business by 25.6% (24.3%); the result here was very satisfactory.

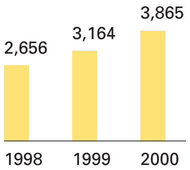
Gross premiums by class of business	2000 €m	Prev. year €m	Change in %
Life	3,865	3,164	22.1
Health	836	578	44.6
Liability	1,934	1,650	17.2
Personal accident	1,043	1,140	–8.5
Motor	3,335	2,570	29.8
Marine, aviation, space	1,158	846	36.9
Fire	3,363	2,890	16.4
Engineering	929	786	18.2
Other classes of business	1,862	1,744	6.8
Total	18,325	15,368	19.2

In property-casualty business our premium income grew by 17.2% (4.4%); the combined ratio totalled 115.3% (118.9%). Losses from natural catastrophes accounted for only 2.0 (10.7) percentage points, even including subsequent claims from the gales in 1999.

Our basic business in non-life reinsurance suffered not only from inadequate prices and conditions, but also from a large number of major losses in the fire, engineering and liability classes of business. On top of this came heavy losses from our marine and aviation business on the London market.

Our aim in non-life reinsurance continues to be a combined ratio of less than 105% on average over the years.

Life
Gross premiums in €m



LIFE AND HEALTH

In LIFE business we again succeeded in expanding our premium considerably, by 22.1% (19.1%). Unlike in the previous year, premium growth in 2000 came from outside Germany alone. Our growth in North America, the UK, France and Italy was particularly strong, while our premium income in Latin America also developed very satisfactorily. In Asia, on the other hand, we did not quite manage to match our earlier growth rates, as the Asian life insurance markets are only slowly recovering from the financial crisis. Premium from domestic business was slightly down on the previous year, mainly because of the restrained trend in the German life insurance market. We still managed to improve our result again compared with the previous year.

In order to further strengthen our position in other countries, we increased the number of staff at our units in Southern Europe, Asia, and Central and Latin America over the past year and augmented the range of services we offer. These units benefit from the expertise of the specialists we deploy worldwide.

We provide our business partners with intensive support in developing modern life insurance products for new target groups. Our approach is to advise clients individually and provide solutions geared to their particular needs. We identify new business opportunities, help with financing, and offer specially tailored reinsurance concepts (e.g. in the area of private annuity or long-term care insurance), which are increasingly gaining in importance. As reinsurers, we also partner our clients in individual markets in such major changes as the transformation of mutual insurance companies into stock companies. Thus in the Canadian market in particular, we were able to strongly assist our business partners with special reinsurance solutions when the five biggest life insurance companies there completed their demutualization last year. The pleasing consequence for us was that on this basis we were again able to achieve above-average business growth.

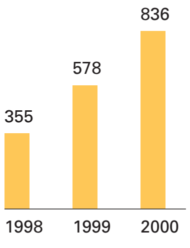
We also see the life insurance sector offering great potential for growth in the future. In many of the world's markets, the demographic trend and the financial problems being experienced by the state social security systems are leading to increased demand for private pension plans and also for disability and long-term care insurance. This in turn is proving to be a stimulus for growth in both the insurance and reinsurance sectors. In Germany, for example, as part of the pension reform, the government plans to promote funded pension provision through subsidies and tax breaks. The general opportunities for growth in life reinsurance are somewhat muted in many traditional markets because of the fierce price competition and continuing consolidation processes in the primary insurance sector. These processes nonetheless often open up avenues for innovative reinsurance solutions, for which we are very well equipped both financially and in terms of personnel.

The acquisition of CNA Financial Corporation's life reinsurance business by our subsidiary Munich American Reassurance Company takes us a big step forward in the US market. We again expect our growth rates in North America to be higher than average. We also see new business opportunities in young or opening markets such as China, India and Brazil.

All in all, for 2001 we expect a strong increase in premium from new business, but also from higher shares in existing treaties. The result should again be satisfactory.

Our HEALTH business recorded a leap in premium income of no less than 44.6% (62.8%). Growth was above average in North America, where our subsidiary American Re has within a few years become an important reinsurer in this special class of business. We also managed to further consolidate our position in Latin America and the Middle East. Price increases due to remedial measures also contributed to the pleasing premium development. The result improved further.

Health
Gross premiums in €m

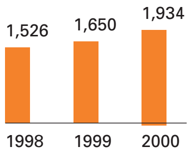


	1998	1999	2000
Loss ratio	93.3	80.0	70.8
Expense ratio	26.4	24.9	31.1
Combined ratio	119.7	104.9	101.9

Liberalization and privatization of state social security systems is proceeding worldwide. This change offers chances for expansion, especially in the fast-growing economies of Latin America, the Middle East and Asia. We are well-placed to make use of every favourable opportunity. In China, for example, we entered into further strategic cooperation arrangements with local partners during the year under review. In India we acquired a stake in a service company that specializes in the administration of health business. However, we also see opportunities in the established markets of Europe and North America to further strengthen our position, because we not only offer our clients protection against risk but also provide advice and services along the entire value-added chain.

For 2001 we hope to see further growth in our premium income, especially from new business. Remedial measures and improvements in claims management will have a positive effect.

Liability
Gross premiums in €m



	1998	1999	2000
Loss ratio	83.7	105.7	89.2
Expense ratio	31.7	30.7	31.8
Combined ratio	115.4	136.4	121.0

PROPERTY-CASUALTY

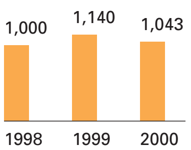
In LIABILITY business, premium income grew by 17.2% (8.1%). We succeeded in maintaining our leading position in industrial and professional liability business, even extending it in certain markets.

Our result in this class of business, though significantly better in 2000 than in 1999, was still very negative.

We continue to see liability insurance as a class of business with growth potential. But the trend among our clients of increasing retentions and switching from proportional to non-proportional covers is persisting. Demand for highly specialized reinsurance covering complex risks and new products also continues to grow.

In 2001 we expect a further increase in our gross premiums and on balance an improvement in results, despite greatly varying performances of individual markets.

Personal accident
Gross premiums in €m



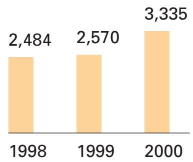
	1998	1999	2000
Loss ratio	76.6	75.2	68.1
Expense ratio	33.8	29.9	30.8
Combined ratio	110.4	105.1	98.9

In PERSONAL ACCIDENT our premium income in the year under review declined by 8.5% (compared with an increase of 14.0% the previous year). The result improved appreciably. In workers' compensation business, which last year brought us particularly high losses, our remedial measures are beginning to bear fruit.

For 2001 we expect premiums to stagnate or be slightly down once again, but we anticipate a pleasing result.

Premium in MOTOR business grew by 29.8% (3.5%). In individual markets, prices and conditions in the primary insurance sector improved considerably during the year under review, leading us to selectively write new business there. Compared with the previous year though, our result deteriorated somewhat, the main contributory factor being the losses we sustained in the difficult German market.

Motor
Gross premiums in €m

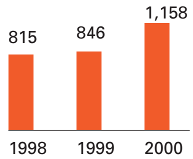


	1998	1999	2000
Loss ratio	78.9	83.5	90.7
Expense ratio	26.8	24.4	24.5
Combined ratio	105.7	107.9	115.2

During the treaty renewals for 2001 we shed loss-making business, especially in Germany. The resultant fall in premium income will be compensated for by growth in new foreign business, however. If the favourable trends in the primary insurance sector continue and our own remedial measures take effect, we should succeed in improving the result situation.

Our premium in the MARINE, AVIATION and SPACE classes of business was up by 36.9% (3.8%). This was attributable in the main to currency effects, but also to rate increases and to the selective expansion of business in areas where we expect good experience over the next few years.

Marine, aviation, space
Gross premiums in €m



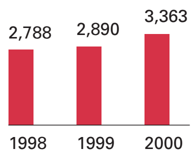
	1998	1999	2000
Loss ratio	80.7	81.9	92.7
Expense ratio	24.3	27.4	27.4
Combined ratio	105.0	109.3	120.1

Aviation and marine insurance performed exceptionally badly last year, with very negative results, particularly from our business in the London market.

In all three classes, however, prices rose perceptibly in both the insurance and reinsurance sectors. After four years of constantly falling rates, there are now clear signs of a sustained hardening of the market, which is characterized by strong cyclical patterns, especially where aviation and space business are concerned. We are now assuming that the cycle has bottomed out and are expecting an increase in our premium as well as a significant improvement in results in the coming years. Whether we will go into the black already in 2001 will largely depend on what major losses affect us during the current year.

In FIRE business the excessive competition in a series of important insurance markets eased off towards the end of the year under review – it had led to inadequate prices and conditions primarily in industrial fire insurance and for natural hazard covers. But an improved price-performance ratio could in fact only be achieved in a few markets. Nevertheless, in two important markets, namely the US and Japan, we did succeed in bringing the prices of our covers closer to a level commensurate with the risk.

Fire
Gross premiums in €m



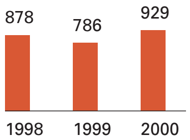
	1998	1999	2000
Loss ratio	77.2	101.8	95.2
Expense ratio	28.8	34.0	31.4
Combined ratio	106.0	135.8	126.6

Contrary to our original expectations, our premium in 2000 rose by 16.4% (3.7%), with growth coming exclusively from outside Germany. Thanks to intensive consultation and acquisition, we were able to write lucrative new business there that satisfied our quality requirements. Half of the growth in premium was due to changes in exchange rates, however.

In the previous year a large number of expensive natural catastrophe losses had led to an exceptionally negative result. In the year under review there was a sharp fall in losses from natural catastrophes, although the number and cost of other major losses remained at the same high level as in the previous year. Consequently, the result was less disappointing than in the previous year, but still totally unsatisfactory.

The gales in December 1999 had no effect on either the reinsurance prices agreed for 2000 or the reinsurance capacity offered, having occurred too late in the year to have any impact. We therefore geared our underwriting policy for 2001 all the more to returning to risk-commensurate prices and conditions. As a consequence we withdrew from business that neither met our price expectations nor indicated that our return targets might be achieved in the foreseeable future. For the current business year, we therefore expect reductions in premium income as a result of the remedial measures taken, though these ought to be offset by growth from appropriately rated business (new and existing). At the end of the day, however, our premium income in fire insurance is likely to stagnate. The result should nevertheless show a clear change for the better. We expect an underwriting profit, provided natural catastrophes and other major losses do not intervene.

Engineering
Gross premiums in €m



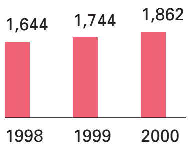
	1998	1999	2000
Loss ratio	67.1	72.0	74.5
Expense ratio	33.5	38.5	39.8
Combined ratio	100.6	110.5	114.3

In the ENGINEERING classes of business (machinery, EAR, CAR, electronic equipment, etc.) massive exchange-rate influences and new business led to an 18.2% increase in premium, whereas in the previous year there had been a decrease of 10.5%.

The result was again negative in the year under review. There were two main reasons for this: on the one hand, prices were still inadequate and, on the other, we were hit by a large number of major losses.

In view of the underwriting losses which have mounted up in recent years, insurers and reinsurers are intensifying their efforts to improve their business – original rates are rising in a number of markets that are important for us. This should have a positive effect on the result.

Other classes of business
Gross premiums in €m



	1998	1999	2000
Loss ratio	59.9	78.9	70.8
Expense ratio	33.8	35.1	33.7
Combined ratio	93.7	114.0	104.5

In OTHER CLASSES OF BUSINESS our premium income was up by 6.8% (6.1%). Falls in premium in Germany were more than compensated for by growth in other countries.

Our result was positive overall in the year under review, although in large parts of Europe figures were badly hit by hail losses; in the previous year, losses from gales and hailstorms had brought us a large deficit. Credit business again recorded a satisfying profit.

The windstorms in December 1999 and the incipient hardening of the markets resulted in significant rises in the prices of our covers for business exposed to natural hazards. As long as there are no major windstorms in Germany this year, we should once again be able to achieve a profit. Credit business could also contribute to this, although the insolvency situation has deteriorated further.

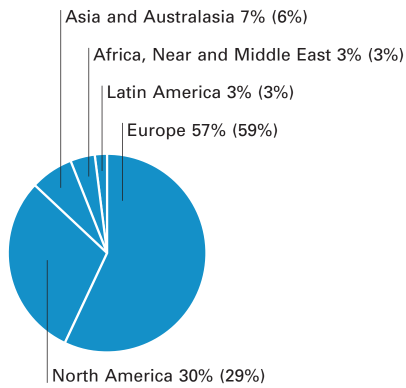
Reporting by region

As a reinsurer, Munich Re is present throughout the world: we work with insurance companies in around 150 countries. Germany remains our most important market, but 71.8% (67.3%) of our reinsurance premium income now comes from outside Germany.

Broken down by region, our premium income developed as follows:

Gross premiums in €m	2000	Prev. year	Change in %
Europe	10,449	9,070	15.2
North America	5,487	4,441	23.6
Asia and Australasia	1,224	972	25.9
Africa, Near and Middle East	708	505	40.2
Latin America	457	380	20.3
Total	18,325	15,368	19.2

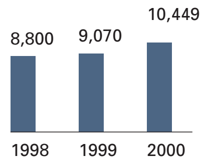
Gross premiums by region



EUROPE

In 2000 our premium income from Europe rose by 15.2% (3.1%) to €10.4bn (9.1bn). We rank among the leading reinsurers in all the main markets. In the year under review, despite stiff competition, we were once more able to expand our market shares in some areas, e.g. in the UK, the Netherlands and the Nordic countries. Our underwriting result improved, owing to the fact that our claims costs from natural catastrophes were much lower than in the previous year, when the three winter gales Anatol, Lothar and Martin cost us more than €500m. However, our other claims costs remained high.

Gross premiums in €m



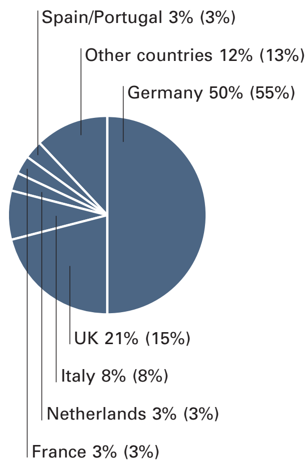
In the current business year we expect an increase in premium income and a better result.

Germany

Germany is our largest market, contributing 28.2% (32.7%) of our total reinsurance premium income.

Premiums in the German primary insurance market rose by approximately 2.2% (5.5%) in 2000. Private health insurance did particularly well, with growth of 4.1% (3.1%). By contrast, in life insurance new business was considerably down on the previous year, which had admittedly benefited from special influences (the debate in Germany surrounding the threatened taxation of profits from life insurance policies). In property-casualty insurance the trend of falling premium income was stopped. We are seeing the first signs of remedial measures in motor business; still very unsatisfactory, on the other hand, is the situation in industrial fire insurance. Altogether, the German market recorded another large deficit in property-casualty insurance – quite contrary to the results in insurances of the person.

Gross premiums by country



Most of our German reinsurance business is written by the parent company. Our position as market leader is undisputed. Our premium income grew by 2.8% to €5.0bn (4.9bn), even though our clients are also raising their retentions and converting their reinsurance programmes to less premium-intensive forms of cover. In individual cases, we last year consciously gave up business for which we were unable to achieve commercially acceptable prices and conditions.

In 1999 our reinsurance underwriting result had been negative for the first time in years. This was mainly due to the massive losses suffered by German primary insurers in motor business and the windstorm events in December 1999. In the year under review we recorded another deficit, owing especially to losses in fire insurance.

In the current business year we are proceeding on the assumption that our premium will show a slight fall. The result should improve further, provided we are not hit by major losses from natural catastrophes and primary insurers' remedial measures in motor business bear fruit.

UK

The UK is our second-largest market in terms of reinsurance premium, with a share of 21.0% (14.7%). We are represented in all segments of the market, with an office, two branches and several subsidiaries, including Great Lakes UK. We were able to strengthen our top position in non-life reinsurance further last year; in life reinsurance we continue to be the number two.

The rating level in both insurance and reinsurance is rising, but results have remained poor and led to some players withdrawing from the market. Despite this, reinsurance capacity is still high and prices for insurance and reinsurance continue to be inadequate in some sectors.

In the year under review we wrote premium income of €2.2bn (€1.3bn), representing growth of 64.6% (25.9%). This notable increase derived primarily from new proportional reinsurance treaties with large premium volumes in motor and life reinsurance. Our result, however, was somewhat worse than in the previous year – not least because of pre-financing for newly concluded treaties.

Rising rates and remedial measures will enable our premium to grow further in 2001. We expect a much better result, especially from motor business, unless the spectacular loss in Selby at the beginning of the year impacts the figures. This involved an accident with a land-rover vehicle, which led to the collision of two trains.

Our subsidiary Great Lakes UK generates a major part of its business from space insurance.

Great Lakes UK		**2000**	**Prev. year**
Gross premiums	£m	222	154
Net premiums	£m	19	17
Loss ratio non-life	%	99.1	105.9
Expense ratio non-life	%	9.6	15.1
Profit for the year	£m	3.0	0.3
Investments	£m	93	104

Netherlands

Although price competition in the primary insurance market is very strong, we were able to considerably expand our portfolio: not only did we acquire new business but we also profited from the restructuring of our clients' reinsurance programmes.

In contrast to our premium income, the underwriting result for 2000 showed a decline, but it was still just in the black. Apart from pressure on prices, we were also affected by a random accumulation of loss events. One of particular note was the explosion in a fireworks factory in Enschede on 13th May 2000, which cost us around €25m.

Although we have not renewed a number of loss-producing treaties, our premium income will continue to increase in 2001. This will be mainly due to higher reinsurance prices, and will have a positive effect on our result.

Italy

Our subsidiary Münchener Rück Italia (MRI) was able to enlarge its premium volume by 14.7%, and thus maintain its leading market position. In October 2000 northern Italy was hit by floods that gave rise to substantial economic losses. As insurance density in the catastrophe area was relatively low, however, the insurance industry – and hence MRI – was not seriously affected.

Münchener Rück Italia*		**2000**	**Prev. year**
Gross premiums	Lit bn	1,200	1,046
Net premiums	Lit bn	592	502
Loss ratio non-life	%	86.2	88.7
Expense ratio non-life	%	26.4	26.7
Profit for the year	Lit bn	8.1	43.7
Investments	Lit bn	2,159	1,999

* Financial statements in accordance with IAS.

There is potential for expanding our Italian business especially in insurances of the person; life insurance continues to experience one of the highest growth rates in Europe.

Although our Italian clients are also raising their retentions, we nevertheless expect a slight increase in premium income in the current year and a better result.

France
Our growth target in this market in the year 2000 was not met. Our premium remained almost the same.

In 1999 our result had fallen deeply into the red owing to claims costs from the winter storms Lothar and Martin. In the year under review we did not manage to return to the profit zone; the renewed deficit was mainly caused by subsequently reported claims from the two gales, by hail damage and by problems in liability insurance.

The turnaround is there, however: reinsurance conditions are changing in our favour, so that the result should improve further.

Switzerland
After windstorm Lothar in December 1999, Switzerland was hit by heavy flooding and landslides in Vallais and Ticino in October 2000. These events also had a knock-on effect on our subsidiary New Re.

New Re’s regional focus is on Europe; financial reinsurance products account for a substantial part of its business.

New Reinsurance Company		2000	Prev. year
Gross premiums	Sfr m	974	971
Net premiums	Sfr m	702	785
Loss ratio non-life	%	88.5	84.1
Expense ratio non-life	%	28.6	22.9
Result for the year	Sfr m	–17.8	–13.6
Investments	Sfr m	2,433	2,319

New Re’s unsatisfactory result again in 2000 is attributable to three factors: claims from natural catastrophes, major fire losses, and deficits in motor and marine business. In the treaty renewals for 2001 New Re terminated a large number of loss-producing treaties. On top of this, it was able to achieve improvements in reinsurance prices in many instances, so that we expect a reversal of the result trend in the current year. Premium income is likely to stagnate.

Spain/Portugal
We were again able to record appreciable premium growth of 3.1% on the Iberian Peninsula in 2000. Our result, on the other hand, suffered badly. This was firstly because of the fall in original rates – especially in property insurance – and secondly because of several major losses in fire and motor business.

We have responded swiftly: for 2001 we succeeded in agreeing considerable increases in reinsurance prices in some cases. However, we also terminated treaties. This means our premium will probably not grow in the current year, but the result should be more favourable again.

Nordic countries
In Scandinavia we managed to extend our position as market leader and expand our premium volume by 28.9%. We profited from higher rates in primary insurance, but also managed to acquire new business and augment shares in existing reinsurance programmes. Our result in the year under review was again very negative, the reasons being largely the same as in the previous year: poor experience in Norwegian workers' compensation insurance and subsequent claims from windstorm Anatol, which hit Denmark in December 1999.

In the current business year we will maintain our market position. We expect the result to take a clear turn for the better. This forecast is based on two factors: substantially improved reinsurance conditions and the higher prices in clients' original business.

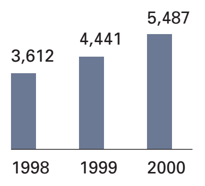
Eastern Europe, Turkey
In the year 2000 our premium income showed above-average growth again. Following the large deficit in the previous year – caused mainly by the earthquake of August 1999 in Turkey – our result was better in the year under review, but still slightly negative.

Owing to some extensive remedial measures (including the termination of loss-producing treaties), our business volume will only develop moderately in 2001; but the result should be more gratifying, unless we are hit by natural catastrophe losses.

NORTH AMERICA

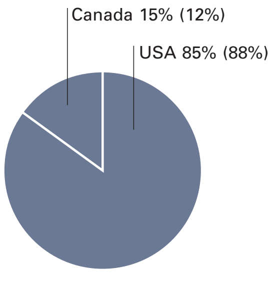
Our premium income from the North American market grew by 23.6% (23.0%) to €5.5bn (4.4bn) in 2000. Without the appreciation in the value of the US dollar and the Canadian dollar, however, growth would have been restricted to 8% (18%). The result was better than in the previous year.

Gross premiums in €m



In the current business year we will expand our business further, not least owing to the acquisition of CNA's life reinsurance business. If we are spared major natural catastrophes, we expect our profit to increase for two reasons. Firstly, we have improved prices and conditions in our reinsurance business. Secondly, the measures to remedy our portfolio in non-life business are having a positive effect.

Gross premiums by country



USA
1999 saw prices reach what was evidently their lowest point, after several years with an oversupply of reinsurance capacity and attendant price erosion: since the first half-year 2000 insurers and reinsurers have been achieving rate increases again, especially in property, motor, and workers' compensation business.

Our subsidiary American Re is one of the top three reinsurers in the market in the non-life sector. Contrary to original expectations, the company recorded growth of 3.8% in gross premiums in 2000, even though it had not renewed reinsurance treaties with a volume of over US$ 500m because it regarded individual prices and conditions as inadequate. The premium growth resulted from rate increases and new business in the sectors of alternative markets and health. The loss for the year was reduced to US$ 64.4m (101m), even though the company had again substantially strengthened its provisions for losses from the years 1997 to 1999 – primarily in liability, motor, and workers' compensation reinsurance.

American Re		2000	Prev. year
Gross premiums	US$ m	3,671	3,537
Net premiums	US$ m	3,240	2,928
Loss ratio non-life	%	86.8	90.7
Expense ratio non-life	%	30.6	29.7
Result for the year	US$ m	–64.4	–101.0
Investments	US$ m	7,894	7,440

The upswing in the market and the remedial measures taken will only make themselves fully felt in the coming years. We anticipate significant growth, especially in specialized classes of business (alternative markets, health, and credit enhancement) and from the expansion of the business we write via brokers.

Munich American Reassurance Company (MARC), which specializes in life reinsurance business, exceeded its growth targets. It increased its new business by 118.8% (99.3%) and its premium income by 47.7% (65.9%). It distinctly improved its market position through the acquisition of CNA Financial Corporation's life reinsurance portfolio. We thus took a big step towards our goal of being one of the top re-insurers in the important US life market as well; the acquisition will not be reflected in the figures until 2001.

In order to reinforce MARC's financial base for the expansion of business, we increased its capital by US$ 470m.

Munich American Reassurance Company (Group)		2000	Prev. year
Gross premiums	US$ m	446	302
Net premiums	US$ m	237	166
Profit for the year	US$ m	6.4	14.1
Investments	US$ m	1,584	936

In September 2000 we transferred our shares in American Re and MARC to a newly formed holding company, Munich-American Holding Corporation. This measure has further strengthened our position in the world's most important insurance market.

Canada

Munich Reinsurance Company of Canada, Toronto, is the leading re-insurer in the Canadian non-life market. It managed to defend its position well, even though there was an oversupply of reinsurance capacity in the market and reinsurers' premium volume suffered as a consequence.

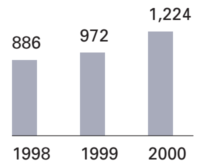
Munich Reinsurance Company of Canada		2000	Prev. year
Gross premiums	Can$ m	255	253
Net premiums	Can$ m	95	101
Loss ratio non-life	%	79.2	69.0
Expense ratio non-life	%	27.9	32.0
Profit for the year	Can$ m	11.8	14.5
Investments	Can$ m	356	381

Our branch in Toronto, Munich Reinsurance Company Canada Branch (Life), recorded very large growth in premium income and remains the market leader. We are proceeding on the assumption that our business in this market will continue to show above-average growth in the current year, despite the keen competition.

ASIA AND AUSTRALASIA

In our business region Asia and Australasia our premium income again showed a disproportionately large increase, this time of 25.9% (9.7%) to €1.2bn (1.0bn). The strength of the yen and the revival of some other currencies contributed to this growth.

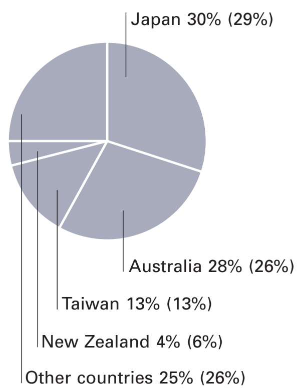
Gross premiums in €m



Asia and Australasia number among the most dynamic insurance markets in the world; at the same time the region is especially exposed to natural catastrophes. This was why in 1999 we recorded our highest underwriting loss ever in the history of our operations in these markets. By contrast, in the year under review we were spared significant losses from natural events.

We are reckoning with a further increase in our gross premium income in the current year and with a good result. This expectation is founded to a considerable extent on the continuing rise in reinsurance prices.

Gross premiums by country



Japan

Japan is still struggling with a recession. In the insurance industry the problems are exacerbated by the structural consequences of deregulation. Mergers and numerous cooperation agreements are changing the face of the market. The outcome: our clients are shrinking in number. But the newly formed groups' demand for reinsurance is high, and the prices for reinsurance cover have risen. The prospects for our business in terms of both premium growth and result are therefore good.

Southeast Asia

Despite the economic recovery in most countries of Southeast Asia, the demand for reinsurance capacity has not received any boost. But we are satisfied with the premium income and results of our branches in Singapore and Hong Kong. For the first time in several years, one of the most important markets in the region, Taiwan, was not affected by major losses.

China and India

In both these developing markets, the investment climate improved in the year under review. It is now possible to establish and operate private insurance companies. In the People's Republic of China we have therefore applied for a licence to open a branch; in India we have already obtained approval for a representation office.

In the year 2000 we were able to slightly expand our existing business, which is for the most part with state insurance companies; the result was satisfactory.

Korea

This insurance market, in which deregulation has also now begun, is one of the ten largest in the world. It offers reinsurers considerable growth potential. We have obtained the necessary licence for converting our office there into a branch. Our premium and our result developed respectably in the year under review.

Australia and New Zealand

In Australia we are represented by our subsidiary Munich Reinsurance Company of Australasia (MRA); the parent company and American Re also have branches there.

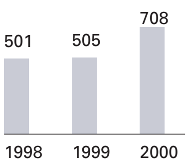
The long-standing consolidation process in the insurance industry is continuing in Australia and New Zealand. In life business the sale of term insurance products has been stagnating for years. On the other hand, there was a pleasing rise in original rates in property-casualty insurance in the year under review.

MRA did well in this conflicting environment: in its home market it was able to acquire new business, and in New Zealand it managed to keep within limits the fall in premium resulting from the renationalization of workers' compensation business.

Munich Reinsurance Company of Australasia		2000	Prev. year
Gross premiums	A$ m	460	401
Net premiums	A$ m	145	104
Loss ratio non-life	%	64.0	144.9
Expense ratio non-life	%	27.8	20.5
Profit for the year	A$ m	16.5	–19.7
Investments	A$ m	635	638

For the current business year we expect slight premium growth and a satisfactory result for the Munich Re Group.

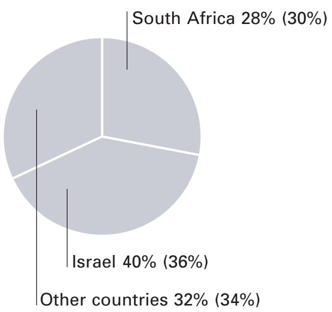
Gross premiums in €m



AFRICA, NEAR AND MIDDLE EAST

Our premium income in this business region revived, rising by no less than 40% to €0.7bn (0.5bn). We selectively expanded our motor and health business. The result improved again in the year under review, but was still negative owing to major losses. For the current business year we expect higher premium income and a reduction of the deficit.

Gross premiums by country



South Africa

Munich Reinsurance Company of Africa (MRoA), which services all the sub-Saharan markets, achieved premium growth of 33.6%. In spite of windstorm and flood claims, as well as a large number of fire losses, the profit for the year was up by 14.3%.

Munich Reinsurance Company of Africa (Group)		2000	Prev. year
Gross premiums	Rm	1,738	1,301
Net premiums	Rm	761	554
Loss ratio non-life	%	72.2	75.4
Expense ratio non-life	%	26.9	35.8
Profit for the year	Rm	66.4	58.1
Investments	Rm	2,222	1,734

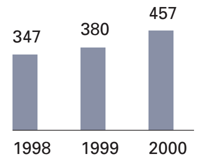
Near and Middle East

Our most important markets in this region include Israel, Saudi Arabia and Lebanon. In Israel we succeeded in expanding our motor business. Our remedial measures in health insurance started to take effect, but we had to bear high losses in fire business.

LATIN AMERICA

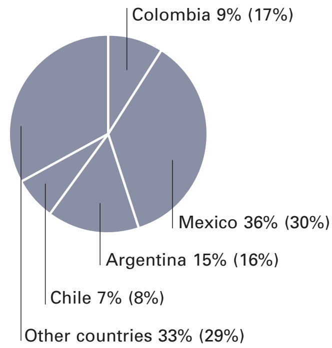
Economic growth varied from country to country in this region last year, but was only moderate as a whole: countries with high growth rates, e.g. Mexico, Chile and Brazil, contrasted with others that are firmly in the grip of recession, e.g. Argentina, Venezuela and Colombia. The long hoped-for liberalization of the Brazilian insurance market, which promises a significant increase in our premium income, has still not been realized.

Gross premiums in €m



Latin America contributed €0.5bn (0.4bn) to our consolidated premium in the year under review; this was 20.3% (9.5%) more than in the previous year. The growth was mainly driven by insurances of the person, with privatization of social insurance playing a large part in certain countries, and also by agricultural insurances. The property classes of business, on the other hand, are stagnating. Our premium growth came from both existing and newly acquired business; rate increases in business exposed to natural catastrophes and changes in exchange rates also contributed.

Gross premiums by country



In contrast to 1999, we were not hit by any new losses from natural catastrophes in this region in 2000. Despite the unrelenting competition among insurers and reinsurers, our result was therefore remarkably positive.

In the current business year we expect growth in our premium income to be on the moderate side, unless the Brazilian market opens up after all. The marked rate increases in insurance and reinsurance for business that includes coverage for natural hazards should enable us to achieve a good result again – presupposing, of course, that major losses from natural catastrophes do not affect us this year either.

Living is a risky business. At home, at leisure, at work, on holiday, everywhere: life is full of uncertainties. Or as Erich Kästner once put it: "Life is always life-threatening." >>

>>_______Because more and more people wish to (or have to) protect themselves against these risks, insurances of the person offer very promising growth potential. Our primary insurers are extremely well prepared for this. They contribute 46% of our Group's premium income. In the past business year they recorded dynamic growth, especially abroad.

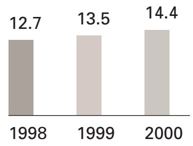
> www.ergo.de **> www.karlsruher.de** **> www.erv.de**

Primary insurance

The primary insurers in our Group write all forms of life and health insurance and nearly all lines of property-casualty insurance. By far their most important market is Germany, where they earn around 87% (90%) of their premium income. Our Group includes ERGO, Karlsruher and Europäische Reiseversicherung.

Our premiums from primary insurance in the year under review were up 6.8% (6.5%) to €14.4bn (13.5bn), representing 46% (49%) of Group premium income.

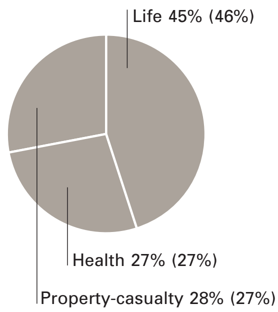
Gross premiums in €bn



Primary insurance		2000	Prev. year
Gross premiums	€bn	14.4	13.5
Result before amortization of goodwill	€m	1,342	948
Investments	€bn	102.9	97.5
Net underwriting provisions	€bn	87.3	82.9

The result before amortization of goodwill improved by 41.6% (13.4%) to €1.3bn (0.9bn).

Gross premiums by class of business



Minority interests exist mainly in the ERGO Insurance Group, in which Munich Re holds a stake of around 63%.

LIFE AND HEALTH

72% (73%) of our premium income in primary insurance derives from life and health business, where we recorded premium growth of 5.0% (7.2%) in the year under review.

The Munich Re Group ranks among the top three German life insurers. At €1.2bn, our new business production was less than in the exceptional year 1999. Particularly in the second half of 2000, clients held back with new policies, waiting for political decisions on the parameters of pension reform in Germany. This contrasted with 1999, when the tax reform plans of the German government had prompted many people to bring forward decisions to take out life insurance, which had enabled us to write new business amounting to €1.6bn.

Our premiums in life insurance climbed by 4.1% (9.8%) to €6.5bn (6.2bn), with foreign subsidiaries contributing €0.4m (0.3m) to this. Expenses for claims and benefits rose by 17.2% (6.8%). Operating expenses showed a decrease, mainly because of the reduction in new business.

In health insurance the Group was able to extend its leading position in Germany and Europe. Premium income was up by 6.7% (3.1%) to €3.8bn (3.6bn), of which €0.5bn (0.4bn) came from abroad. Expenses for claims and benefits increased by 15.9% (1.0%) to €4.2bn (3.6bn).

PROPERTY-CASUALTY

There are two reasons for our strong growth in this sector. On the one hand, new subsidiaries – especially the companies of Alte Leipziger Europa – have been consolidated in our figures since 1st January 2000. On the other hand, the Group was also able to expand in all the main classes of business in Germany. Overall, our premium income rose by 11.4% (4.7%) to €4.1bn (3.7bn), to which the foreign subsidiaries contributed €0.9bn (0.7bn). Expenses for claims and benefits showed a further increase, but the combined ratio is satisfyingly low.

In legal protection insurance we were able to strengthen our position as European market leader.

REPORTING ON SUBGROUPS

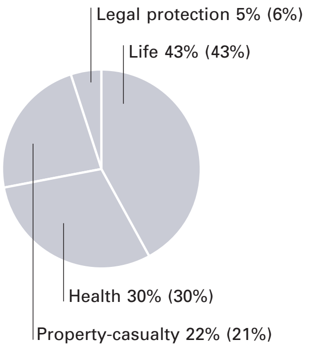
Our primary insurers wrote 87% (90%) of their business in Germany. Their foreign premium income of €1.9bn (1.4bn) derives mainly from six countries; in order of volume these are Italy, the Netherlands, Spain, Austria, Belgium and Poland. In view of this fact, we consider it more informative to report on the individual subgroups rather than according to regions, as we do in reinsurance. Where appropriate, however, we will comment on developments in the individual markets.

The following information refers to our subsidiaries' individual or consolidated financial statements for the year.

ERGO Insurance Group

ERGO Insurance Group was created in 1997 by merging VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. and is the second-largest primary insurance group in the German market. The main emphasis of ERGO's business, accounting for approximately 90% of its premium income, is on personal lines insurance, especially insurances of the person. In health insurance and legal protection insurance, ERGO is the market leader in Europe through DKV and D.A.S. respectively.

Gross premiums by class of business



ERGO Insurance Group*		2000	Prev. year
Gross premiums	€bn	12.7	11.9
Net premiums	€bn	11.1	10.4
Profit for the year	€m	804	467
Investments	€bn	88.8	85.0

* Consolidated financial statements in accordance with IAS.

ERGO's premium income rose by 6.2% (5.3%) in the year under review. This growth, which was due partly to the successful acquisitions abroad, advanced ERGO's position in Europe.

The result before amortization of goodwill increased by 39.3% (10.1%) to €1.2bn (0.8bn). ERGO's profit for the year improved to €804m (467m), or 72.3% more than in the previous year.

There was growth of 4.4% (11.3%) to €88.8bn (85.0bn) in ERGO's investments; the investment result totalled €7.2bn (5.3bn) – a plus of 36.8%, which reflected the first-time consolidation of the special funds.

Shareholders' equity amounted to €6.3bn (5.2bn) at the end of 2000, or 22.7% (22.1%) more than in the previous year.

At the end of 2000 the ERGO Group employed 27,489 (24,692) staff; the increase resulted mainly from the addition of further foreign subsidiaries.

For ERGO, the year under review was hallmarked by its acquisitions abroad: the addition of Alte Leipziger Europa mid-year and Bayerische Vita in December has strengthened its position in European growth markets. ERGO's foreign business recorded a leap in premium of over 42% to €1.7bn (1.2bn). The proportion of premium written abroad rose to 13% (10%); if the newly acquired companies had been fully consolidated rather than pro rata temporis, they would have contributed 18% to gross premium income.

As in Germany, ERGO is also concentrating on insurances of the person abroad: 69% of foreign premium income came from life and health insurance, as against 20% from property-casualty business, and 11% from legal protection insurance.

For the first time ERGO Versicherungsgruppe AG was awarded a counterparty credit rating of AA+ by Standard & Poor's. This is basically the highest rating that a non-operative holding company can achieve under Standard & Poor's rules. ERGO's operative companies VICTORIA Leben, VICTORIA Versicherung, Hamburg-Mannheimer Leben, Hamburg-Mannheimer Sach and DKV Deutsche Krankenversicherung were all given the top rating of AAA for their financial strength.

ERGO: life insurance
ERGO is the third-largest life insurer in Germany. Its premium income in life insurance rose by 5.3% (8.9%) to €5.4bn (5.1bn), with €0.5bn (0.3bn) deriving from abroad. New business premium in Germany was down 23.1% to €949m. In 1999 it had rocketed by 45.1% to €1.2bn, fuelled by the debate surrounding the tax reform, which had caused many clients to bring forward decisions concerning private provision. In terms of annual premiums, the insured portfolio at the end of the year showed an increase to €5.3bn (4.7bn).

Expenses for claims and benefits were up by 21.7% in the year under review and totalled €8.2bn (6.8bn). The first-time consolidation of the special funds was reflected in a markedly higher allocation to the provision for deferred premium refunds and policyholders' dividends, because policyholders will participate in the capital gains achieved by these funds in the same way as with other investments.

€4.0bn (3.5bn) was paid out to policyholders in maturity benefits or annuity payments. A large portion of this was reinvested by clients in ERGO products: the reinvestment rate again totalled a satisfactory 19%.

ERGO: health insurance
Premiums in health insurance climbed by 6.7% (3.1%) to €3.8bn (3.6bn). ERGO's health insurers have made great efforts to keep premium adjustments for policyholders low. Success in doing so has enhanced their competitiveness and enabled them to strengthen their position as number one in Germany and Europe. Growth in the year under review was impaired, however, by the 10% premium loading introduced by the German government for new business (Health Reform 2000). The extra premiums are to be saved up with the aim of stabilizing premiums for insureds above the age of 65.

At €4.2bn (3.6bn), expenditure for claims was 16.9% up on the previous year. The provision for deferred premium refunds and policyholders' dividends in particular was substantially augmented owing to the first-time consolidation of the special funds.

ERGO: property-casualty insurance
The property-casualty insurers succeeded in achieving growth of 7.4% (2.4%) to €3.5bn (3.3bn), with €0.6bn (0.4bn) stemming from abroad. The new foreign subsidiaries that were consolidated for the first time had a positive effect.

For the first time in many years, German motor business contributed to premium expansion as well, mainly due to rate increases for new and existing business. There was also pleasing premium growth in the strategically important personal lines of homeowners', personal accident, and liability insurance.

With growth of 3.3% in Germany, ERGO again clearly outstripped the market as a whole. Particularly worthy of mention is its combined ratio of 94.9% (93.1%), which continues to be exceptionally good. Only few insurers were able to achieve underwriting profits in this segment.

D.A.S. was able to reinforce its position as European market leader and increase its premium in legal protection insurance by 5.0% (1.7%); a third of this premium comes from abroad.

Karlsruher
The Karlsruher Insurance Group, which consists of five companies, focuses on personal lines and insurance for small and medium-sized firms; it offers its clients products in all lines of life and property-casualty insurance. Karlsruher has a broad distribution network. The main elements of this are its main organization, which is present throughout Germany, cooperations with banks in southern Germany, and intensive collaboration with brokers.

Karlsruher*		2000	Prev. year
Gross premiums	€bn	1.3	1.3
Net premiums	€bn	1.1	1.1
Profit for the year	€m	16	15
Investments	€bn	12.2	12.2

* Consolidated financial statements in accordance with IAS.

Karlsruher Lebenversicherung AG's new business declined by no less than 32.9%; in the business year 1999 it had received a boost from the German government's tax plans and had grown by 61.7%. Gross premiums remained stable at €1.1bn. The insured portfolio (in terms of annual premiums) showed a slight rise of 0.2% to €0.8bn (0.8bn). The profit for the year increased to €17.0m (15.7m).

Karlsruher Versicherung AG grew its premiums by 12.0% to €205.3m (183.3m). Despite a higher loss ratio, it improved its profit for the year to €5.5m (3.4m).

The number of staff employed by the Karlsruher Group in 2000 totalled 3,900 (3,853).

Karlsruher will continue to concentrate on private and commercial clients. The field force is to be expanded, and cooperation with banks enhanced. Other strategic objectives are even closer collaboration with brokers and the use of the Internet to market its products.

Europäische Reiseversicherung

The concentration process in the tourist industry has intensified in both Germany and Europe as a whole. The Federal Republic now has a third major travel group in addition to C&N and TUI – the REWE Group. All three operators are expanding their business beyond Germany to neighbouring European countries. EUROPÄISCHE, Munich, has taken account of this by building up an international network of subsidiaries and participating interests, and is now represented in all the main European countries.

Growth in the tourist industry was restrained throughout Europe in the past year and did not meet forecasts; this applies particularly to expectations in connection with the millennium changeover. Especially in Germany, major events like the European Football Championships and EXPO 2000 contributed to a below-average increase in turnover in the tourist industry year on year.

Europäische Reiseversicherung*		**2000**	**Prev. year**
Gross premiums	€m	301	299
Net premiums	€m	252	267
Profit for the year	€m	8.5	4.8
Investments	€m	178	187

* Consolidated financial statements in accordance with IAS.

A total of 656 (631) staff were employed by EUROPÄISCHE and its subsidiaries in 2000.

According to Aristotle Onassis you shouldn't run after money. You should go forward to meet it. Just as plants (here in the garden at our Schwabing headquarters in Munich) always strive towards the sun, investors are constantly in search of the best growing conditions for their investments. >>

>>______The investment experts of MEAG (the joint-venture asset management company of Munich Re and ERGO) are especially successful in this. Despite the downslide on the stock markets, they managed to substantially increase the investment profit again last year. Our investments grew by more than 5% to €159bn.

> www.meag.com

Asset management

Pronounced price fluctuations and, all in all, a negative performance characterized the world's stock markets in the year under review. Following index highs in spring 2000, some sharp price falls led to tension among the market players. By contrast, activity on the bond markets was unspectacular: after the dynamic upward trend in interest rates in 1999, yields and volatility on the bond markets decreased in 2000. Further details of how the equity and bond markets performed in 2000 can be found in Section 04 (Economic Parameters).

Challenging equity markets
One criterion was more crucial than any other last year for the success of an investment in shares: the choice of individual stocks and sectors. The performances of different sectors were already starting to diverge at the end of 1999, and this trend continued in 2000. When a US court tried to break up Microsoft, the global market leader in software, technology stocks around the world began a downslide, with price losses of up to 70% in the representative technology indices.

Among blue chips, the picture was varied: shares in companies that were affected cyclically by a cooling down of economic activity also came under pressure; defensive stocks and companies with stable earnings, on the other hand, benefited from investors' increasing risk aversion. Two factors in particular stood us in good stead in these difficult markets: the traditionally high proportion of our equity investments in insurance stocks and financials, and the increasing specialization of our fund managers in individual investment sectors.

The Dow Jones Euro STOXX 50, against which our European equity funds are measured, outperformed both the US and the German share markets in the business year; our diversification strategy proved to be correct. The restraint we had shown hitherto in the Asian markets was not misplaced either. We used the development of an asset management unit in Hong Kong to cautiously re-enter the markets, where prices had fallen strongly.

Uneventful bond markets
There was scarcely any movement in the bond markets in 2000. The main emphasis of our investments continues to be on European government bonds. In the course of 2000 we selectively established positions in the emerging European corporate bond market.

Euro under pressure
For almost the whole year, there was a steady upward trend in the US dollar against the euro, which only turned into a sideways movement at the beginning of the last quarter. The euro fell against most other currencies in 2000 as well, which meant that the euro capital markets became less attractive internationally.

MEAG on a firm footing
Our asset management company MEAG MUNICH ERGO AssetManagement GmbH was set up in 1999 as a joint-venture subsidiary of Munich Re and ERGO. It manages the assets of all the insurance companies in the Group and also those of third parties. The concentration of all our expertise in this field and the specialization of our fund managers in individual investment sectors enables us to practice concerted asset management for the whole Munich Re Group.

In December 2000 our local unit in Hong Kong commenced operations. Together with our company in New York, we now have greater expertise locally to handle investments in the American and Asian markets. The three asset management units in Munich, New York and Hong Kong are closely linked through intensive knowledge transfer and a coordinated investment process.

Cash management, liquidity
In the past year MEAG took over the task of central cash management for most of the companies in the Munich Re Group. This is an important structural measure to optimize the short-term investment of our liquid funds.

Asset-liability management, currency matching
Insurers have to bear in mind three criteria when making investments: profitability, security and liquidity. In an environment characterized by mounting performance expectations on the part of clients and shareholders, by low interest rates worldwide, and by considerable volatility on the capital markets, an appropriate investment structure is one of the most important elements of modern risk management. In the process of strategic asset allocation, the insurance companies of the Munich Re Group conduct their asset-liability management in close cooperation with MEAG; here the matching of liabilities with assets in the same currencies plays a key role, helping us to limit currency risks.

Investments in the year 2000: portfolio and result
Our investments grew in the year under review by over 5% to more than €159bn (151bn).

Investment mix	2000 €m	%	Prev. year €m	%	Change in %
Real estate	8,405	5.3	6,901	4.6	21.8
Investments in affiliated and associated enterprises	13,538	8.5	10,633	7.0	27.3
Mortgage loans and other loans	9,150	5.7	8,670	5.7	5.5
Shares and investment fund certificates	36,580	22.9	57,019	37.8	–35.8
Other securities	77,621	48.7	54,316	36.0	42.9
Deposits retained on assumed reinsurance business and other investments	13,533	8.5	12,971	8.6	4.3
	158,827	99.6	150,510	99.7	5.5
Investments for unit-linked life insurance	581	0.4	417	0.3	39.3
Total	159,408	100.0	150,927	100.0	5.6

The division of our investments between reinsurers and primary insurers, as well as their regional distribution, may be seen in the segment reporting of the consolidated financial statements (Section 07).

Shareholders' equity at the balance sheet date contains unrealized gains on investments totalling €9.5bn (7.3bn). The fair value of our real estate amounted to €10.5bn (9.2bn), and the fair values of our investments in associated enterprises to €33.0bn (27.3bn). This means there are valuation reserves of €21.9bn (19.2bn) which are not included in shareholders' equity.

As from the business year 2000, our special funds – investment funds in which Group companies hold the majority of units – are being consolidated in the financial statements. In other words, the fund assets (real estate, equities or fixed-interest securities) are accounted for in the same way as direct investments: the assets are included in the appropriate items of the balance sheet, and the investment income and expenses are recognized in the relevant items of the income statement. This contrasts with our approach in the previous year, when the units in the special funds were allocated en bloc to the item "shares and investment fund certificates", and the investment result included only the profits that had actually been distributed to the unit-holders. A good portion of the shifts between individual investment items and the markedly higher investment profit are thus due to this change in accounting. We have not adjusted the previous year's figures.

The investment result rose by 28% to €12.2bn (9.5bn). In spring 2000 the Group's primary insurers in particular took advantage of high prices on the stock markets to realize capital gains. Besides this, the first-time consolidation of the special funds gave the result an appreciable boost.

Investment policy

The proportion of equities in our overall investment portfolio is relatively high compared to the industry norm. We basically continue to adhere to our investment policy oriented towards stocks and real assets, because we are convinced that this will enable us to achieve better returns in the medium term. However, owing to the consolidation of the special funds in our financial statements, developments on the capital markets will have a greater impact on the investment result than before, making it generally more volatile than in the past.

Outlook

Our investments will continue to grow in the current year and will again produce an appropriate result, provided the capital markets do not undergo any dramatically negative changes.

Our assumptions regarding the performance of the equity and bond markets in the rest of the current business year are presented in Section 04.

>>_______We have built up our business along similar lines: flexible and growth-oriented, we are prepared for all eventualities.

> www.munichre.com

PROSPECTS FOR 2001

Premium income, result and dividend for 2001
For the current business year, at unchanged currency parities, we expect Group premium income of €33bn (31bn) and a consolidated profit that follows on from the very good result of last year.

We have set ourselves the goal of increasing our profit before tax and amortization of goodwill by an annual average of 10%. Whether we achieve this depends not only on how the capital markets perform but also, to a significant extent, on the claims costs from natural catastrophes and other major losses that may affect us in reinsurance. Our function as a reinsurer consists primarily of mitigating random fluctuations in the results of our clients. In individual cases, we assume high liabilities, which makes our results here correspondingly volatile.

In REINSURANCE the renewal of treaties for 2001 went well: Munich Re and its subsidiaries were able to implement price increases in many cases and also improve conditions in other respects. Owing to the rises in rating levels and the pleasing amount of new business – especially in life reinsurance – reinsurance should again show considerable growth in premium income. The foundations for a more favourable reinsurance underwriting result have thus been laid. Nevertheless, further corrections in prices and conditions are still imperative.

Altogether, we expect another good result from life reinsurance in the current business year and – given normal claims experience – a substantial improvement in the non-life reinsurance result; our target of achieving a combined ratio of less than 105% will probably not yet be reached, however.

In PRIMARY INSURANCE premium income will also show a marked rise, owing to the first full consolidation of Bayerische Vita. Independent of this, we also expect premium growth in German property-casualty insurance to be above the market average. Thanks to the favourable composition of our primary insurers' portfolio – 90% of the business is personal lines insurance, and 80% insurances of the person – we hope for another good underwriting result.

Remarks on expected experience in the individual fields of business can be found in the preceding sections of the management report; information on our assumptions regarding overall economic development can be obtained from Section 04 (Economic Parameters).

We anticipate that we will be able to pay our shareholders a DIVIDEND of €1.25 per share again for the year 2001.

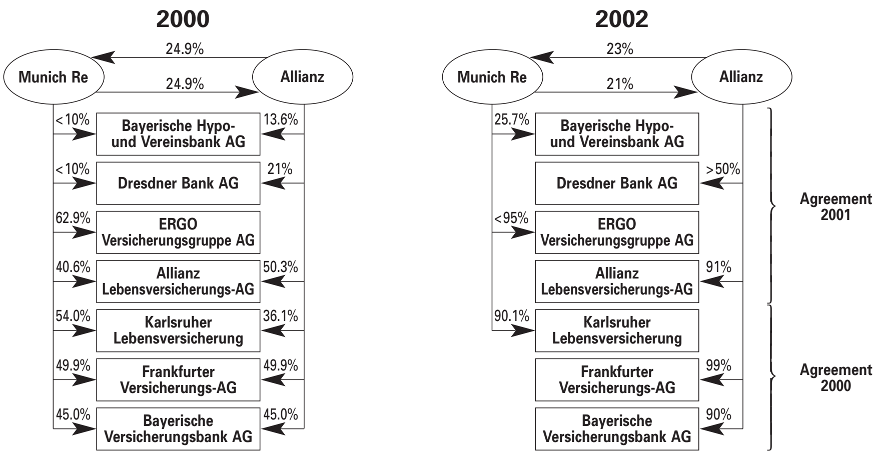
Further restructuring of shareholdings
At the beginning of May 2000, Munich Re and Allianz AG announced their intention to reduce their reciprocal stakes of 25% to around 20% each. This reduction is to take place in several steps, with due consideration for the capital markets, and is scheduled to be completed by the end of 2003.

In a first step in the year 2000, the shareholdings were lowered to just under 25%. Following this, in June 2000 Munich Re successfully placed a €1.15bn bond exchangeable into Allianz shares.

It was also agreed in May 2000 that Allianz would acquire Munich Re's stakes of 45% in Bayerische Versicherungsbank AG and 49.9% in Frankfurter Versicherungs-AG. In return, Munich Re has already acquired Allianz's interest of 39% in Mercur Assistance and will obtain its holding of 36.1% in Karlsruher Lebensversicherung in 2002.

At the beginning of April 2001 Munich Re and Allianz AG announced a further restructuring of their shareholdings in jointly held subsidiaries and participating interests. Allianz will acquire from the Munich Re Group all its shares in Dresdner Bank and its 40.6% interest in Allianz Lebensversicherungs-AG. Besides this, Munich Re will make available shares of 4% in Allianz for the offer to Dresdner Bank shareholders. This will reduce Munich Re's stake in Allianz to 21%.

In return, the Munich Re Group will acquire from Allianz and Dresdner Bank all of their shares in the HVB Group (13.55% and 2.5% respectively). Furthermore, Munich Re will increase its holding in ERGO Versicherungsgruppe AG from 62.9% to up to 95%; the HBV Group will hold a 5% stake in ERGO. Allianz's stake in Munich Re will be reduced to 23%.



All the transactions are scheduled to be completed next year, following approval by the competent authorities. They will lead to better use of the existing shareholders' equity and, quite apart from the high tax-free capital gains, will have a lasting positive effect on results.

RISK REPORT

OVERALL SYSTEM OF RISK MONITORING AND CONTROL

For us, as leading risk carrier and provider of financial services, one of the main purposes of our business is to take on risks in a conscious and controlled way, to make them manageable, and ultimately to master them. This presupposes a professional risk management approach on our part.

Organization and functions of risk monitoring and control

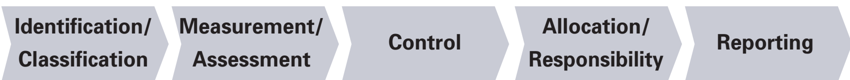
Risk management in the Munich Re Group is organized both centrally and on a decentralized basis.

Our risk managers are responsible for risk management and risk control in their functional area (i.e. in the insurance and reinsurance subsidiaries or in the central and operational divisions at the parent company). They assess the risk situation and propose measures for making identified risks manageable – in other words, they control the risks in their particular area.

Central risk management is responsible for overarching risks and for the conceptual development and maintenance of the risk management system. It supports the risk managers of all units and has the authority to issue guidelines to them in respect of the risk management system. In order to ensure the independence of this function, the task of central risk management has been assigned to Munich Re's Controlling Division.

Besides this, our Internal Auditing Division, an operationally independent unit, checks whether our monitoring measures are effective and complete.

The risk management process



Risks may basically arise in all operational areas, functions and processes. We record all risks systematically and completely by means of a risk inventory. This provides us with important indicators of risk connections and interdependencies.

We filter out those risks which could have a significant or even jeopardizing effect on the assets, liabilities, financial position or results of our Group. This analysis confirms that our risk policy is appropriate for effectively reducing the inevitable hazard potential which exists.

We continually monitor the effectiveness of our risk policy measures in reducing the hazard potential, and implement additional measures where necessary.

In each unit, therefore, there is an accountable risk manager, who is usually the head of that unit.

This person regularly checks the risk situation, including the status of relevant measures, and reports to central risk management any significant deviations from the planned risk positions. Independent of this, the central risk coordinator is informed immediately if certain thresholds are exceeded. Reporting is done on a uniform basis and is incorporated in the ongoing reporting system.

TYPES OF RISK

Underwriting risks in insurance and reinsurance include the

- PREMIUM/CLAIMS RISK: in property-casualty business, the risk of having to pay, from premiums fixed in advance, indemnity amounts whose scope is uncertain at the time the premium is fixed owing to the stochasticity of future claims payments (risk of random fluctuations and risk of change);
- PREMIUM/BENEFITS RISK: in life and health insurance, the risk of having to pay over a long period, from a level premium that is fixed in advance, unchanging benefits that are dependent on future developments (risk of change);
- INTEREST-GUARANTEE RISK: present in lines of insurance with guaranteed interest payments;
- RESERVE RISK: inherent in underwriting provisions.

Risks from defaults on receivables from underwriting business arise

- in PRIMARY INSURANCE, from defaults on amounts receivable from reinsurers, policyholders and insurance agents;
- and in REINSURANCE, from defaults on amounts receivable from cedants, brokers and retrocessionaires.

Investment risks comprise

- MARKET PRICE RISKS, which involve potential losses as a result of deleterious changes in market prices, i.e. due to fluctuations in interest rates, share prices or exchange rates;
- CREDIT RISKS, which result from changes in the creditworthiness of issuers or counterparties;
- LIQUIDITY RISKS, which can jeopardize the fulfilment of payment obligations through delays in cash inflows and outflows.

Operational risks manifest themselves in operational systems or processes, above all

- in the form of OPERATING RISKS attributable to human or technical failure or to external factors, and
- in the form of LEGAL RISKS arising from contractual agreements or the general legal environment.

MONITORING AND CONTROLLING THE RISKS

Our risk management system enables us to use our knowledge gained from many years' experience to make the above risks controllable for us.

Underwriting risks

Regionally and in terms of classes of business, our portfolio is very well balanced on both a gross and a net basis.

Underwriting guidelines and limits

In our underwriting guidelines and limits, we have clearly regulated responsibility and accountability for concluding reinsurance agreements. The sales staff of our primary insurance companies are given binding guidelines for the acceptance of business. Adherence to these guidelines is continually monitored.

Accumulation budget

Covering losses from natural catastrophes is part of the core business of reinsurance. Particularly in property lines, we assume very large liabilities for earthquake, windstorm and flood losses. Owing to the accumulation character of this business, a single loss event can have a substantial impact on the result situation of individual units or even the whole Group.

It is therefore essential, and has long been our practice, for the natural hazard liabilities underwritten to be strictly limited and permanently controlled on a uniform basis throughout the Group. In order to limit loss amounts from natural catastrophe events, we already introduced Group-wide accumulation budgets more than ten years ago. Using these budgets, the Board of Management issues annual limits that restrict the overall liability of Munich Re and the individual Group units per loss-accumulation zone.

The accumulation budgets are based on worst-case scenarios per loss zone, which have been defined by Munich Re's meteorologists and geoscientists. The whole range of our scientific expertise is used in determining these scenarios, which are constantly monitored and validated by comparison with the relevant findings of scientific institutes and other professional organizations.

Reinsurance/retrocession

All companies in the Munich Re Group have appropriate reinsurance cover. Of particular significance for our reinsurance business is accumulation excess-of-loss retrocession, which is a further important means of reducing risks in addition to our natural catastrophe budget.

To protect itself against claims burdens from major natural catastrophe events, Munich Re buys various retrocession covers on the retrocession markets. The main component of these catastrophe retrocessions is the Property CatXL Programme, which covers the loss per catastrophe event. This programme is a combination of traditional reinsurance and finite-risk covers. It fulfils two purposes: in the case of major loss events, Munich Re obtains direct balance sheet relief, and the combination of traditional and finite-risk covers enables a greater retrocession capacity to be generated on the market for conventional retrocession covers.

In December 2000 we also placed two catastrophe bonds with a total volume of US$ 300m on the capital market. This cover gives our Group protection against losses from possible extreme events, i.e. in the US from earthquakes in Los Angeles and San Francisco and from hurricanes in Florida and New York, and in Europe from windstorms. Although these extreme events have only a very small occurrence probability, the potential extent of losses is substantial.

The following table shows the combined ratios for the Munich Re Group over the last ten years, with and without the impact of natural catastrophes.

Combined ratios	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
With natural catastrophes	113.9	114.3	106.5	103.5	99.6	98.3	100.0	105.7	118.9	115.3
Without natural catastrophes	111.4	109.7	104.9	101.3	98.7	98.2	99.1	101.7	108.2	113.3

Provisions

Provisions for unknown liabilities arising from our commitments are carefully calculated for life and health insurance and for property-casualty business, using actuarial methods. The run-off of these provisions is continually monitored for all units.

The following table shows the PROVISIONS FOR OUTSTANDING CLAIMS in property-casualty business for the main primary insurers and reinsurers in the years 1995 to 2000 and the run-off of these provisions; this covers over 90% of the total claims provisions of the Group. What the table considers is not the run-off of the provisions for individual accident years, but the run-off of the provision posted at each balance sheet date, which contains the provisions for the respective current accident year and for all previous accident years. The figures for the years 1995 to 1997 were determined on the basis of the relevant national accounting regulations; the figures for the years 1998 to the present have been based on International Accounting Standards.

The table illustrates how the estimate of the respective balance sheet provision has changed in the course of time – owing partly to payments made and partly to the re-estimate of the remaining provisions. The net run-off result reflects the difference between the current and original estimate at the balance sheet date. It is materially affected by changes in exchange rates. The rise in the value of important foreign currencies for us (mainly the US dollar and the pound sterling) against the D-mark and the euro led to a significant increase in the provisions. This contrasts with corresponding rises in the value of investments as a consequence of our currency matching policy.

Net claims provisions and their run-off in €m	31.12.1995	31.12.1996	31.12.1997	31.12.1998	31.12.1999	31.12.2000
Net provision for outstanding claims	16,001	17,085	18,851	18,336	21,625	22,429
Aggregate payments for the year concerned and previous years						
One year later	3,618	4,512	4,122	5,127	7,048	
Two years later	6,294	6,451	6,774	8,608		
Three years later	7,548	8,203	9,107			
Four years later	8,826	9,884				
Five years later	10,071					
Net provision for the year concerned and previous years, plus payments already made from the original provision	16,001	17,085	18,851	18,336	21,625	22,429
One year later	16,262	17,997	17,388	19,443	23,436	
Two years later	16,725	16,711	17,693	20,030		
Three years later	15,398	16,953	17,721			
Four years later	15,776	16,869				
Five years later	15,512					
Net run-off result of the claims provision	489	216	1,130	–1,694	–1,811	–

PROVISIONS FOR ASBESTOS AND ENVIRONMENTAL CLAIMS
In the mid-eighties industrial insurers writing business worldwide found themselves being confronted with losses from policies taken out decades before. In particular, these included US asbestos-related claims under product liability policies. On top of this, there were costs for claims involving pollution in the US, covered under old general liability policies. We have made continual and timely provision for these losses, in line with the latest knowledge. In 1999, on the basis of new findings, we strengthened American Re's provisions for asbestos-related claims by means of a special allocation. The provisions for asbestos and environmental claims will continue to be reviewed by us annually and adjusted to the loss experience. Altogether, at the present time we believe our provisions for these claims complexes to be adequate. Further loss burdens – particularly from asbestos-related claims – cannot be ruled out, however, since the number of claimants and companies being claimed against is continuing to grow, not least because of changes in court awards.

Provisions for asbestos and environmental claims (in €m)

		1998		1999		2000
	Gross	Net	Gross	Net	Gross	Net
Asbestos	848.9	728.2	1,433.3	1,118.3	1,400.7	1,113.9
Environmental	660.5	585.9	895.5	806.9	888.2	811,2

Risks from defaults on receivables from underwriting business
When selecting our retrocessionaires, we adhere to strict guidelines regarding their security and claims-paying ability, which effectively reduces these risks. The same applies in principle to insurance intermediaries, whose creditworthiness we check prior to collaborating with them, as well as checking their monthly accounting of commission on an ongoing basis.

Investment risks

In the investment sector, we consistently follow a number of principles: we only make investments from which we can expect an appropriate return, and we always ensure that they offer a high degree of security. Also important for us is sufficient liquidity at all times and a targeted mix and spread in terms of region and type of investment.

Mandates and investment guidelines

All insurance and reinsurance companies in the Munich Re Group issue the asset management companies with mandates for investments. These detailed investment guidelines specify precise criteria for limiting and controlling the risks. Investment committees monitor adherence to these mandates and report directly to top management.

In the asset management units of the Munich Re Group, in line with requirements of banking supervision, we pursue a policy – right up to top management level – of clear functional separation between portfolio management, trading, and risk controlling.

Market price risks

For our fixed-interest securities, which make up the major part of our investments available for sale and held to maturity, we perform regular duration analyses. We use this procedure to counter the risks posed by changes in interest rates for the coverage of our obligations from insurance and reinsurance business, and where necessary we hedge interest-sensitive portfolios.

We only run currency risks to a small extent, as we observe a strict policy of currency matching. This means that for all important currency liabilities in our underwriting business we establish appropriate matching items in our assets.

Possible market price risks in our investments are measured using scenario analyses (known as “stress tests”), which enable us to simulate unexpected market fluctuations. Here we apply the following assumptions:

- for our equity holdings, index fluctuations of +/–10% or +/–20%
- for our investments in fixed-interest securities, a change in the respective interest rate curve of +/–100 or +/–200 basis points
- and for our cash positions, a change in the exchange rate vis-à-vis the euro of +/–10%.

At the balance sheet date the scenarios described give rise to the following changes in market value:

Change in share price	Change in market value of investments sensitive to share prices
Increase of 20%	+€15.932bn
Increase of 10%	+ €7.964bn
Fall of 10%	– €7.974bn
Fall of 20%	–€15.941bn

Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP*	–€6.499bn
Increase of 100 BP	–€3.324bn
Fall of 100 BP	+€3.477bn
Fall of 200 BP	+€7.221bn

Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	+€2.962bn
Fall of 10%	–€2.960bn

* Basis points.

As a matter of principle, derivative financial instruments such as swaps and futures are used only in isolated cases to hedge against currency and interest-rate risks. Our Group companies act as end-users of derivatives; there is no trading in these instruments with a view to profit-making.

Credit risks

Of central importance for credit risks in fixed-interest securities portfolios is the credit assessment of the individual investment. The main factor here is the quality of the issuer. This is reflected – as far as investments of the Munich Re Group are concerned – in the assessments of international rating agencies: 93% of our investments in fixed-interest securities have a rating of A or better, and 85% have a rating of AA or better (according to the assessment of Standard & Poor's). The majority of fixed-interest securities in our portfolio have been issued by governments or banks with excellent ratings, e.g. German government bonds, US Treasuries, and mortgage bonds.

Also significant for assessing credit risks in the portfolio as a whole are investment volume, collateralization and the default probability assigned to the individual issuers in their rating. This is taken into account in our limit system for restricting credit risks Group-wide. The system considers the following criteria, among other factors: the issuer's individual rating, the collateralization, the issuer's capitalization as a basis for covering the liability, and our internally defined risk-carrying ability.

On top of this, our investment guidelines prevent risk concentrations in individual portfolios by laying down diversification rules.

Liquidity risks

The liquidity risks of companies in the Munich Re Group are controlled on a decentralized basis by the individual insurers and reinsurers. This includes all the cash flows from underwriting business, from investments and from general administration. In the past year our asset management company MEAG took over the task of central cash management for most of the units in the Group.

All in all, our asset portfolio is well diversified and is profitably and safely invested. Opportunities and risks are balanced.

Operational risks

IT security

In a world that is becoming increasingly networked and more and more dependent on the availability and confidentiality of electronically stored and transferred information, security risks are growing larger and larger. We attach the greatest importance to the protection of our own data and the data entrusted to us, as well as to the secure operation of our computer systems. Our protection measures cover the whole life cycle of all information, i.e. from its generation or receipt to its erasure, disposal or mailing. We therefore devote ourselves to the issue of information security (IS) in its entirety, which includes IT security. Our staff within and outside the IT organization, as well as our projects, are guided by the IS strategy which the Corporate Information Security Officer (CISO) has developed. The IS Office and the IS Organization are working intensively on expanding our security concept further.

Changeover to the euro

We began our preparations for the euro at a very early stage. In the reinsurance group, all conversion work has now been successfully completed. At our primary insurance companies, it will be finished according to plan by 31st December 2001.

Corporate integrity

It goes without saying that in business transactions we must observe the laws and regulations of each country and compete in the markets with legal and fair means. Only a group that respects the law can claim to be a reliable and trustworthy business partner. On the other hand, precautions must also be taken to ensure that other companies or third parties do not resort to unfair methods in business transactions with us.

We have set out the principles of proper conduct in guidelines that are binding on all staff in the Munich Re Group. The clarifications provided in these guidelines serve to avoid disadvantages for the Group and conflicts of interest for staff as far as possible.

Insider rules

Even the suspicion of an infringement of insider laws can have a very detrimental effect on Munich Re's reputation and standing. We have therefore taken measures to prevent such infringements. In addition, the parent company and all our main subsidiaries have appointed a compliance officer, whose duty is to ensure that insider information is handled in conformity with the law. This officer is responsible for Munich Re's compliance system and monitors adherence to insider regulations.

Legal risks

In the last few years the Holocaust issue has occupied us a great deal. Lawsuits were brought against Munich Re and VICTORIA Leben in the US. However, these were dismissed by the courts after the establishment of the Foundation Initiative of German Enterprises: Remembrance, Responsibility and Future, to which Munich Re has made a substantial financial contribution. The Foundation has met the basic requirements for the creation of full and lasting relief from legal action before US courts. But as a result of special Holocaust legislation, Munich Re and its American subsidiaries continue to be subject to far-reaching reporting requirements and administrative action by insurance regulatory bodies in various US states; in individual cases we have had to appeal against measures in the courts. After several successes at first instance, final decisions are still pending in California.

Independent of this, we do not see any significant risks of lawsuits.

OUTLOOK

Markets, products, structures and operations are subject to processes of change at ever shorter intervals. This means continual changes in risks. Thus, in addition to monitoring known risks, we must attach equal importance to identifying new ones. It must be taken into account that new risks may also result from opportunities not being recognized and therefore not exploited.

Here we intend to link value-based management – and in particular the introduction of a balanced scorecard – closely to our risk management system. This will help us to identify both risks and opportunities in good time and to react at an appropriately early stage.

SUMMARY OF THE RISK POSITION

Altogether, we cannot perceive any development at present that could have a lasting and significant adverse effect on the assets, liabilities, financial position or results of the Munich Re Group.

CORPORATE GOVERNANCE

The term “corporate governance” is commonly used to refer to guidelines for the responsible, value-oriented management and supervision of companies. The concept comes from the Anglo-American legal sphere and describes in essence a regulatory framework for directing and controlling business corporations. These rules include requirements that go beyond existing statutory provisions. Given that underlying situations differ from country to country, there can be no universally valid model for good corporate governance, especially as there may also be a need for differentiation to take account of special corporate or sector-related features. The most striking differences between systems are to be found in the allocation of supervisory and management board functions: under Anglo-American law the functions of company management and control are combined in a single body – the board of directors; in Germany these functions are split between two boards.

All corporate governance rules have a common goal: they are designed to strengthen the confidence of shareholders, lenders, business partners, employees and the general public in a company’s management and control and thereby contribute to a sustained increase in the value of the company.

In Germany the debate on corporate governance has been substantially influenced by the Frankfurt Panel on Corporate Governance, which published its first Code of Best Practice in January 2000. Besides this, a Berlin Initiative Group has published a set of recommendations entitled “German Code of Corporate Governance”. Lastly the Federal Government is also addressing this issue and has set up a special Government Committee for the purpose.

Munich Re has closely followed the corporate governance debate right from the beginning. We already fulfil the main requirements of the current codes. It has always been our aim to pursue a long-term corporate policy geared to value creation in the interests of our clients, shareholders and staff, as well as of our company.

In managing our Group, we pay close attention to optimizing the employment of capital and the controlling of risks; the remarks on value-based management and the risk report show this. In the controlling of our risk management, internal auditing plays a key role. As far as external auditing is concerned, the firm commissioned by the Supervisory Board to audit our consolidated financial statements does so in accordance with the International Standards of Auditing.

Corporate governance requirements for transparency are traditionally also met by our annual reports, which contain additional information on our Group and its business development, besides the legally required financial statements. This annual report, for instance, includes a detailed financial calendar with the most important business year dates of interest to our shareholders. A further example is information on Munich Re’s shareholdings of over 5%, which – unless they are of subordinate importance – may be obtained either from the annual report or from the list of participating interests available to shareholders.

Up-to-date and comprehensive information is also provided by Munich Re's website (http://www.munichre.com). It features, for example the invitation to the AGM, the agenda for the AGM, motions and voting proposals from shareholders, and responses from the management. This is then followed by the results of votes at the AGM. All relevant publications are also available in English.

Beyond our annual reporting, we are now publishing quarterly reports, beginning this year. These include segment reporting and details of earnings per share in accordance with International Accounting Standards. The quarterly reports will also be displayed on our website.

The practice adopted for donations is reported to the Standing Committee of the Supervisory Board in a special report once a year; this shows major individual donations separately.

We also promote the long-term increase of corporate value through a remuneration system that provides not only a fixed salary but also variable, performance-related compensation components. Another compensation component for the Board and top executives is linked to the long-term above-average price performance of Munich Re shares. Members of the Supervisory Board receive a remuneration based on the amount of the dividend. The relevant figures, including those for the above-mentioned Board of Management components, may be found on page 125 of this annual report. The report also gives details on the shares held by members of the Board of Management and the Supervisory Board at the end of the business year.

Munich Re will continue to closely follow the ongoing debate and develop a corporate governance code which takes account of the special features of our line of business and our Group.

It is surely one of the most fascinating topics in biology: evolution, the development and adaptation of organisms. Why does nature keep on bringing forth new forms of life? How do organisms adjust to their particular environment? How do they respond to continually changing external conditions? Even if many questions of this central topic of biology are still unanswered, one thing is certain: there is no survival without evolution. >>

PERSPECTIVES

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>>_______For successful companies, evolution is not enough: they also need innovation to achieve a leading position in the market. We are actively developing our Group in the light of new opportunities and challenges, but not abandoning principles that have proved their worth.

Value-based management

It has always been our aim to increase the value of Munich Re for our shareholders, our clients and our staff by optimizing the employment of capital and the management of risks. This principle holds true for all Group activities, be they in reinsurance, in primary insurance or in asset management.

Why value-based management?
For our shareholders, appreciation in value means an attractive Munich Re share performance, combined with a substantial dividend payment. For our clients in insurance and reinsurance worldwide, it guarantees – in the form of a strong capital base – the security which is so essential in our business. And for our staff it provides long-term, secure and interesting jobs.

To meet these expectations, we make increasing corporate value a central benchmark for all our decisions. This is why we have expanded our range of existing performance-measurement tools, so that we can identify even better which fields of business create added value for the Group. The value-based management approach we have chosen takes account of these requirements. It enables us to measure earnings performance in reinsurance, in primary insurance and in asset management using the same yardsticks.

Value-based management will help us to deploy our resources in the best possible way. For this, we will have to enhance the transparency and comparability of the individual value added and risks, as well as the profit and loss factors connected with them.

Value added
We calculate value added as follows:

		Cost of equity capital				
Adjusted IAS result	–	Adjusted equity capital	x	Cost-of-equity rate	=	Value added

Following the switch to International Accounting Standards in our external reporting, we are thus now doing the same in our internal reporting, so that we can calculate the value added by each individual field of business. To define this value added, we need to make a few adjustments: on the assets side, we apply a normalized interest rate so as to avoid distortions resulting from fluctuations in market value. On the liabilities side, we use the present value of claims provisions, so that we can compare life and non-life and short and long-tail business better.

Necessary operating capital
We calculate the necessary capital for each business unit on the basis of risk criteria. We use our own risk models for this, but also draw on models used by international rating agencies. In order to establish the risk capital of a unit as precisely as possible, we are currently working on a refined model that in the medium term will replace the current process, which is based on models of rating agencies.

Cost-of-equity rate
Added value is created wherever the adjusted IAS result that is achieved on the necessary operating capital is higher than the cost of capital for our shareholders, i.e. the opportunity cost. We derive the cost-of-equity rate from standard models and verify it on the basis of available benchmarks.

Balanced scorecard
We have, however, not only refined our financial performance measures but also linked them more closely to non-financial parameters. With value-based management, we will achieve an even stronger networking of strategic planning and operative planning. To this end, we have implemented the balanced scorecard throughout the Group. The balanced scorecard puts us in a better position to identify interrelationships between strategic objectives, related initiatives and operative measures. It shows which objectives and activities we intend to concentrate on in order to create the greatest added value. We believe that this will enable us to align our organization even more strongly to Munich Re's overall strategy.

What is more, the balanced scorecard can be usefully linked to our incentive system and agreement of objectives for performance appraisals. We now have result-based compensation elements for Board members and top executives at all Group companies. In future, it is intended that all senior executive staff will receive performance-related salary components coupled to the value added in their units.

Where do we go from here?
We completed the concept for value-based management at Munich Re last year and successfully tested it. This year will see it launched Group-wide.

New organizational structure in reinsurance

Munich Re is known for not blindly following trends. However, we act decisively when our business environment changes.

At our Munich headquarters, we are currently reshaping our organizational structure more extensively than we have done for decades. The current matrix of 15 organizational units responsible for lines and products and 15 units responsible for markets and clients will be replaced as from 1st July 2001 by only seven operative divisions. In each of the new divisions, the entire responsibility for client relationships and the coordination of market and client knowledge will be in one set of hands.

The aims of the new structure are
- to significantly enhance our client focus,
- to better interlink strategic objectives and operative implementation,
- to encourage partnership in enterprise among our staff,
- to reduce the coordination requirements necessitated by the matrix system,
- to make responsibility for decisions and results transparent,
- to promote innovation,
- and to exploit synergies.

Four of the new divisions cover the world's markets. They are organized according to regional, economic, cultural and linguistic criteria:

- Europe 1 (German-speaking countries, Eastern Europe, Greece, Turkey)
- Europe 2 and Latin America
- Asia, Australasia, Africa
- North America

The other three divisions have supraregional functions:

- Corporate Underwriting/Global Clients
- Special and Financial Risks
- Life and Health

Corporate Underwriting/Global Clients will serve a number of our clients that operate worldwide. It will also be responsible for fundamental questions of underwriting, actuarial science and claims management. It will thus ensure that Munich Re's technical expertise is maintained and extended with a close link to operative business.

Special and Financial Risks will focus on developing innovative products and client segments. It will additionally be responsible for e-business solutions, for the special line of credit insurance, and for aviation and space business.

Life and Health will service business in these classes, in line with the separate structure customarily adopted by our clients.

The new organizational structure gives us new scope, guarantees clear allocation of responsibilities and thus provides the platform for further value-based management.

Our staff

The continuing dynamic development of the insurance markets again strongly influenced our human resources work in the year under review. Competition for especially talented and qualified staff is keener than ever.

The expansion of the Munich Re Group led to an increase in staff of 9.7%. The details:

Number of staff – year-end position	2000	Prev. year
Reinsurance	5,422	5,291
Primary insurance	30,569	27,910
Asset management	490	44
Total	36,481	33,245

In the primary insurance sector, ERGO saw the addition of more than 1,500 staff as a result of the acquisition of Alte Leipziger Europa Beteiligungsgesellschaft and Bayerische Vita. Besides this, our asset management company MEAG is now fully operational and meanwhile employs 475 staff. And last but not least, the development of business made it necessary to recruit new staff.

Good staff with the requisite qualifications are especially important for achieving our business objectives. It is therefore our aim to win and keep them Group-wide through attractive employment conditions and promising career prospects.

Positioning in the job market
The companies in the Munich Re Group are much sought-after employers. Munich Re and ERGO, for their part, are giving increasing weight to variable remuneration. In addition, staff can invest in their companies: ERGO has again set up a stock participation plan, whilst Munich Re has for some 20 years now been promoting the acquisition of units in the Munich Re staff investment fund, of which Munich Re shares make up a material part.

In order to fill the gaps left by state old-age pension systems, the companies throughout the Group provide supplementary company pension schemes. Furthermore, we encourage our staff to take personal responsibility by enabling them to defer compensation, with beneficial tax effects, as part of their private provision for retirement. The ERGO Group has bundled its company pension arrangements in a newly established company, which will also make its expertise available to third parties in future.

We have special measures in place to help staff reconcile the demands of working and family life. In the year under review Munich Re received a government award for its promotion of equal opportunities for women.

In order to raise our profile on the job market, we are making increasing use of the Internet: the career pages on our website have been completely redesigned. We are now getting around 12,000 hits – and rising – per month.

As part of our recruiting programme for qualified staff, we have considerably stepped up our marketing for graduates and our appearances at trade fairs.

Staff qualifications
For 2001 Munich Re has set up a personnel development programme which integrates the main points of specialist knowledge and key qualifications, interaction and dialogue, and management and leadership. Parallel to this, we are introducing a system for company-wide knowledge management. ERGO is in the process of concentrating on the further qualification of its staff in the "ERGO Academy".

We are putting greater emphasis on measures for identifying internal senior management potential and providing the relevant qualification programmes. We have increased the number of training places throughout the Group and devote special attention to ongoing staff training beyond the initial phase.

Outlook
We intend in future to make more intensive use of our many years of experience in human resources work worldwide in the international recruitment of senior management staff. Munich Re and ERGO have therefore incorporated international assignments into their training for graduates. We have made it one of our main objectives in human resources policy to further intensify cooperation within the Munich Re Group in order to fully exploit existing synergy potentials.

Pension reform

Demographic change in Germany is threatening to undermine the financial security of future pensioners: they can no longer expect to receive an adequate retirement income from the pay-as-you-go state pension insurance system. The burden for employees would simply be too great. It has therefore become imperative to reform Germany's pension system – with a twofold objective: future pensioners must have sufficient income, whilst contribution rates to state pension insurance must be kept at a reasonable level.

The pension reform bill which has now been passed by the German Federal Parliament, after approval by the Bundesrat on 11th May 2001, takes up this idea: for the first time in the history of German pension insurance, the state pension is to be partially replaced by a funded pension. This will make it possible to reduce benefits under the state system and to stabilize contributions at an internationally competitive level. The element of certainty which this brings for companies' planning as regards incidental labour costs strengthens Germany as an industrial location.

The state will subsidize premiums for this funded pension subject to the following main criteria:

- Regular premium payments during the savings phase
- Lifelong payments during the benefits phase
- Guarantee from the provider that at the beginning of the benefits phase at least the paid-in premiums will be available

Germany has already undertaken a state disability pension reform, which came into force on 1st January 2001. Disability pensions are now granted in the form of a two-tier pension for reduction in earning capacity. Only insureds with a remaining earning capacity of under three hours per day are entitled to the full pension. Insureds with a remaining capacity of three to six hours receive only half the amount. However, these people can obtain the full pension if they are unable to earn any income because of unemployment. Insureds born after 1st January 1961 are no longer able to claim a pension for occupational disability. Older insureds can claim half the pension for reduction in earning capacity in the case of occupational disability.

The Munich Re Group expects the pension reforms to provide excellent additional business opportunities in the fields of reinsurance, primary insurance and asset management – and not only because of the state subsidization. Just as important are the changes in surviving dependants' pensions and provision for occupational disability. On top of this, the discussion about pension reform should have heightened people's fundamental willingness to make personal provision.

Life insurers have accumulated decades of know-how in all these areas. This applies especially to the two central criteria for subsidization: "payment as an annuity" and "guarantee". A large portion of the additional demand will therefore be concentrated on life insurance companies. The life insurers in our Group – namely Hamburg-Mannheimer, VICTORIA and Karlsruher – are extremely well prepared to participate in the expected boom.

Our advice and support as reinsurers will also be required in this context, whether it is in designing suitable products or providing tailor-made reinsurance solutions to cover risks such as longevity or disability. We are currently working with MEAG to devise models to underwrite the legally envisaged premium guarantee, especially with unit-linked pension insurances.

Through MEAG we can extensively satisfy the demand for fund products. Above all, the strong distribution teams of the ERGO Insurance Group are ready and waiting to market these products.

The new business growth envisaged by our primary insurance clients has to be financed. We expect the demand for so-called financing treaties in reinsurance to grow as a consequence. This should have a further positive effect on our premium income.

In order to manage the products for funded supplementary pensions, flexible IT systems are essential and an important competitive factor. The primary insurers in our Group are already well positioned in this respect.

Information technology

Advances in information technology are continuing apace. The reason is obvious: processes of change are increasingly being driven by IT. This accelerates product development, makes new value-added chains possible, and creates new competitive structures.

For a provider of financial services like the Munich Re Group, the resources provided by IT are of particular importance – our business does not involve the production of tangible goods but is centred on information and the knowledge generated from it. Therefore, we regard efficient use of information technology as a strategic success factor for our enterprise and are systematically pursuing our course of standardizing our systems architecture and our IT organization:

– In the reinsurance group we have established an effective global organization. This enables us to balance regional differences in the availability of IT resources and staff. In our centre of competence in Toronto, for example, we have succeeded in rapidly building up an expert group which safeguards our global information systems from a central base and protects them against possible abuse.
– In ITERGO, which combines all ERGO's IT resources, a powerful IT service provider has been created for the primary insurance group. A first step towards practical integration was concluded in spring 2001: the combining of ERGO's technical infrastructure in one common system. In the meantime we are in the process of integrating the core application systems.
– In MEAG, in just one year, we have combined the portfolio management systems for the investments of the Group and third parties, i.e. the main tool for asset management, into a modern system that also takes account of future requirements. The IT tools used meet the highest standards.

What the bundling of resources and the standardization of systems gives us above all is increased flexibility and the ability to reduce costs by exploiting synergies: the more consistent and uniform our core system architecture is in the three fields of business – reinsurance, primary insurance and asset management – the quicker we can respond to changes in the markets, in client structures, and in patterns of competition. We fully intend to seize the opportunities that present themselves. That is why, organizationally, we have closely intermeshed the development of business strategy and information strategy.

Environmental protection and sustainability

Our commitment ...
"As a leading risk carrier and provider of financial services operating worldwide, Munich Re acknowledges its responsibility for environmental protection and sustainability. Preserving the natural foundations of life is also a contribution to value-based management, as our economic success is inseparably linked with protection for people, the environment and physical resources." *(Preamble to the environmental guidelines of the Munich Reinsurance Company)*

What can a reinsurer, whose operations have comparatively little direct impact on the environment, do to fulfil this responsibility? How can we put into practice in our daily operations the commitment from the preamble to our environmental guidelines, which Munich Re's Board of Management adopted last year?

These are questions which Munich Re addressed very intensively at its Munich headquarters in the past business year. Besides considering criteria such as the economical use of resources in our office buildings, we took a particularly hard look at the indirect impacts of our business.

... in the reinsurance sector
Experts in the areas of property and liability insurance, in particular, analysed the environmental aspects of their business operations. In a broad discussion process they then developed ideas and guiding instruments that promise to have a positive influence on ecologically relevant aspects of the risks assumed.

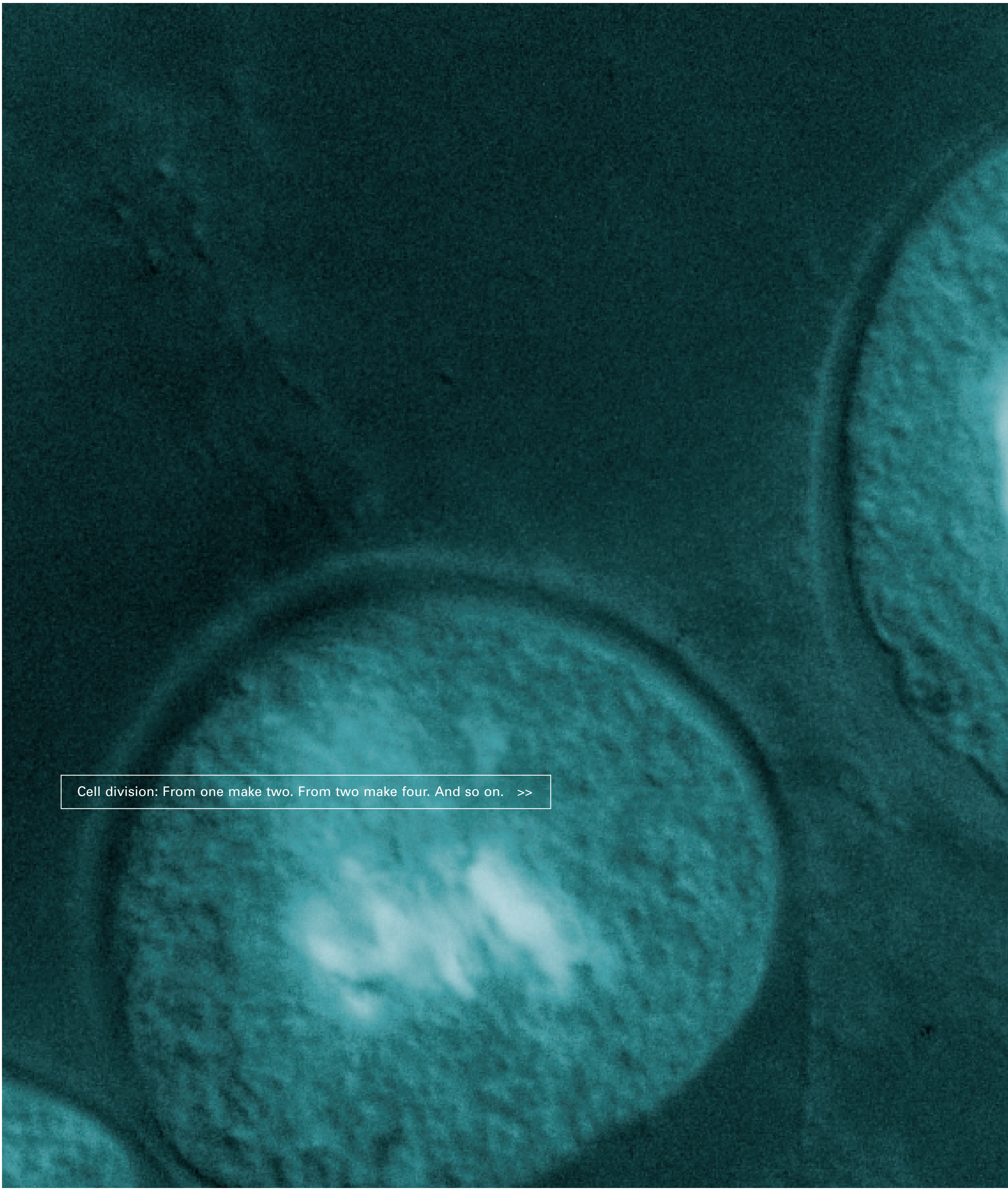
The main emphasis of our work will continue to be on striving to ensure, in close dialogue with our clients, that expertise accumulated at Munich Re finds its way into appropriate measures for loss prevention, to the benefit of the environment: we advise and inform our clients on questions of environmental protection in the various classes of insurance, we actively support our cedants in ecologically related risk assessment, and in the process we assist them in developing innovative products and extensions of cover.

... in the investment sector
In our asset management operations, we have approached the ecologically related aspects of our investments in the same way. What does this mean in practice? In future, criteria related to environmental protection and sustainable development will play an additional role in our investment decisions besides the classic principles of security, profitability and liquidity. We will intensify research in this area in our asset management. We will also extend our investment guidelines for both active securities trading and our strategic shareholdings to take account of these aspects and thus put our asset management decisions on a broader basis. By investing in companies that operate sustainably, we also safeguard the long-term performance of our investments.

... at our Munich head office
Although reinsurance and financial business offer much better opportunities for exercising influence, we have not lost sight of the direct impacts of our administrative operations on the environment. As far as the office buildings at our Munich headquarters are concerned, a comprehensive environmental review has been prepared for the first time – as the basis and yardstick for further measures designed to ensure that our operations become even more resource-saving and energy-efficient.

Goal achieved
We have combined the activities for our Munich head office in a tailor-made environmental management system and have had this reviewed by an external environmental auditor. At the end of the process, which benefited especially from the acceptance and commitment of staff, we received our environmental audit certificate.

This is a significant milestone for us, but it is still only a first step. In an extensive action programme, we have set ourselves further goals for the next few years; one of these is to prepare an environmental protection concept for the many properties that we lease to third parties. In addition, we want to extend our activities to our international organization.



CONSOLIDATED FINANCIAL STATEMENTS 2000

>>______We do something very similar with the capital provided by our shareholders: we multiply it. Someone who invested the equivalent of one euro in Munich Re in 1990, for example, would get 8.5 times that for the investment today. The Munich Re Group's financial position at 31st December 2000, and the changes that occurred in 2000, can be seen from our consolidated financial statements.

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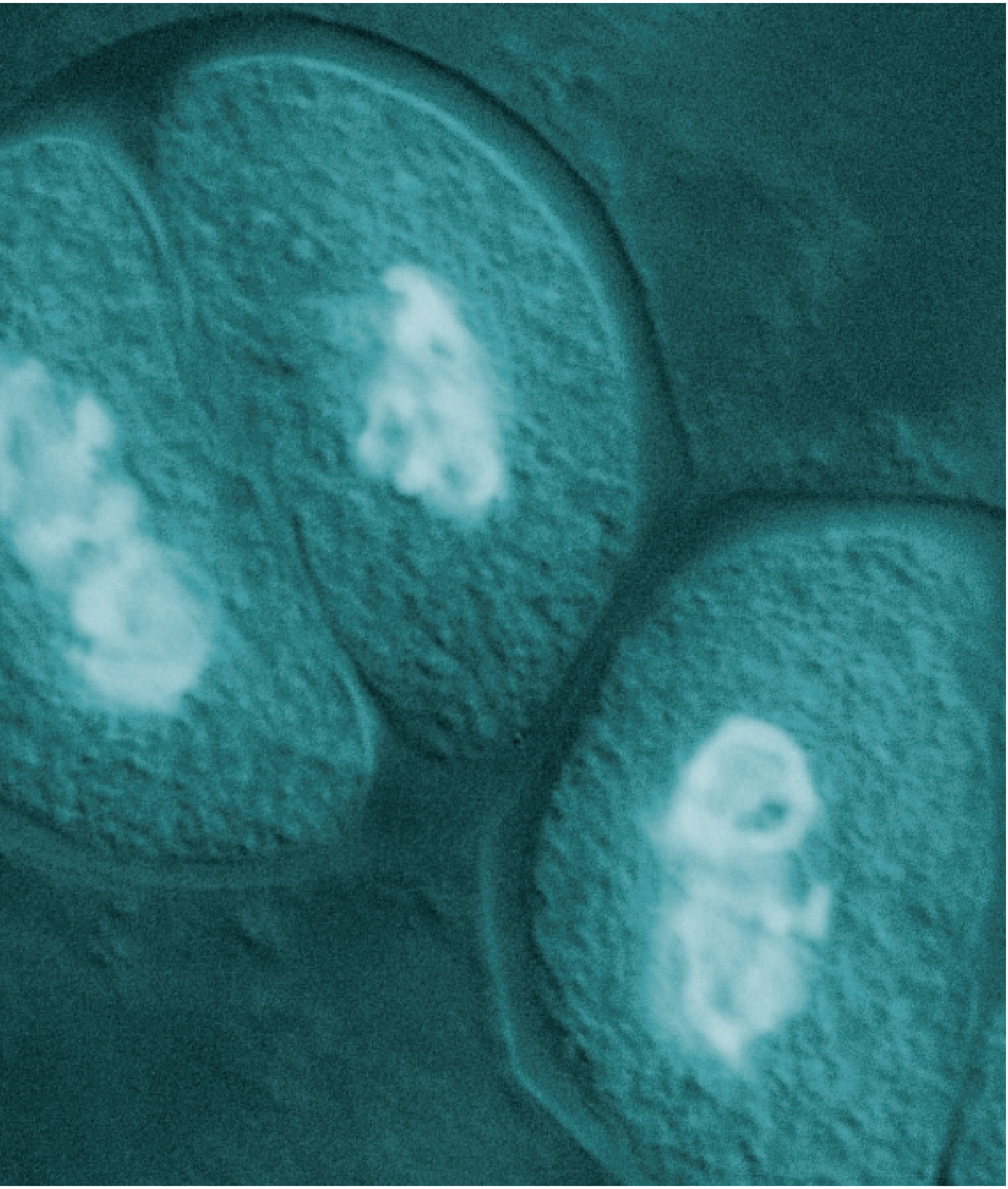


Consolidated balance sheet as at 31st December 2000

ASSETS	Notes	€m	€m	€m	Prev. year €m
A. Intangible assets					
I. Goodwill	(1)		2,625		2,142
II. Other intangible assets	(2)		843		269
				3,468	2,411
B. Investments					
I. Real estate	(3)		8,405		6,901
II. Investments in affiliated enterprises and associated enterprises	(4)		13,538		10,633
III. Loans	(5)		9,150		8,670
IV. Other securities					
1. Held to maturity	(6)	1,186			1,430
2. Available for sale	(7)	112,756			109,714
3. Held for trading	(8)	259			191
			114,201		111,335
V. Other investments					
1. Deposits retained on assumed reinsurance	(11)	12,010			11,698
2. Miscellaneous	(9)	1,523			1,273
			13,533		12,971
				158,827	150,510
C. Investments for the benefit of life insurance policyholders who bear the investment risk				581	417
D. Ceded share of underwriting provisions	(17–20)			10,166	9,402
E. Receivables	(10, 11)			9,145	8,056
F. Cash with banks, cheques and cash in hand				2,273	487
G. Deferred acquisition costs	(12)			6,361	5,989
H. Deferred tax	(13)			1,925	1,933
I. Other assets	(14)			821	675
Total assets				193,567	179,880

EQUITY AND LIABILITIES	Notes	€m	€m	Prev. year €m
A. Shareholders' equity	(15)			
I. Issued capital and capital reserve		3,165		3,161
II. Revenue reserves		9,174		6,862
III. Other reserves		9,513		7,298
IV. Consolidated profit		1,750		1,133
			23,602	18,454
B. Minority interests	(16)		2,354	2,125
C. Gross underwriting provisions				
I. Unearned premiums	(17)	5,376		4,803
II. Provision for future policy benefits	(18)	82,944		77,217
III. Provision for outstanding claims	(19)	31,248		28,767
IV. Other underwriting provisions	(20)	21,541		21,692
			141,109	132,479
D. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders			583	396
E. Other accrued liabilities	(21)		3,061	2,927
F. Liabilities				
I. Notes and debentures	(22)	1,793		734
II. Other liabilities	(23)	16,237		14,325
			18,030	15,059
G. Deferred tax liabilities	(13)		4,780	8,391
H. Other deferred items	(24)		48	49
Total equity and liabilities			193,567	179,880

Consolidated income statement for the business year 2000

ITEMS	Notes	€m	Prev. year €m
1. Gross premiums written	(25)	31,113	27,413
2. Net earned premiums	(25)	28,129	24,945
3. Investment result	(26)	12,166	9,525
4. Other income	(27)	501	747
Total income (2–4)		40,796	35,217
5. Net expenses for claims and benefits	(28)	29,770	25,241
6. Net operating expenses	(29)	7,340	6,500
7. Other expenses	(30)	1,071	1,655
Total expenses (5–7)		38,181	33,396
8. Result before amortization of goodwill		2,615	1,821
9. Amortization of goodwill	(1)	145	120
10. Operating result before tax		2,470	1,701
11. Tax	(31)	399	383
12. Minority interests in earnings	(16)	321	185
13. Profit for the year		1,750	1,133
	Notes	**€**	**Prev. year €**
Earnings per share	(41)	9.89	6.45
Earnings per share, diluted	(41)	9.84	6.44

Consolidated cash flow statement for the business year 2000

	€m	Prev. year €m
Profit for the year, including minority interests in earnings	**2,071**	**1,318**
Net change in underwriting provisions	7,673	11,357
Change in deferred acquisition costs	–372	–309
Changes in deposits retained and accounts receivable and payable	517	–1,313
Change in other receivables and liabilities	–480	813
Gains and losses on the disposal of investments	–4,072	–1,419
Change in securities held for trading	–72	–14
Change in other balance sheet items	–487	399
Other income/expenses without impact on cash flow	–414	–486
I. Cash flows from operating activities	**4,364**	**10,346**
Outflows for the acquisition of consolidated enterprises	–910	–42
Inflows from the sale and maturities of other investments	47,513	17,420
Outflows for the acquisition of other investments	–50,055	–27,956
Inflows from the sale of investments for unit-linked life insurance	2	–
Outflows for the acquisition of investments for unit-linked life insurance	–174	–268
Other inflows	47	34
Other outflows	–514	–112
II. Cash flows from investing activities	**–4,091**	**–10,924**
Inflows from increases in capital	4	381
Dividend payments	–197	–111
Inflows and outflows from other financing activities	1,711	210
III. Cash flows from financing activities	**1,518**	**480**
Cash flows for the business year (I + II + III)	**1,791**	**–98**
Effect of exchange rate changes on cash	–5	4
Cash at the beginning of the business year	487	581
Cash at the end of the business year	2,273	487
Additional information		
Tax on earnings (net)	444	546
Interest paid	215	96

Segment reporting

ASSETS	Reinsurance			
	Life and health		Property-casualty	
	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m
A. Intangible assets	264	28	2,182	2,167
B. Investments				
I. Real estate	808	809	1,206	1,192
II. Investments in affiliated enterprises and associated enterprises	4,759	4,074	6,059	5,194
III. Loans	158	61	165	41
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	11,459	10,412	22,859	21,508
3. Held for trading	31	34	137	117
	11,490	10,446	22,996	21,625
V. Other investments	7,100	6,651	10,146	9,467
	24,315	22,041	40,572	37,519
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of underwriting provisions	3,090	3,123	4,268	4,094
E. Other segment assets	2,832	1,877	7,113	7,209
Total segment assets	**30,501**	**27,069**	**54,135**	**50,989**

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2000 €m	**Prev. year €m**	**31.12.2000 €m**	**Prev. year €m**	**31.12.2000 €m**	**Prev. year €m**	**31.12.2000 €m**	**Prev. year €m**	**31.12.2000 €m**	**Prev. year €m**
419	145	461	54	10	3	132	14	3,468	2,411
5,608	4,184	743	675	–	–	40	41	8,405	6,901
2,933	2,051	2,254	1,341	78	69	–2,545	–2,096	13,538	10,633
9,918	8,588	294	98	282	–	–1,667	–118	9,150	8,670
1,153	1,379	33	51	–	–	–	–	1,186	1,430
72,188	71,565	6,241	6,222	9	7	–	–	112,756	109,714
47	26	31	14	13	–	–	–	259	191
73,388	72,970	6,305	6,287	22	7	–	–	114,201	111,335
615	745	248	179	9	–	–4,585	–4,071	13,533	12,971
92,462	88,538	9,844	8,580	391	76	–8,757	–6,244	158,827	150,510
581	417	–	–	–	–	–	–	581	417
6,872	5,954	1,319	1,071	–	–	–5,383	–4,840	10,166	9,402
9,207	7,087	2,318	1,580	116	39	–1,061	–652	20,525	17,140
109,541	**102,141**	**13,942**	**11,285**	**517**	**118**	**–15,069**	**–11,722**	**193,567**	**179,880**

Segment reporting

EQUITY AND LIABILITIES	Reinsurance			
	Life and health		Property-casualty	
	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m
A. Gross underwriting provisions				
I. Unearned premiums	68	163	3,844	3,422
II. Provision for future policy benefits	17,834	16,484	694	653
III. Provision for outstanding claims	1,874	1,249	25,490	24,328
IV. Other underwriting provisions	90	30	1,348	1,256
	19,866	17,926	31,376	29,659
B. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	–	–	–	–
C. Other accrued liabilities	392	339	1,134	1,057
D. Other segment liabilities	2,688	3,172	8,538	9,640
Total segment liabilities	**22,946**	**21,437**	**41,048**	**40,356**

		Primary insurance		Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m
768	715	881	670	–	–	–185	–167	5,376	4,803
68,916	64,005	39	17	–	–	–4,539	–3,942	82,944	77,217
1,065	829	3,620	3,072	–	–	–801	–711	31,248	28,767
19,517	20,082	113	119	–	–	473	205	21,541	21,692
90,266	85,631	4,653	3,878	–	–	–5,052	–4,615	141,109	132,479
579	396	–	–	–	–	4	–	583	396
538	638	983	903	29	11	–15	–21	3,061	2,927
14,599	12,931	3,501	2,388	428	69	–6,896	–4,701	22,858	23,499
105,982	**99,596**	**9,137**	**7,169**	**457**	**80**	**–11,959**	**–9,337**	**167,611**	**159,301**
						Shareholders' equity*		**25,956**	**20,579**
						Total equity and liabilities		**193,567**	**179,880**

* Group shareholders' equity and minority interests.

Segment reporting

INCOME STATEMENT	Reinsurance			
	Life and health		Property-casualty	
	2000 €m	Prev. year €m	2000 €m	Prev. year €m
1. Gross premiums written	4,701	3,742	13,624	11,626
Thereof:				
– From insurance transactions with other segments	820	735	806	713
– From insurance transactions with external third parties	3,881	3,007	12,818	10,913
2. Net earned premiums	4,260	3,151	11,717	10,336
3. Investment result	1,684	1,523	2,801	2,428
Thereof:				
– Income from associated enterprises	404	318	515	405
4. Other income	44	143	150	336
Total income (2 – 4)	5,988	4,817	14,668	13,100
5. Net expenses for claims and benefits	3,643	3,009	10,069	8,964
6. Net operating expenses	1,336	1,003	3,547	3,151
7. Other expenses	105	136	431	446
Total expenses (5 – 7)	5,084	4,148	14,047	12,561
8. Result before amortization of goodwill	**904**	**669**	**621**	**539**
9. Amortization of goodwill	2	2	130	113
10. Operating result before tax	902	667	491	426
11. Tax	43	24	13	–31
12. Minority interests in earnings	2	1	14	6
13. Profit for the year	**857**	**642**	**464**	**451**

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
2000 €m	Prev. year €m	2000 €m	Prev. year €m	2000 €m	Prev. year €m	2000 €m	Prev. year €m	2000 €m	Prev. year €m
10,364	9,809	4,110	3,690	–	–	–1,626	–1,454	31,113	27,413
–	–	–	6	–	–	–1,626	–1,454	–	–
10,304	9,809	4,110	3,684	–	–	–	–	31,113	27,413
9,226	8,724	2,926	2,734	–	–	–	–	28,129	24,945
7,339	5,435	881	524	22	2	–561	–387	12,166	9,525
89	133	28	110	15	15	–	–	1,051	981
707	528	520	124	122	18	–1,042	–402	501	747
17,272	14,687	4,327	3,382	144	20	–1,603	–789	40,796	35,217
14,287	11,598	1,776	1,670	–	–	–5	–	29,770	25,241
1,347	1,362	1,070	951	–	–	40	33	7,340	6,500
1,116	1,295	661	245	125	28	–1,367	–495	1,071	1,655
16,750	14,255	3,507	2,866	125	28	–1,332	–462	38,181	33,396
522	**432**	**820**	**516**	**19**	**–8**	**–271**	**–327**	**2,615**	**1,821**
1	5	6	–	–	–	6	–	145	120
521	427	814	516	19	–8	–277	–327	2,470	1,701
70	190	265	197	6	4	2	–1	399	383
170	90	206	119	4	–	–75	–31	321	185
281	**147**	**343**	**200**	**9**	**–12**	**–204**	**–295**	**1,750**	**1,133**

Segment reporting

INVESTMENTS	Reinsurers		Primary insurers		Asset management		Total	
	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m	31.12.2000 €m	Prev. year €m
Europe	40,557	40,664	98,577	95,411	33	9	139,167	136,084
North America	16,357	12,219	1,094	655	246	64	17,697	12,938
Asia and Australasia	1,375	1,025	426	307	–	–	1,801	1,332
Africa, Near and Middle East	480	437	49	8	–	–	529	445
Latin America	187	77	27	51	–	–	214	128
Total	58,956	54,422	100,173	96,432	279	73	159,408	150,927

GROSS PREMIUMS WRITTEN*	Reinsurers		Primary insurers		Total	
	2000 €m	Prev. year €m	2000 €m	Prev. year €m	2000 €m	Prev. year €m
Europe						
Germany	3,840	3,719	12,274	12,054	16,114	15,773
France	301	300	30	19	331	319
UK	2,057	1,235	150	106	2,207	1,341
Italy	697	669	159	32	856	701
Netherlands	341	270	396	347	737	617
Others	1,588	1,428	1,244	837	2,832	2,265
	8,824	7,621	14,253	13,395	23,077	21,016
North America						
USA	4,676	3,898	107	71	4,783	3,969
Canada	811	543	2	1	813	544
	5,487	4,441	109	72	5,596	4,513
Asia and Australasia						
Japan	361	284	2	1	363	285
Australia	346	252	5	–	351	252
Taiwan	155	129	1	–	156	129
Others	362	307	13	15	375	322
	1,224	972	21	16	1,245	988
Africa, Near and Middle East						
South Africa	200	158	17	7	217	165
Israel	285	183	1	–	286	183
Others	222	164	5	2	227	166
	707	505	23	9	730	514
Latin America						
Mexico	164	116	–	–	164	116
Colombia	39	66	–	–	39	66
Others	254	199	8	1	262	200
	457	381	8	1	465	382
Total	16,699	13,920	14,414	13,493	31,113	27,413

* After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 29).

Notes to the consolidated financial statements

APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS (IAS)
Munich Re's consolidated financial statements have been prepared in accordance with the standards of the International Accounting Standards Board (IASB).

IAS currently do not contain any standards governing the accounting and valuation of transactions specific to the insurance industry; the relevant items are therefore included and valued in accordance with US GAAP (Generally Accepted Accounting Principles for the United States).

The consolidated financial statements have been prepared in accordance with International Accounting Standards adopted up to and including 31st December 2000 whose application was obligatory for the business year. In addition, we have observed the following Standards whose application was not compulsory for the business year:

IAS 19 (revised)	Employee Benefits
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40 (revised)	Investment Property

PREVIOUS YEAR'S FIGURES
For the year under review, we have for the first time consolidated 96 investment funds in which Group companies hold the majority of the units (special funds), in accordance with SIC 12. The previous year's figures have not been adjusted.

CONSOLIDATION

Consolidated group

In accordance with IAS 27, the consolidated financial statements include the Munich Reinsurance Company (the parent company) and all the enterprises in which Munich Re owns, directly or indirectly, the majority of the voting shares (subsidiaries). The only exceptions are subsidiaries which are determined as being not material for assessing the Group's financial position; insurance and reinsurance companies are consolidated regardless of their size. An overview of the group of consolidated companies and other important shareholdings is provided in Section 08.

Consolidated subsidiaries*	Germany	Other countries	Total
31.12.1999	92	110	202
Additions	5	42	47
Reductions	4	9	13
31.12.2000	93	143	236

* Excluding special funds.

In the business year the Munich Re Group acquired Alte Leipziger Europa Beteiligungsgesellschaft AG, Bad Homburg, and its subsidiaries for a price of €177m. In addition, the ERGO Insurance Group acquired 100% of Bayerische Beamten Versicherung Italia S.p.A., Milan, and its subsidiaries for a price of €813m. Also consolidated for the first time was Mercur Assistance AG Holding, Munich. Apart from this, there were no significant changes in the group of consolidated companies.

The effects of the most important new acquisitions on the consolidated financial statements may be seen from the following overview:

	Effects on the consolidated financial statements 2000[1]				
All figures in €m	**Date of first consolidation**	**Gross premium**	**Profit for the year**	**Goodwill[2]**	**Amortization of goodwill**
Alte Leipziger Europa Beteiligungsgesellschaft AG, Bad Homburg, and its subsidiaries	1.1.2000	213	–3	118	6
BBV Italia S.p.A., Milan, and its subsidiaries	1.12.2000	157	1	364	2

[1] After elimination of intra-Group transactions across segments.
[2] At the date of first consolidation.

The changes among our non-consolidated subsidiaries in the business year were as follows:

Non-consolidated subsidiaries	**Germany**	**Other countries**	**Total**
31.12.1999	91	61	152
Additions	33	25	58
Reductions	13	6	19
31.12.2000	111	80	191

The aggregate shareholders' equity of the non-consolidated subsidiaries amounted to less than 0.9% (0.5%) of the Group's shareholders' equity at 31st December 2000, and their aggregate annual result to 0.2% (0.4%) of the consolidated profit for the year. The enterprises involved are mainly service and management companies.

Consolidation principles

The balance sheet date of the consolidated companies is generally 31st December. Some of the special funds have other balance sheet dates. These funds are consolidated on the basis of interim accounts as at 31st December.

We generally consolidate subsidiaries as soon as the Group holds the majority of the voting shares. In order to determine the equity capital at the time of acquisition, we include the assets and liabilities of the subsidiary according to uniform Group accounting and valuation methods. The equity capital apportionable to the Group is netted against the acquisition costs of the shares. If the acquisition costs are greater, the difference is allocated to the individual assets or liabilities until their value corresponds to their fair value; any residual amount is capitalized as goodwill and amortized on a straight-line basis.

The profits earned by the subsidiaries after their first consolidation are included in the Group's revenue reserves unless they are apportionable to minority interests.

Minority interests are shown separately in the balance sheet and the income statement. They represent the amounts apportionable to other shareholders outside the Group from the consolidated shareholders' equity and profits for the year of the subsidiaries concerned.

Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as being not material.

Associated enterprises

In accordance with IAS 28, associated enterprises are all enterprises which are not subsidiaries and in which Group companies hold between 20% and 50% of the voting rights – regardless of whether a significant influence is actually exercised on the financial and operating decisions of the enterprise.

Enterprises valued at equity	Germany	Other countries	Total
31.12.1999	25	25	50
Additions	8	14	22
Reductions	1	5	6
31.12.2000	32	34	66

Other associated enterprises	Germany	Other countries	Total
31.12.1999	24	23	47
Additions	16	12	28
Reductions	9	15	24
31.12.2000	31	20	51

ACCOUNTING AND VALUATION OF ASSETS

A. Intangible assets

GOODWILL resulting from the first-time consolidation of subsidiaries is amortized on a straight-line basis over its useful life – up to 20 years (IAS 22).

OTHER INTANGIBLE ASSETS mainly comprise purchased and internally generated software, and purchased insurance portfolios. The valuation basis is the original cost less straight-line depreciation. The useful life assumed for software is three to five years and for insurance portfolios up to 15 years.

In addition, OTHER INTANGIBLE ASSETS include the fair values of acquired life insurance portfolios. These are amortized systematically in accordance with the expected result development.

B. Investments

REAL ESTATE is carried at cost. Maintenance expenses and repairs are recognized as an expense. Subsequent expenditure that increases the value of real estate is capitalized if it extends the useful life. The capitalized costs of buildings are amortized over 100 years at most, in accordance with their useful lives. If the recoverable amount of land and buildings falls below its carrying amount and the diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognized as an investment expense in the income statement, and any increases in value as investment income.

INVESTMENTS IN AFFILIATED ENTERPRISES that we do not consolidate because they are not material are carried at their fair values. If the shares are listed on a stock exchange, we use the share prices at the balance sheet date; for other shares, the fair value is the net asset value based on the German Association of Financial Analysts (DVFA) method or – in the case of new acquisitions – the acquisition cost.

INVESTMENTS IN ASSOCIATED ENTERPRISES are valued by the equity method at the Group's proportionate share of their net assets; as a rule, the most recent individual or consolidated financial statements of the associated enterprise are used for this. The earnings of an associated enterprise apportionable to the Group are included in the investment result. Investments in associated enterprises that are determined as being not material for assessing the Group's financial position are valued at acquisition cost.

LOANS are stated at amortized cost. Writedowns for impairments are made in cases where the repayment of a loan can no longer be expected.

FIXED-INTEREST SECURITIES HELD TO MATURITY are – like loans – stated at amortized cost. The main investments shown here are registered bonds and promissory notes.

SECURITIES AVAILABLE FOR SALE are stated at market value. Unrealized gains or losses are not included in the income statement; rather, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realization, they are reflected in shareholders' equity. This item also includes registered bonds and promissory notes.

SECURITIES HELD FOR TRADING comprise all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences; in addition, they include all derivative financial instruments that we have not acquired for hedging purposes. Securities held for trading are stated at the market value at the balance sheet date; all unrealized gains or losses from this valuation are included in the investment result.

Writedowns are made on all securities that are not investments held for trading if they suffer an impairment in value that is not temporary. These writedowns are recognized in the income statement.

DEPOSITS RETAINED ON ASSUMED REINSURANCE are claims which the reinsurers have on their clients for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

OTHER INVESTMENTS are also stated at face value.

C. Investments for the benefit of life insurance policyholders who bear the investment risk

These are mainly investments for policyholders under unit-linked life insurances. They are accounted for at market value; unrealized gains and losses are matched by corresponding changes in the underwriting provisions (equity and liabilities item D).

D. Ceded share of underwriting provisions

The share of underwriting provisions for business ceded by us is determined from the gross underwriting provisions in accordance with the terms of the reinsurance agreements; cf. the notes to the corresponding liabilities items.

E. Receivables

Receivables on primary insurance business, accounts receivable on reinsurance and other receivables are stated at face value; adjustments of value are made where necessary.

F. Cash with banks, cheques and cash in hand

Cash and cheques are shown at their face value.

G. Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance policies.

In life reinsurance, the deferred acquisition costs are capitalized and amortized over the term of the policies either proportionally to the premium income (FAS 60) or proportionally to the expected profits (FAS 97). In other reinsurance and in property-casualty insurance, the deferred acquisition costs are amortized on a straight-line basis over the average term of the policies, from one to five years.

In life insurance, the deferred acquisition costs are also capitalized and amortized over the terms of the policies; the amount of amortization depends on the gross margins of the respective products calculated for the relevant year of the policy term.

The acquisition costs in health insurance are amortized proportionally to the premium income over the total average policy term. The amortization amount is determined on the basis of the assumptions used for calculating the provision for future policy benefits.

H. Deferred tax assets

Under IAS 12, deferred tax assets must be accounted for in cases where asset items have to be valued lower, or liabilities items higher, in the consolidated balance sheet than in the tax balance sheet of the Group company concerned and these differences are temporary. We take into account the tax rates of the countries concerned and the company’s respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries.

Where unrealized losses on securities available for sale are reflected in shareholders’ equity (see above), the resulting deferred tax assets are recorded but excluded from earnings.

At each balance sheet date we review the carrying amount of the deferred tax assets. If it is no longer probable that the deferred tax asset will be realized in the future, the carrying amount is reduced.

I. Other assets

Other assets are stated at cost less any writedowns that are required.

ACCOUNTING AND VALUATION OF EQUITY AND LIABILITIES

A. Shareholders' equity

The item ISSUED CAPITAL AND CAPITAL RESERVE contains the amounts that the shareholders of the parent company have paid in on shares. Under REVENUE RESERVES, we show the profits which consolidated companies have earned and retained since becoming a member of the Munich Re Group, and income and expenses resulting from consolidation measures. Unrealized gains and losses resulting from the market valuation of investments are included in the OTHER RESERVES.

B. Minority interests

This item contains the shares of third parties in the shareholders' equity of subsidiaries that are not wholly owned directly or indirectly by the parent company.

C. Gross underwriting provisions

The underwriting provisions are shown gross in our balance sheet, i.e. without deduction of the share apportionable to business ceded by us; cf. the explanatory remarks on the relevant asset item. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements.

UNEARNED PREMIUMS are accrued premiums already written for future risk periods. For primary insurance, these premiums are calculated separately for each insurance policy pro rata temporis; for reinsurance, nominal percentages are used in some cases where the data for a calculation pro rata temporis is not available.

The PROVISION FOR FUTURE POLICY BENEFITS covers the anticipated future benefits payable to policyholders in life, health and personal accident insurance and also the ageing reserves in health insurance.

Provisions for future policy benefits are generally calculated using actuarial methods from the present value of the future benefits payable to policyholders and from the present value of the premiums still to be paid by the policyholders; the calculation is based in particular on assumptions relating to mortality, morbidity and interest rate development.

If policyholders participate in aggregate divisible surplus in the same proportion as their policies are considered to have contributed to this surplus ("contribution principle"), the provision for future policy benefits is calculated with reference to the contractually agreed calculation bases (FAS 120); as these are prudent assumptions, surpluses regularly accrue, which are for the most part distributed to policyholders. The acquisition costs are capitalized and amortized over the terms of the policies (on the basis of the estimated surpluses).

If policyholders participate in surplus, but not by way of the contribution principle, or they are promised fixed benefits without participation in surplus, then safety loadings are included in the calculation of the provision for future policy benefits that are based on the circumstances at the conclusion of the policy (FAS 60). Here, too, the acquisition costs are capitalized and amortized over the terms of the policies (on the basis of the premium income).

In the case of life insurance policies where policyholders bear the investment risk themselves (e.g. unit-linked life insurance), the provision for future policy benefits reflects the market values of the relevant investments (FAS 97); this provision is shown separately (item D).

If policyholders can vary their premium payments within certain contractually specified limits (universal life), the amount included in the provision for future policy benefits corresponds to the premiums paid plus the interest credited thereon (FAS 97).

The PROVISION FOR OUTSTANDING CLAIMS covers payment obligations arising from insurance and reinsurance contracts where the size of the claim or the date of the payment is still uncertain. Such provisions are posted for claims that have been reported, for claims incurred but not yet reported, and for internal and external claims adjustment expenses. Provisions for outstanding claims are based on estimates; the actual payments may be higher or lower.

This applies particularly in reinsurance, where a considerable time may elapse between the occurrence of an insured loss, its reporting by the primary insurer and payment of the reinsurer’s share. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological parameters) and partly using actuarial methods. The future payment obligations are generally not discounted; exceptions are some actuarially calculated provisions for annuities in motor, personal accident and liability insurance.

OTHER UNDERWRITING PROVISIONS include the provisions for premium refunds.

Provisions for premium refunds are made for obligations involving bonuses and rebates in life and health insurance that are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. The item “Other underwriting provisions” also includes amounts apportionable to policyholders from the accumulated valuation differences between IAS and German Commercial Code (provision for deferred premium refunds).

Provisions for anticipated losses are posted if the future premiums and proportional investment income in a portfolio will probably not be sufficient to cover the expected claims and costs.

In the year under review we fundamentally revised our procedure for determining provisions for earthquake risks and extended it to other natural hazards such as windstorm and hail. The new system takes account of our considerably improved data basis and the latest knowledge of our experts. This new calculation does not have any significant effect on the assets, liabilities, financial position or results of the Group.

D. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders

Please see the remarks on assets item C and on the provisions for future policy benefits.

E. Other accrued liabilities

These primarily include PROVISIONS FOR POST-EMPLOYMENT BENEFITS. In accordance with IAS 19, these are calculated using actuarial instruments (e.g. current mortality tables and disablement probabilities) and assumptions in relation to the future development of wages and salaries, as well as increases in current pensions and pension entitlements. The interest rate at which the pension provisions are discounted is based on the yields for long-term bonds of first-class issuers (e.g. government bonds).

PROVISIONS FOR TAXES are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

OTHER PROVISIONS are posted in the amount of the probable requirement; such amounts are not discounted.

F. Liabilities

The liabilities shown under this item – notes and debentures, accounts payable, deposits retained on ceded business and other liabilities – are stated at the settlement value.

G. Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be accounted for if asset items have to be valued higher, or liabilities items lower, in the consolidated balance sheet than in the tax balance sheet of the reporting company and if this difference is temporary; cf. the remarks on the corresponding assets item.

FOREIGN CURRENCY TRANSLATION

Munich Re's reporting currency is the euro. The balance sheets of foreign subsidiaries that do not report in euros are translated using the year-end exchange rates, and their income statements using the annual average exchange rates; any translation differences arising in the process are reflected in shareholders' equity and excluded from earnings.

Group companies that write a significant portion of their business in foreign currency generally safeguard themselves against exchange losses by attempting to match assets and liabilities in the same currency. Where exchange gains or losses occur nevertheless in the translation of the balance sheet currencies of the consolidated companies, they are accounted for under "Other income" and "Other expenses" respectively.

The following table shows the exchange rates of the most important currencies for our business (exchange rate for €1 in each case):

	Balance sheet		Income statement	
	31.12.2000	Prev. year	2000	Prev. year
Australian dollar	1.68970	1.53180	1.58884	1.65255
Canadian dollar	1.41020	1.45470	1.37123	1.58445
Pound sterling	0.62850	0.62200	0.60936	0.65887
Rand	7.10710	6.17200	6.39340	6.51730
Swiss franc	1.52140	1.60450	1.55780	1.60042
US dollar	0.93890	1.00240	0.92400	1.06603
Yen	107.217	102.596	99.5370	121.307

MAIN DIFFERENCES BETWEEN IAS AND GERMAN COMMERCIAL CODE

Shareholders' equity is substantially higher under IAS than under German Commercial Code accounting because large portions of the investment portfolio are valued at market; results fluctuate more strongly than under German Commercial Code accounting, because there are no claims equalization provisions to provide a "smoothing" effect. The most important differences between IAS and the German Commercial Code as regards the Munich Re Group are as follows:

– Under IAS, goodwill is amortized over a maximum period of 20 years with impact on earnings; in German Commercial Code accounting, there is the option to offset goodwill against the revenue reserves without impacting earnings.

– A large portion of the investments are valued at market under IAS; under the German Commercial Code they are valued at the lower of cost or market.

– The group of associated enterprises valued at equity is considerably larger in the IAS financial statements, because it is no longer relevant whether a significant influence is actually exercised or not. The consolidated profit now includes a corresponding portion of the net profit of the enterprises concerned rather than only the dividend distributions.

– As is internationally customary, the ceded share of underwriting provisions is shown on the assets side of the balance sheet.

– The provisions for future policy benefits are higher because, unlike in German Commercial Code accounting, there is no zillmerization, but capitalization of the acquisition costs.

– The provision for premium refunds is markedly higher than under the German Commercial Code because it also includes the deferred entitlements of policyholders in life and health insurance from the accumulated result differences between IAS and German Commercial Code and their share of unrealized gains and losses in the investments available for sale.

– The provision for outstanding claims is lower under IAS, because the actuarial calculations on the basis of partial portfolios generally result in a smaller requirement than the individual valuation of all claims based on the prudence concept, which the German Commercial Code prescribes.

– Claims equalization provisions as under the German Commercial Code do not constitute liabilities to third parties and are thus not admissible under IAS; they therefore have to be reversed.

– Pension provisions that are valued in accordance with IAS are higher, because this calculation must also take into account the expected increase in wages and salaries, as well as pension entitlements and current pension payments.

- Premiums tend to be lower under IAS. In the case of products which are mainly of an investment character (e.g. financing treaties, unit-linked life insurance) only that portion of the premium used to cover the risk insured and associated costs is treated as premium income. In the IAS financial statements there are no "premiums from the provision for policyholders' dividends".

- Writedowns on investments are lower than under German Commercial Code accounting, because they may only be recorded if the diminution in value is likely to be permanent.

- Owing to the pro rata first-time consolidation of the special funds, transactions in the area of investments (and thus the realized gains and losses) are markedly higher but the result is also more volatile.

NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

(1) Goodwill

All figures in €m	2000	1999
Gross amount capitalized 31.12. previous year	2,477	2,309
Accumulated amortization 31.12. previous year	335	215
Carrying amount 31.12. previous year	2,142	2,094
Translation differences	138	305
Carrying amount 1.1. business year	2,280	2,399
Additions	501	33
Disposals	11	170
Amortization	145	120
Carrying amount 31.12. business year	2,625	2,142
Accumulated amortization 31.12. business year	480	335
Gross amount capitalized 31.12. business year	3,105	2,477

The goodwill results mainly from the acquisition of American Re in November 1996 and from acquisitions within the ERGO Insurance Group in the years 1998 to 2000.

The acquisitions in the year 2000 result mostly from the acquisition of Alte Leipziger Europa Beteiligungsgesellschaft AG, Bad Homburg, and BBV Italia S.p.A., Milan.

(2) Other intangible assets

All figures in €m	Software	Purchased insurance portfolios	Other	Total	1999
Gross amount capitalized 31.12. previous year	208	177	91	476	267
Accumulated depreciation 31.12. previous year	143	24	40	207	153
Carrying amount 31.12. previous year	65	153	51	269	114
Translation differences	1	–	–	1	–
Carrying amount 1.1. business year	66	153	51	270	114
Changes in consolidated group	5	252	10	267	–
Additions	102	266	69	437	215
Disposals	4	–	24	28	6
Depreciation					
– Amortization	54	14	34	102	53
– Writedowns for impairments	1	–	–	1	1
Carrying amount 31.12. business year	114	657	72	843	269
Accumulated depreciation 31.12. business year	197	38	66	301	207
Gross amount capitalized 31.12. business year	311	695	138	1,144	476

The figures shown under purchased insurance portfolios mainly comprise the actuarial value of the life insurance portfolios consolidated as a result of the acquisition of Bayerische Vita and CNA Financial Corporation’s life reinsurance business, totalling around €500m.

The remaining other intangible assets include rights equivalent to real property amounting to €5m (5m).

Depreciation of software is apportioned in the income statement between the investment result, expenses for claims and benefits, and operating expenses. Amortization of purchased insurance portfolios is shown under “Other expenses”.

(3) Real estate

All figures in €m	2000	1999
Gross amount capitalized 31.12. previous year	7,995	7,524
Accumulated depreciation 31.12. previous year	1,094	1,012
Carrying amount 31.12. previous year	6,901	6,512
Translation differences	7	22
Carrying amount 1.1. business year	6,908	6,534
Changes in consolidated group	121	117
Additions	1,533	518
Disposals	70	186
Write-ups	7	20
Depreciation		
– Amortization	75	72
– Writedowns for impairments	19	30
Carrying amount 31.12. business year	8,405	6,901
Accumulated depreciation 31.12. business year	1,178	1,094
Gross amount capitalized 31.12. business year	9,583	7,995

Land and buildings used by Group companies for their own activities are valued at €1,808m (1,687m).

Real estate pledged as security and other restrictions on title amount to €193m (28m). The expenses for investments under construction amount to €66m (38m) at the balance sheet date. Commitments to acquire real estate totalled €141m (–) at the balance sheet date.

The fair value of real estate at the balance sheet date totals €10,508m (9,220m). The fair value is generally the capitalized earnings value; new buildings and freshly purchased real estate are valued at cost.

(4) Investments in affiliated enterprises and associated enterprises

All figures in €m	31.12.2000	Prev. year
Affiliated enterprises	311	202
Associated enterprises	13,227	10,431
Total	13,538	10,633

The fair value of investments in associated enterprises, which are generally valued at equity, amounts to €33,004m (27,258m) at the balance sheet date.

An overview of our most important shareholdings can be found in Section 08.

(5) Loans

	Carrying amounts	
All figures in €m	31.12.2000	Prev. year
Mortgage loans	6,659	6,644
Loans and advance payments on insurance policies	607	574
Other loans	1,884	1,452
Total	9,150	8,670

In the business year the market values of the loans generally corresponded to the carrying amounts. The "Other loans" include loans to affiliated enterprises totalling €199m (65m) and loans to associated enterprises totalling €483m (164m).

Contractual period to maturity	Carrying amounts	
All figures in €m	**31.12.2000**	**Prev. year**
Up to one year	943	461
Over one year and up to 5 years	3,541	3,026
Over 5 years and up to 10 years	4,080	4,409
Over 10 years	586	774
Total	9,150	8,670

(6) Other securities, held to maturity

Issuers	Carrying amounts		Market values	
All figures in €m	**31.12.2000**	**Prev. year**	**31.12.2000**	**Prev. year**
Government bonds				
– EU	15	21	15	22
– Others	–	1	–	1
Corporate bonds	801	1,393	823	1,452
Others	370	15	375	15
Total	1,186	1,430	1,213	1,490

Contractual period to maturity	Carrying amounts		Market values	
All figures in €m	**31.12.2000**	**Prev. year**	**31.12.2000**	**Prev. year**
Up to one year	205	251	206	274
Over one year and up to 5 years	498	618	518	648
Over 5 years and up to 10 years	395	464	406	471
More than 10 years	88	97	83	97
Total	1,186	1,430	1,213	1,490

Rating on market-value basis

All figures in €m	31.12.2000
AAA	347
AA	381
A	30
BBB and lower	–
No rating	455
Total	1,213

The rating categories are based on the gradings of the leading international rating agencies.

(7) Other securities, available for sale

All figures in €m	Carrying amounts 31.12.2000	Carrying amounts Prev. year	Unrealized gains/losses 31.12.2000	Unrealized gains/losses Prev. year	Amortized cost 31.12.2000	Amortized cost Prev. year
Fixed-interest securities						
– Government bonds						
– Germany	5,168	2,624	79	114	5,089	2,510
– Rest of EU	9,279	2,918	121	84	9,158	2,834
– USA	3,430	2,946	55	–82	3,375	3,028
– Others	2,849	2,508	97	–6	2,752	2,514
– Corporate bonds	38,473	33,176	909	1,285	37,564	31,891
– Others	12,850	7,538	342	54	12,508	7,484
	72,049	51,710	1,603	1,449	70,446	50,261
Non-fixed-interest securities						
– Shares	34,326	18,481	10,787	10,940	23,539	7,541
– Investment funds						
– Equity funds	1,304	20,651	270	7,370	1,034	13,281
– Bonds funds	600	16,922	32	1,065	568	15,857
– Real estate funds	285	889	–13	–7	298	896
– Others	4,192	1,061	326	62	3,866	999
	40,707	58,004	11,402	19,430	29,305	38,574
Total	112,756	109,714	13,005	20,879	99,751	88,835

The marked shifts between the individual items result from the first-time consolidation of the special funds.

Disposal proceeds in the business year were as follows:

All figures in €m	2000
Fixed-interest securities	23,811
Non-fixed-interest securities	
– Listed	15,627
– Non-listed	1,295
Total	40,733

Realized gains and losses

All figures in €m	2000	Prev. year
Gains on disposal	6,274	1,680
– Fixed-interest securities	327	274
– Non-fixed-interest securities	5,947	1,406
Losses on disposal	2,037	253
– Fixed-interest securities	363	94
– Non-fixed-interest securities	1,674	159
Total	4,237	1,427

Contractual period to maturity of fixed-interest securities

All figures in €m	Carrying amounts 31.12.2000	Carrying amounts Prev. year	Amortized cost 31.12.2000	Amortized cost Prev. year
Up to one year	6,155	5,165	6,152	5,073
Over one year and up to 5 years	32,712	21,325	31,722	20,468
Over 5 years and up to 10 years	25,416	21,860	24,970	21,608
Over 10 years	7,766	3,360	7,602	3,112
Total	72,049	51,710	70,446	50,261

Rating of fixed-interest securities on market-value basis

All figures in €m	31.12.2000
AAA	47,684
AA	14,178
A	5,400
BBB	627
Lower	160
No rating	4,000
Total	72,049

(8) Other securities, held for trading

The securities held for trading include fixed-interest securities totalling €137m (91m) and non-fixed-interest securities totalling €122m (100m).

Derivative financial instruments

The market value of open positions totalled €497m (90m) at the balance sheet date, i.e. less than 1% (1%) of the balance sheet total. The market value of items used for hedging purposes amounted to €507m and the market value of other items to –€10m.

The following table shows the notional principal amounts, broken down by product type and period to maturity:

						Open positions
						Periods to maturity
All figures in €m	Up to 3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Total
OTC products						Notional principal amounts
Cross currency swaps	402	69	101	61	–	633
Interest rate swaps	25	13	–	151	391	580
Other interest rate contracts	31	–	–	171	1,525	1,727
Currency forwards	65	111	–	–	–	176
Others	1	–	–	31	30	62
	524	193	101	414	1,946	3,178
Exchange traded						
Stock options	2	–	–	–	18	20
Total	526	193	101	414	1,964	3,198

The market value of derivatives for fair value hedges totals €1m (2m) and the market value of derivatives for cash flow hedges €506m (114m).

For cash flow hedges open at the balance sheet date, the periods to maturity were as follows:

All figures in €m	Up to 3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Total
Notional principal amounts	427	82	101	243	421	1,274

(9) Miscellaneous other investments

This item includes deposits with banks totalling €1,238m (1,111m).

(10) Receivables

All figures in €m	31.12.2000	Prev. year
Amounts receivable on primary insurance business	765	522
Thereof:		
– from policyholders	475	276
– from intermediaries	290	246
Accounts receivable on reinsurance business	4,761	4,541
Interest and rent	1,951	1,716
Other receivables	1,668	1,277
Total	9,145	8,056

Receivables with a remaining term of up to one year total €8,877m (7,533m); those with a remaining term of over one year total €268m (523m).

(11) Receivables and liabilities in respect of affiliated enterprises and participating interests

	Affiliated enterprises		Participating interests	
All figures in €m	31.12.2000	Prev. year	31.12.2000	Prev. year
Deposits retained on assumed reinsurance	–	1	5,467	5,078
Accounts receivable	–	1	350	417
Other receivables	122	28	35	30
Deposits retained on ceded business	45	45	989	931
Accounts payable	3	7	263	256
Other liabilities	119	51	187	176

(12) Deferred acquisition costs

We have used interest rates of between 3% and 8% for calculating the deferred acquisition costs.

The following table shows the development of the deferred acquisition costs in the business year.

	Reinsurance		Primary insurance		Total
All figures in €m	Life and health	Property-casualty	Life and health	Property-casualty	
Carrying amount 31.12.1999	831	774	4,036	348	5,989
Changes in exchange rates	40	60	8	60	168
Carrying amount 1.1.2000	871	834	4,044	408	6,157
Newly deferred acquisition costs	352	954	500	179	1,985
Amortized acquisition costs	243	843	533	162	1,781
Carrying amount 31.12.2000	980	945	4,011	425	6,361

(13) Deferred tax

This involves the following items:

All figures in €m	31.12.2000 Assets	31.12.2000 Liabilities	Prev. year Assets	Prev. year Liabilities
Losses carried forward	102	–	45	–
Investments	105	1,743	108	4,788
Underwriting provisions	1,516	1,086	1,468	669
Pension provisions	153	3	142	–
Others	49	1,948	170	2,934
Total	1,925	4,780	1,933	8,391

(14) Other assets

These mainly comprise property, plant and equipment and inventories totalling €282m (250m).

NOTES TO THE CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

(15) Shareholders' equity

The restructuring of Munich Re's share capital through the voluntary conversion of bearer shares – originally totalling three million – into restrictedly transferable registered shares has been concluded: by the middle of the year 99.95% of the bearer sharers had been converted into restrictedly transferable, listed registered shares. In accordance with the resolution of the Annual General Meeting on 22nd July 1999, the remaining 1,480 bearer shares were converted into the equivalent number of unrestrictedly transferable, non-listed registered shares. The bearer share certificates that had not been handed in were cancelled by leave of the local court in Munich.

The exercising of Munich Re 1998/2002 warrants in the course of the business year resulted in the issue of 24,296 new registered shares at an exercise price of €163.61 each. This increased the share capital to €452,976,824.32, and the company raised a total of €3,975,068.56 from the issue of the new shares.

The share capital as at 31st December 2000 is thus divided into 176,944,072 registered shares, each fully paid up and entitled to one vote.

The contingent capital is as follows:

All figures in €m	31.12.2000
To safeguard subscription rights from exercise of warrants 1998/2002	4.4
To safeguard subscription rights in rights issue from capital authorized for this purpose	15.4
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants	15.4
Total	35.2

On 19th July 2000 the Annual General Meeting replaced the amount authorized for capital increases under "Authorized Capital Increase I" with a new amount of €120m.

The capital authorized for capital increases is thus as follows:

All figures in €m	**31.12.2000**
Authorized Capital Increase I (until 19th July 2005)	120.0
Authorized Capital Increase II (until 5th November 2003)	25.6
Authorized Capital Increase III (until 5th November 2003)	76.7
Total	222.3

Changes in shareholders' equity

All figures in €m	**Issued capital**	**Capital reserve**	**Revenue reserves**	**Other reserves**	**Consolidated profit**	**Total shareholders' equity**
Status 31.12.1998	445	2,336	5,246	6,937	1,200	16,164
Changes in exchange rates	–	–	470	26	9	505
Capital increases	8	372	–	–	–	380
Allocation to revenue reserves	–	–	1,128	–	–1,128	–
Changes in the consolidated group	–	–	22	–378	–	–356
Unrealized gains and losses resulting from valuation at equity	–	–	–	419	–	419
Unrealized gains and losses on other investments	–	–	–	300	–	300
Profit for the year	–	–	–	–	1,133	1,133
Dividends	–	–	–	–	–81	–81
Other changes	–	–	–4	–6	–	–10
Status 31.12.1999	453	2,708	6,862	7,298	1,133	18,454
Changes in exchange rates	–	–	236	–5	–27	204
Capital increases	–	4	–	–	–	4
Allocation to revenue reserves	–	–	938	–	–938	–
Changes in the consolidated group	–	–	1,190	–1,152	–	38
Unrealized gains and losses resulting from valuation at equity	–	–	–	847	–	847
Unrealized gains and losses on other investments	–	–	–	2,528	–	2,528
Profit for the year	–	–	–	–	1,750	1,750
Dividends	–	–	–	–	–168	–168
Other changes	–	–	–52	–3	–	–55
Status 31.12.2000	453	2,712	9,174	9,513	1,750	23,602

The "Other reserves" include €4,189m (3,342m) unrealized gains and losses resulting from valuation at equity, and €5,324m (3,953m) unrealized gains and losses on other investments.

The unrealized gains and losses on other investments included in the "Other reserves" changed as follows:

All figures in €m	**2000**	**Prev. year**
Unconsolidated affiliated enterprises	26	25
Securities available for sale		
– Fixed-interest	154	–1,995
– Non-fixed-interest	–8,028	4,860
Less:		
– Provision for deferred premium refunds	–4,597	3,078
– Deferred taxes	–4,622	–168
Total	1,371	–20

Of this, –€5m (€26m) is apportionable to changes in exchange rates and €2m (–346m) to changes in the consolidated group.

(16) Minority interests

These are mainly minority interests in the ERGO Insurance Group.

All figures in €m	31.12.2000	Prev. year
Unrealized gains and losses	630	643
Consolidated profit	321	185
Other equity components	1,403	1,297
Total	2,354	2,125

(17) Unearned premiums

All figures in €m	31.12.2000	Prev. year
Gross	5,376	4,803
Ceded share	393	379
Net	4,983	4,424

The following table shows the distribution of net unearned premiums between the different Group segments:

All figures in €m*	31.12.2000	Prev. year
Reinsurers	3,415	3,097
– Life and health	32	79
– Property-casualty	3,383	3,018
Primary insurers	1,568	1,327
– Life and health	749	699
– Property-casualty	819	628
Total	4,983	4,424

* After elimination of intra-Group transactions across segments.

(18) Provision for future policy benefits

All figures in €m	31.12.2000	Prev. year
Gross	82,944	77,217
Ceded share	5,323	4,810
Net	77,621	72,407

The distribution of the net provision for future policy benefits between the different Group segments is as follows:

All figures in €m*	31.12.2000	Prev. year
Reinsurers	11,016	10,208
– Life and health	10,329	9,558
– Property-casualty	687	650
Primary insurers	66,605	62,199
– Life and health	66,567	62,182
– Property-casualty	38	17
Total	77,621	72,407

* After elimination of intra-Group transactions across segments.

In calculating the provision for future policy benefits, interest rates of between 3% and 8% have been used.

(19) Provision for outstanding claims

All figures in €m	31.12.2000	Prev. year
Gross	31,248	28,767
Ceded	4,434	4,152
Net	26,814	24,615

The following table shows the distribution of the net provision for outstanding claims between the different segments of the Group:

All figures in €m*	31.12.2000	Prev. year
Reinsurers	22,522	20,990
– Life and health	1,709	1,029
– Property-casualty	20,813	19,961
Primary insurers	4,292	3,625
– Life and health	1,033	796
– Property-casualty	3,259	2,829
Total	26,814	24,615

* After elimination of intra-Group transactions across segments.

The provision for outstanding claims includes gross provisions for annuity obligations arising from motor, personal accident and liability insurance totalling €162m (99m). These annuity provisions have been calculated using actuarial assumptions.

(20) Other underwriting provisions

All figures in €m	31.12.2000 Gross	31.12.2000 Ceded	31.12.2000 Net	Prev. year Gross	Prev. year Ceded	Prev. year Net
Provision for premium refunds	20,087	6	20,081	20,353	43	20,310
Miscellaneous	1,454	10	1,444	1,339	18	1,321
Total	21,541	16	21,525	21,692	61	21,631

The net provision for premium refunds is distributed between the segments of the Group as follows:

All figures in €m	31.12.2000	Prev. year
Primary insurers		
– Life and health	20,036	20,257
– Property-casualty	45	53
Total	20,081	20,310

The provision for premium refunds showed the following development:

All figures in €m	2000	Prev. year
a) Amounts allocated on the basis of national regulations (gross)		
Status 1st January	5,014	4,721
Allocations/withdrawals	965	293
Status 31st December	5,979	5,014
b) Deferred premium refunds (gross)		
Status 1st January	15,339	13,593
Change resulting from unrealized gains and losses on investments	–2,060	2,158
Change resulting from revaluations	829	–412
Status 31st December	14,108	15,339
Total (gross)	20,087	20,353
Ceded share	6	43
Total (net)	20,081	20,310

A total of €792m (777m) was credited directly to life insurance policyholders in the business year.

The following table shows the distribution of the net other provisions between the segments of the Group:

All figures in €m*	31.12.2000	Prev. year
Reinsurers	1,369	1,252
– Life and health	38	22
– Property-casualty	1,331	1,230
Primary insurers	75	69
– Life and health	12	11
– Property-casualty	63	58
Total	1,444	1,321

* After elimination of intra-Group transactions across segments.

The miscellaneous provisions include in particular the unearned portions of premiums for the coverage of natural catastrophe risks.

(21) Other accrued liabilities

All figures in €m	31.12.2000	Prev. year
Provisions for post-employment benefits	1,005	949
Tax provisions	893	995
Other provisions	1,163	983
Total	3,061	2,927

Provisions for post-employment benefits

The companies in the Munich Re Group generally give commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the length of service and salary of the staff member.

Defined contribution plans

Under defined contribution plans the company pays fixed contributions to an insurer. This fully covers the company's obligations.

Expenses for defined contribution plans in the year under review total €39m (16m).

Defined benefit plans
Under defined benefit plans the staff member is promised a particular level of retirement benefit either by the company or by a pension fund. The company's contributions needed to finance this are not fixed in advance.

The recognition of actuarial gains and losses as from 1st January 1999 is based on the corridor method set out in items 92 and 93 sentence 1 of IAS 19 (revised 1998).

Financing status

All figures in €m	31.12.2000	Prev. year
Present value of unfunded obligations	857	912
Present value of funded obligations	282	211
Fair value of plan assets	–173	–151
Actuarial gains/losses not recognized	44	–24
Past service cost not yet recognized	–5	1
Net balance sheet liability	1,005	949

The provision for defined benefit plans changed as follows in the business year:

All figures in €m	2000	Prev. year
Status 1st January	949	871
Changes in exchange rates	7	14
Expenses (see below)	87	91
Payments	–38	–27
Status 31st December	1,005	949

The expenses booked in the year under review are made up as follows:

All figures in €m	2000	Prev. year
Current service cost	59	43
Interest cost	68	70
Expected return on plan assets	–16	–13
Net actuarial gains/losses recognized in year	–20	–12
Past service cost	–4	2
Gains/losses on curtailments and settlements	–3	1
Other	3	–
Total	87	91

The expenses are shown in the income statement mainly under "Operating expenses" and "Expenses for claims and benefits".

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension commitments:

All figures in €m	31.12.2000 %	Prev. year %
Discount rate	6.5	5.9
Expected rate of return on fund assets	9.8	9.3
Future increases in entitlement/salary	4.0	3.8
Future pension increases	2.4	2.0

Tax provisions

Tax provisions comprise the provisions for income tax and other taxes of the individual companies, based on their respective national taxation. Deferred tax obligations are shown under deferred tax liabilities.

Other provisions

All figures in €m	Prev. year	Alloca-tions	With-drawals	Reversal	Other changes	31.12.2000
Earned commission	157	87	124	2	1	119
Outstanding invoices	59	32	28	1	–	62
Early-retirement benefits	49	30	18	16	–7	38
Holiday and overtime pay	43	24	20	–	–	47
Bonuses	43	11	3	6	–7	38
Anniversary benefits	37	50	24	3	–	60
Miscellaneous	595	508	215	106	17	799
Total	983	742	432	134	4	1,163

(22) Notes and debentures

All figures in €m	31.12.2000	Prev. year
Munich Reinsurance Company, Munich 1.0%, €1,150m Exchangeable Bonds 2000/2005	1,009	–
American Re Corporation, Princeton 7.45%, US$ 500m Senior Notes 1996/2026	531	497
American Re Capital, Delaware 8.5%, US$ 237.5m QUIPS 1995/2025	253	237
Total	1,793	734

In May 2000 the parent company issued exchangeable bonds on Allianz shares. Creditors are entitled to convert each of their exchangeable bonds into Allianz shares with an equivalent value of €509.44 per share. If all the conversion rights are exercised, the parent company's shareholding in Allianz will reduce by almost 1%. The annual coupon payment is 1% on the face value. If the bonds are not exchanged or redeemed beforehand, they will be redeemed on 9th June 2005 at 108.5629% of the face value; the creditors' annual gross yield will then amount to 2.625%.

(23) Other liabilities

All figures in €m	31.12.2000	Prev. year
Deposits retained on ceded business	5,128	4,869
Accounts payable on primary insurance business	5,067	4,771
Accounts payable on reinsurance business	2,895	2,479
Amounts owed to banks	1,762	967
Miscellaneous liabilities	1,385	1,239
Total	16,237	14,325

€232m (117m) is apportionable to tax liabilities, €34m (28m) to liabilities for social security, and €98m (10m) to liabilities for interest and rent.

The remaining terms of liabilities shown under this item are as follows:

All figures in €m	31.12.2000	Prev. year
Up to one year	14,278	12,597
Over one year and up to 5 years	1,069	943
Over 5 years and up to 10 years	265	234
Over 10 years	625	551
Total	16,237	14,325

(24) Other deferred items

This comprises miscellaneous deferred amounts.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(25) Premiums

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	**2000**	**Prev. year**	**2000**	**Prev. year**	**2000**	**Prev. year**	**2000**	**Prev. year**	**2000**	**Prev. year**
Gross premiums written	3,880	3,007	12,819	10,913	10,304	9,809	4,110	3,684	31,113	27,413
Ceded premiums	491	433	1,610	1,431	229	245	351	238	2,681	2,347
Net premiums written	3,389	2,574	11,209	9,482	10,075	9,564	3,759	3,446	28,432	25,066
Change in unearned premiums										
– Gross amount	108	45	–308	4	–31	–115	–52	–40	–283	–106
– Ceded share	–55	–16	24	–12	4	2	7	11	–20	–15
– Net amount	53	29	–284	–8	–27	–113	–45	–29	–303	–121
Net earned premiums	3,442	2,603	10,925	9,474	10,048	9,451	3,714	3,417	28,129	24,945

* After elimination of intra-Group transactions across segments.

In the case of life insurance products where the policyholders bear the investment risk (e.g. unit-linked life insurance), only those parts of the premiums used to cover the risks insured and associated costs are treated as premiums.

(26) Investment result

All figures in €m	**2000**	**Prev. year**
Result from:		
Real estate	558	551
Investments in affiliated enterprises	1	8
Investments in associated enterprises	1,056	981
Mortgage loans and other loans	385	497
Other securities held to maturity	67	103
Other securities available for sale		
– Fixed-interest	4,434	3,325
– Non-fixed-interest	5,571	3,624
Other securities held for trading		
– Fixed-interest	8	10
– Non-fixed-interest	–175	34
Other investments	680	730
Expenses for the management of investments, other expenses	419	338
Total	12,166	9,525

	Reinsurance				Primary insurance				Asset management		Total	
	Life and health		Property-casualty		Life and health		Property-casualty					
All figures in €m*	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**
Investment income												
Regular income	1,316	1,179	2,211	1,937	4,589	4,960	508	426	28	18	8,652	8,520
Income from write-ups	9	16	67	22	31	37	5	6	–	–	112	81
Gains on the disposal of investments	509	293	875	541	4,768	789	459	57	–	–	6,611	1,680
Other income	–	–	–	1	2	25	2	1	–	–	4	27
	1,834	1,488	3,153	2,501	9,390	5,811	974	490	28	18	15,379	10,308
Investment expenses												
Writedowns on investments	20	21	91	45	62	95	21	15	–	–	194	176
Losses on the disposal of investments	214	24	355	99	1,722	121	248	9	–	–	2,539	253
Management expenses, interest charges and other expenses	59	51	115	95	267	167	23	21	16	20	480	354
	293	96	532	239	2,080	383	292	45	16	20	3,213	783
Total	1,541	1,392	2,621	2,262	7,310	5,428	682	445	12	–2	12,166	9,525

* After elimination of intra-Group transaction across segments.

(27) Other income

In addition to foreign currency exchange gains of €118m (302m), the other income mainly includes income from services rendered of €123m (106m), interest and similar income of €54m (91m), and income from the reversal/reduction of miscellaneous provisions and adjustments of values for receivables.

(28) Net expenses for claims and benefits

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**
Gross										
Claims expenses										
– Claims and benefits paid	1,598	1,760	10,040	7,973	8,222	7,111	2,390	2,161	22,250	19,005
– Change in provision for outstanding claims	717	193	483	2,152	86	6	219	111	1,505	2,462
Change in other underwriting provisions										
– Provision for future policy benefits	867	732	37	31	2,898	3,077	22	14	3,823	3,840
– Other	–	–	177	13	7	–	–3	11	181	27
Expenses for premium refunds	6	–	6	1	4,010	2,406	11	39	4,033	2,554
Total expenses for claims and benefits	**3,188**	**2,685**	**10,743**	**10,170**	**15,223**	**12,600**	**2,639**	**2,336**	**31,793**	**27,791**
Ceded share										
Claims expenses										
– Claims and benefits paid	214	225	1,137	892	194	228	202	184	1,747	1,529
– Change in provisions for outstanding claims	15	5	144	772	3	–1	49	–7	211	769
Change in other underwriting provisions										
– Provision for future policy benefits	124	194	1	1	–107	21	1	–	19	216
– Other	–	–	18	23	5	–	–2	1	21	24
Expenses for premium refunds	4	–	1	2	19	8	1	2	24	12
Total expenses for claims and benefits	**357**	**424**	**1,301**	**1,690**	**114**	**256**	**251**	**180**	**2,023**	**2,550**
Net										
Claims expenses										
– Claims and benefits paid	1,384	1,535	8,903	7,081	8,028	6,883	2,188	1,977	20,503	17,476
– Change in provisions for outstanding claims	702	188	339	1,380	83	7	170	118	1,294	1,693
Change in other underwriting provisions										
– Provision for future policy benefits	743	538	36	30	3,005	3,056	21	14	3,05	3,638
– Other	–	–	159	–10	2	–	–1	10	160	–
Expenses for premium refunds	2	–	5	–1	3,991	2,398	10	37	4,008	2,434
Total expenses for claims and benefits	**2,831**	**2,261**	**9,442**	**8,480**	**15,109**	**12,344**	**2,388**	**2,156**	**29,770**	**25,241**

* After elimination of intra-Group transactions across segments.

(29) Net operating expenses

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All in figures €m*	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**	**2000**	**Pr. year**
Acquisition costs										
Amounts paid	1,362	732	3,121	2,738	1,335	1,440	806	706	6,624	5,616
Change in deferred acquisition costs (gross)	–190	44	–93	–83	27	–148	–14	–20	–270	–207
	1,172	776	3,028	2,655	1,362	1,292	792	686	6,354	5,409
Management expenses	161	108	592	550	427	383	607	568	1,787	1,609
Gross operating expenses	1,333	884	3,620	3,205	1,789	1,675	1,399	1,254	8,141	7,018
Ceded share	304	17	318	360	115	75	64	66	801	518
Net operating expenses	1,029	867	3,302	2,845	1,674	1,600	1,335	1,188	7,340	6,500

* After elimination of intra-Group transactions across segments.

(30) Other expenses

In addition to foreign currency exchange losses of €55m (75m), the other expenses mainly include expenses for services rendered of €193m (154m), interest and similar expenses of €348m (380m), and writedowns of €214m (224m).

(31) Tax

This item shows the corporation tax and trade earnings tax paid by the German companies (including solidarity surcharge), the comparable taxes on earnings paid by the foreign companies in the Group, and other tax. In accordance with IAS 12, the determination of the tax on earnings includes the calculation of deferred taxes.

The amount for tax on earnings is derived as follows:

All figures in €m	**2000**	**Prev. year**
Actual tax paid for business year	661	928
Actual tax paid for other periods	25	74
Deferred tax resulting from the occurrence or reversal of temporary differences	109	–334
Effects of changes in tax rates on deferred tax	–423	–300
Other	7	–8
Tax on earnings	379	360

Remaining taxes total €20m (23m).

The following table shows the relationship between the notional tax on earnings derived from the profit for the year and the tax on earnings shown. The actual German tax on earnings is based on the corporation tax rate for retained earnings applicable in Germany since 1999, the solidarity surcharge and the trade tax. The German deferred tax on earnings is determined on the basis of the corporation tax rate applicable in Germany as from 2001, the solidarity surcharge and the trade tax. The change in the tax rate is recognized in earnings.

All figures in €m	**2000**	**Prev. year**
Result before tax on earnings (after "Other tax")	2,450	1,678
Theoretical tax rate in %	40	45
Derived tax on earnings	980	755
Tax effect of		
– trade earnings tax	–110	57
– non-deductible expenses	90	67
– tax-free income	–327	–131
– changes in tax rates	–423	–300
– miscellaneous	169	–88
Tax on earnings shown	379	360
Tax burden in %	15	21

OTHER INFORMATION

(32) Parent company

The parent company of the Munich Re Group is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich). It is entered in the commercial register with the address Königinstrasse 107, 80802 München. In addition to its function as a reinsurer, the company also fulfils the function of holding company for the Group.

(33) Related enterprises

Munich Re has diverse and extensive relations with Allianz, one of the world's largest insurance and financial service groups.

Munich Re holds 24.9% of the voting capital of Allianz AG. Conversely, Allianz holds 24.9% of the voting capital of Munich Re. In addition, Allianz and Munich Re both have shareholdings in Frankfurter Versicherungs-AG, Bayerische Versicherungsbank AG, Allianz Lebensversicherungs-AG and Karlsruher Lebensversicherung AG.

Members of the Boards of Management of Munich Re and Allianz hold seats on the Supervisory Boards of the above-mentioned companies and, in individual instances, on the Boards of other companies in each other's Groups. Dr. jur. Henning Schulte-Noelle, Chairman of the Board of Management of Allianz AG, is Deputy Chairman of the Munich Reinsurance Company's Supervisory Board.

With regard to the planned restructuring of shareholdings between Munich Re and Allianz, reference is made to note (40) and the remarks in Section 05 (Prospects for 2001).

The relations between Munich Re and Allianz are also given documented form in a general agreement. This agreement deals in particular with the question of reciprocal shareholdings, with details of shareholdings in jointly held insurance companies (see above) and with general arrangements regarding reinsurance relations. The earliest possible date of termination is 31st December 2005.

The Munich Re Group assumes and cedes reinsurance and retrocessions from and to the Allianz Group under a large number of reinsurance and retrocession agreements. The following table shows Munich Re's premiums assumed from and ceded to Allianz as at 31st December:

All figures in €m	2000	1999
Gross premiums assumed	2,550	2,600
Gross premiums ceded	900	810

In the year under review, Allianz's cessions to Munich Re amounted to 13.9% (16.9%) of our gross premiums in reinsurance or 8.2% (9.5%) of our overall consolidated premiums. Munich Re's cessions to Allianz amounted to 42.2% (42.7%) of our ceded premiums.

The reinsurance agreements between Munich Re and Allianz are concluded at market conditions.

Besides this, there are further contractual relations between Munich Re and Allianz in connection with the normal running of our business, such as the conclusion of insurance policies for own risks (e.g. buildings insurance policies).

(34) Personnel expenses

The following personnel expenses are included in the operating expenses, in the expenses for claims and benefits and in the investment result:

All figures in €m	2000	Prev. year
Wages and salaries	1,761	1,639
Social security contributions and employee assistance	310	289
Expenses for employees' pensions	159	142
Total	2,230	2,070

(35) Long-term incentive plans

As at 1st July 1999 and 1st July 2000 Munich Re launched long-term incentive plans. These plans, each with a term of seven years, provide for the members of the Board of Management and senior management in Munich and for the top executives in Munich Re's international organization to be granted a defined number of stock appreciation rights.

Each stock appreciation right entitles the holder to draw in cash the difference between the Munich Re share price at the time when the right is exercised and that applying at the start of the plan.

The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than at the start of the plan. In addition, Munich Re shares must have outperformed the DAX 30 (Plan 1999) or the Euro STOXX 50 (Plan 2000) twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

In the year under review a total of 83,681 (110,840) stock appreciation rights were granted, 27,029 (46,371) of these to members of the Board of Management. The expenses incurred for the stock appreciation rights have been determined on the basis of the change in the Munich Re share price. In the year 2000 an amount of €17.0m (1.9m) was set aside pro rata temporis for the stock appreciation rights.

	Incentive Plan 1999	**Incentive Plan 2000**
Plan commencement	1.7.1999	1.7.2000
Original share price	€182.60	€319.34
Number of rights on 1.1.2000	110,840	
Additions	9,045	74,636
Number of rights on 31.12.2000	119,885	74,636
Exercisable at year-end	–	–

(36) Compensation and loans for Board members

The total emoluments of the Board of Management of the Munich Reinsurance Company for fulfilment of its duties in respect of the parent company and the subsidiaries totalled €9.2m (8.0m). 51% (40%) of this was made up of variable compensation components. Payments to retired members of the Board of Management or their surviving dependants amounted to €2.9m (2.5m).

Taking into account the proposal for the appropriation of the profit, the emoluments of Supervisory Board totalled €1.1m (0.9m). This sum includes €0.6m (0.4m) dependent on the dividend paid to the shareholders.

A total of €33m (28m) was set aside for pension commitments towards retired members of the Board of Management or their surviving dependants.

The Board members did not receive any advances or loans in the year under review.

(37) Shares held by members of the Board of Management and the Supervisory Board

At year-end a total of 204 Munich Reinsurance Company shares were held by members of the Board of Management, and 522 by members of the Supervisory Board.

(38) Number of staff

The number of staff employed by the Group at year-end totalled 27,283 (26,121) in Germany and 9,198 (6,575) in other countries.

	31.12.2000	Prev. year
Reinsurance companies	5,422	5,291
Primary insurance companies	30,569	27,910
Asset management	490	44
Total	36,481	33,245

(39) Contingent liabilities, other financial commitments

Commitments under rental, work and service contracts amounted to €635m. In addition, there were obligations from leasing arrangements amounting to €216m. Of this, €71m is due not later than one year, €129m is due later than one year and not later than five years, and €16m is due later than five years. Investment obligations total €29m. These figures represent undiscounted nominal amounts.

As members of the German Reinsurance Pharmapool, the German Nuclear Insurance Pool and the German Aviation Pool, several Group companies are committed – to the extent of their proportional shares – to assuming the payment obligations of other pool members if the latter are not able to meet these obligations.

There are no other financial commitments of significance for the assessment of the Group's financial position. No contingent liabilities have been entered into for the benefit of Board members.

(40) Events after the balance sheet date

On 1st April 2001 Munich Re and Allianz AG announced their intention to continue the restructuring of their shareholdings. Munich Re will sell its directly and indirectly held stakes in Dresdner Bank to Allianz and also make available around 4% of Allianz shares. Besides this, Munich Re intends to sell its 40.6% interest in Allianz Life to Allianz. In return, Munich Re will acquire from Allianz and Dresdner Bank all of their shares in HypoVereinsbank, thus increasing Munich Re's stake in HypoVereinsbank to 25.7%. In addition, Munich Re is planning to increase its holding in ERGO Versicherungsgruppe AG from the current level of 62.9% to up to 95%. Further details can be found under "Prospects for 2001" in the management report (Section 05).

The measures will result in a large tax-free gain on the disposal of investments in the business year 2002 and in a significant increase in the consolidated shareholders' equity.

No other events have occurred since the balance sheet date which would have a material effect on the financial position of the Group as presented in the financial statements.

(41) Earnings per share

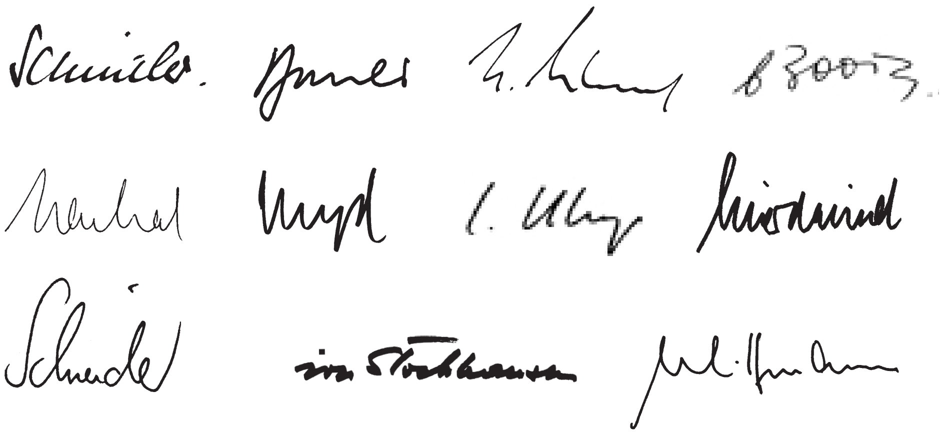
The earnings per share figure is calculated by dividing the consolidated net income for the year by the weighted average number of shares.

New shares created in the business year 2000 by the exercise of warrants are included pro rata temporis from the respective date of delivery. The weighted average number of the shares for 2000 was 176,922,611 (175,793,668). This gives an earnings per share figure of €9.89 (6.45); €1.02 of this is attributable to the first-time consolidation of the special funds and €1.81 to the effects of changes in tax rates in the business year.

For the diluted earnings per share, the number of shares is increased by the weighted average of potential shares that would have a diluting effect. Outstanding warrants are additionally included pro rata temporis up to the time they are exercised. At an average share price of €323.85 (195.44) and a warrant exercise price of €163.61, this results in a dilution of 864,445 (285,409) shares. The diluted earnings per share, the calculation of which was based on 177,787,055 (176,079,077) shares, thus amount to €9.84 (6.44).

Munich, 11th May 2001

The Board of Management



Auditor’s report

The auditor’s opinion is worded as follows:

We have audited the consolidated financial statements, consisting of the balance sheet, the income statement and the statements of changes in shareholders’ equity and cash flows as well as the notes to the financial statements, prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München for the business year from 1st January 2000 to 31st December 2000. The preparation and the content of the consolidated financial statements are the responsibility of the Company’s Board of Management. Our responsibility is to express an opinion on whether the consolidated financial statements are in accordance with International Accounting Standards (IAS) based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Accountants (IDW) as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

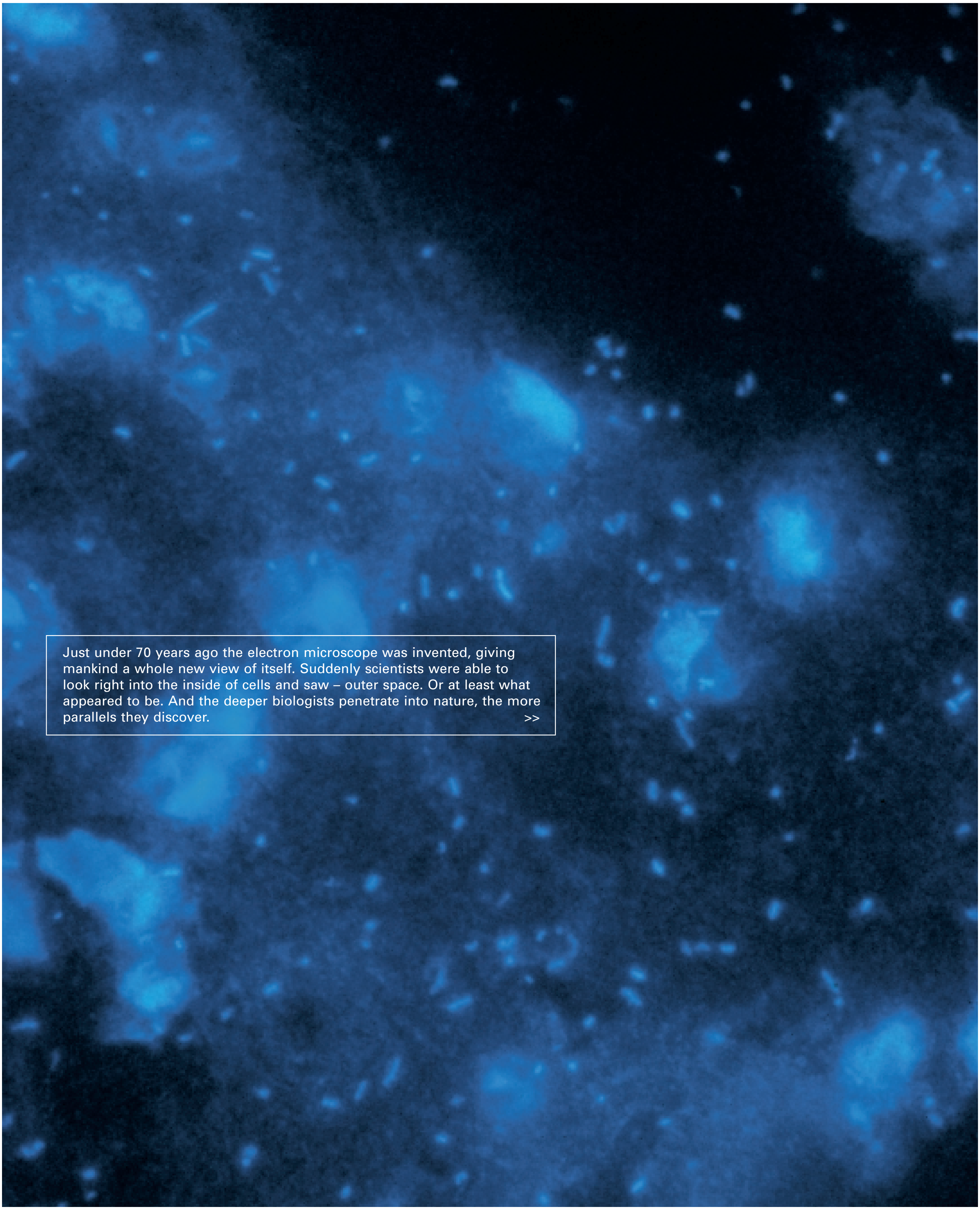
In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IAS.

Our audit, which also extends to the group management report for the business year from 1st January 2000 to 31st December 2000, has not led to any reservations. In our opinion, altogether the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and group management report for the business year from 1st January 2000 to 31st January 2000 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and group management report in accordance with German accounting law. We conducted our audit of the consistency of the group accounting with the 7th EU Directive, required for the exemption from the duty for consolidated accounting pursuant to commercial law, on the basis of the interpretation of the Directive by the European Commission's Contact Committee on Accounting Directives.

Munich, 17th May 2001

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Lutz Wiegand	Christine Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)



Just under 70 years ago the electron microscope was invented, giving mankind a whole new view of itself. Suddenly scientists were able to look right into the inside of cells and saw – outer space. Or at least what appeared to be. And the deeper biologists penetrate into nature, the more parallels they discover. >>

FURTHER INFORMATION

>>______People who are familiar with Munich Re know that we are motivated by a very similar principle. Namely that we "live" those qualities which characterize us as global risk carriers and providers of financial services right into the smallest cells of our Group. That we also apply our high standards to the smaller segments of our business. The reason: we are convinced that the secret of success is to be found in small details as well as in grand designs. Meaning that we have to achieve excellence in both.

> www.munichre.com

Important addresses

REINSURANCE

UK
Great Lakes Reinsurance (UK) PLC
Upper Ground Floor
1, Minster Court
Mincing Lane, London EC3R 7YH
Tel.: +44 20 7929 28 93
Fax: +44 20 7623 52 20
E-mail: info@greatlakes.co.uk

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Münchener Rück Italia S.p.A.
Via Turati 16/18
20121 Milano
Tel.: +39 02 655 96-1
Fax: +39 02 657 02 46
http://www.munichre.it

Switzerland
New Reinsurance Company
Rue de l'Athénée 6–8
P.O. Box 3504
1211 Genève 3
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Fax: +41 2 23 10 53 32
E-mail: geneva@newre.com

Canada
Munich Reinsurance Company of Canada (MROC)
Munich Re Centre
390 Bay Street, 22nd Floor
Toronto, Ont., M5H 2Y2
Tel.: +1 416 366 9206
Fax: +1 416 366 4330
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American Re-Insurance Company
555 College Road East
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Tel.: +6 12 92 72 80 00
Fax: +6 12 92 51 25 16
E-mail: MRA@munichre.com

South Africa
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47 Empire Road, Parktown
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You will find further addresses in our Portrait 2001.

PRIMARY INSURANCE

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http://www.ergo.de

VICTORIA Versicherung AG

VICTORIA Lebensversicherung AG
Victoriaplatz 1
40198 Düsseldorf
Tel.: (00 49) 2 11/4 77-0
Fax: 02 11/47 72 22 2
E-mail: info@victoria.de
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Hamburg-Mannheimer Versicherungs-AG

Hamburg-Mannheimer Sachversicherungs-AG
Überseering 45
22297 Hamburg
Tel.: 0 40/63 76-0
Fax: 0 40/63 76-33 02
E-mail: ksc@hamburg-mannheimer.de
http://www.hamburg-mannheimer.de

DKV
Deutsche Krankenversicherung AG
Aachener Strasse 300
50933 Köln
Address for letters: 50594 Köln
Tel.: 02 21/5 78-0
Fax: 02 21/5 78-36 94
E-mail: service@dkv.com
http://www.dkv.com

D.A.S.
Deutscher Automobil Schutz
Allgemeine Rechtsschutzversicherungs-AG

D.A.S.
Deutscher Automobil Schutz
Versicherungs-AG
Thomas-Dehler-Str. 2
81728 München
Tel.: 0 89/62 75-01
Fax: 0 89/62 75-16 50
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Further addresses may be obtained from the 2000 annual report of ERGO Versicherungsgruppe AG.

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Vogelweidestrasse 5
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Friedrich-Scholl-Platz
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Fax: 07 21/3 53-26 99
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Karlsruher Versicherung Aktiengesellschaft
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Fax: 07 21/3 53-26 99
http://www.karlsruher.de

ASSET MANAGEMENT

ERGO Trust
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40198 Düsseldorf
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MEAG MUNICH ERGO
AssetManagement GmbH
Oskar-von-Miller-Ring 18
80333 München
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Fax: 0 89/24 89-25 55
http://www.meag.com

Affiliated enterprises, participating interests and other shareholdings*

Reinsurance Consolidated subsidiaries	% of share capital	Shareholders' equity €'000**	Result for the year €'000**
American Re Corporation, Princeton	100.0000	2,577,611	–69,655
American Re-Insurance Company, Princeton	100.0000	3,058,883	–46,729
Great Lakes Reinsurance (UK) PLC, London	100.0000	114,713	4,928
Munich American Reassurance Company, Atlanta	100.0000	775,806	6,898
Munich Reinsurance Company of Canada, Toronto	100.0000	89,609	8,576
Munich Reinsurance Company of Africa Limited, Johannesburg	100.0000	77,007	14,368
Munich Mauritius Reinsurance Company Ltd., Port Louis	100.0000	3,104	793
Munich Reinsurance Company of Australasia Limited, Sydney	100.0000	113,975	8,217
Münchener Rück Italia S. p. A., Milan	100.0000	230,178	–38,944
New Reinsurance Company, Geneva	100.0000	330,053	–11,440
Temple Insurance Company, Toronto	100.0000	89,611	5,392
Associated enterprises			
De Amersfoortse Reinsurance Limited, Dublin	25.0000	23,083	3,647
Golden Gate Reinsurance N. V., Amsterdam	26.3333	29,322	8,060
inreon Limited, London	31.2500	31,952	0
Prévoyance Re S. A., Paris	34.0000	13,767	–273

Other shareholdings in listed companies

Over 5%

Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich
IKB Deutsche Industriebank AG, Düsseldorf/Berlin
Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg
Österreichische Volksbanken, Vienna
MAN Aktiengesellschaft, Munich

Over 10%

WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige

Over 25%

BHS tabletop AG, Selb
Forst Ebnath Aktiengesellschaft, Ebnath

Primary insurance Consolidated subsidiaries	% of share capital	Shareholders' equity €'000**	Result for the year €'000**
ERGO Versicherungsgruppe AG, Düsseldorf	62.9180	1,626,134	258,140
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf	62.6034	255,645	27,200
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf	62.1192	587,365	61,500
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf	62.7507	62,025	7,700
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S. A., Madrid	60.8358	11,689	–3,747
VICTORIA-Seguros de Vida, S. A., Lisbon	62.1192	15,583	198
VICTORIA-Seguros S. A., Lisbon	62.1192	19,329	–689
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	46.3596	25,143	974
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	62.6034	19,077	36
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N. V., Woerden	62.1192	27,515	2,336
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N. V., Woerden	62.1192	20,838	–1,129
VICTORIA General Insurance Company S.A., Thessaloniki	62.1193	18,806	2,373
Olympic-Victoria Life Insurance Company S. A., Thessaloniki	62.1192	6,361	32
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft, Hamburg	62.9180	434,036	73,115
Hamburg-Mannheimer Sachversicherungs-AG, Hamburg	62.9217	378,703	53,018
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktien-Gesellschaft, Hamburg	62.5399	12,328	3,626
Hamburg-Mannheimer N. V., Brussels	62.9118	11,246	172
DKV Deutsche Krankenversicherung Aktiengesellschaft, Berlin/Cologne	62.9551	601,219	71,581
DKV Luxembourg S. A., Luxembourg	62.9469	8,275	190
dkv International S. A., Brussels	62.9538	19,538	1,753
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	62.9551	48,511	2,289
Previasa Vida, S. A. de Seguros y Reaseguros, Saragossa	62.9551	12,808	2,173
DKV Nederland N.V., Amsterdam	62.9551	66 859	–1 490
NVS Verzekeringen N. V., Amsterdam	62.9551	47,522	173
NVS Zorgverzekeringen N. V., Amsterdam	62.9551	19,798	–1,063
N.V. Verzekeringsmaatschappij Rijnmond, Rotterdam	62.9551	18 884	–1 681
D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	62.1731	231,895	24,170
D. A. S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich***	62.1731	36,854	0
DAS Legal Expenses Insurance Company Limited, Bristol	62.1731	53,314	7,702
D. A. S. Nederlandse Rechtsbijstand Verzekeringmaatschappij N. V., Amsterdam	39.0751	33,286	3,690
D. A. S. Österreichische Allgemeine Rechtsschutz-Versicherungs-AG, Vienna	62.1731	18,115	2,389
Alte Leipziger Europa Beteiligungsgesellschaft AG, Bad Homburg	68.4199	208,538	450
BICO-Leks Baltic Insurance Company Ltd., Tallinn	67.7103	6,379	–2,024
DRAUDA Litauisch-Deutsche Versicherung AG, Vilnius	68.4130	7,495	483
RIGAS FENIKSS Versicherung AG, Riga	68.3651	5,484	368
STU ERGO HESTIA S.A., Sopot	54.7446	172,973	3,154
STUnZ ERGO HESTIA S.A., Sopot	37.9509	8,881	–9,963
BBV Italia S.p.A., Milan	62.9180	11,857	–60,045
Bayerische Vida España S.A., Barcelona	32.0882	11,213	–17
Bayerische Vita S.p.A., Milan	44.0426	92,621	9,629
Europäische Reiseversicherung Aktiengesellschaft, Munich	100.0000	93,351	4,778
Europæiske Rejseforsikring A/S, Copenhagen	100.0000	19,447	2,100
Europeiska Försäkeringsaktiebolaget, Stockholm	100.0000	16,888	604
Karlsruher Lebensversicherung Aktiengesellschaft, Karlsruhe	54.0000	151,789	17,050
Karlsruher Rechtsschutzversicherung AG, Karlsruhe	53.0485	7,238	245
Karlsruher Versicherung Aktiengesellschaft, Karlsruhe	53.0485	59,672	5,521
The Princeton Excess and Surplus Lines Insurance Company, Princeton	100.0000	27,814	1,573
Mercur Assistance Aktiengesellschaft Holding, Munich	90.0000	10,857	159
Associated enterprises			
Allianz Aktiengesellschaft, Munich****	24.9511	28,788,600	2,233,200
Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart	40.5720	1,074,344	210,000
Bayerische Versicherungsbank Aktiengesellschaft, Munich	45.0000	321,080	47,987
Frankfurter Versicherungs-Aktiengesellschaft, Frankfurt am Main	49.9830	342,591	40,994
TELA Versicherung Aktiengesellschaft, Berlin/Munich	25.0000	112,382	–5,113
Union Versicherungs-Aktiengesellschaft, Vienna	20.9706	42,414	2,469
Vereinsbank-Victoria Bauspar Aktiengesellschaft, Munich	18.7380	63,384	931

Financial services, asset management **Consolidated subsidiaries**	**% of share capital**	**Shareholders' equity €'000****	**Result for the year €'000****
MEAG MUNICH ERGO AssetManagement GmbH, Munich	85.1672	26,463	–3,724
MEAG Securities Management GmbH, Munich	85.1672	25	0
MEAG MUNICH ERGO Kapitalanlagengesellschaft mbH, Munich	85.1672	15,396	690
MEAG MUNICH ERGO Real Estate Investment GmbH, Munich	85.1672	5,500	0
MEAG Real Estate Management GmbH, Munich	85.1672	3,707	3,537
ERGO Trust GmbH, Düsseldorf	62.9180	27,898	10,500
Associated enterprises			
FSB Fondsservice Bank GmbH, Unterföhring	42.5836	5,200	0
Other participations in insurance companies			
Allgemeine Kreditversicherung Aktiengesellschaft, Mainz	12.5000	91,336	14,468
Credit Guarantee Insurance Corporation, Johannesburg	6.9000	32,739	160
Fortis (NL) N.V., Utrecht	5.3015	6,522,300	1,103,900
Generali Lloyd Aktiengesellschaft, Munich	12.2145	120,967	4,806
Grupo Hospitalario Quiron, S.A., Saragossa	16.0000	54,876	1,659
Jordan Insurance Company Ltd., Amman	5.3210	16,904	3,221
Mannheimer AG Holding, Mannheim	7.9901	197,837	18,134
Mecklenburgische Leben Versicherungs-Aktiengesellschaft, Hanover	12.5000	10,436	444
Münchener und Magdeburger Hagelversicherung Aktiengesellschaft, Hanover	10.4000	6,273	–3
Nürnberger Beteiligungs-Aktiengesellschaft, Nuremberg	7.5000	377,796	16,141

* Some of these selected participations are held indirectly. They are calculated proportionally in each case.
** The amounts are taken from the individual companies' financial statements. They have been translated using the exchange rates applicable on 31.12.2000.
*** Result for the year after profit transfer.
**** Results in accordance with IAS.

The complete list of shareholdings required by Article 313 para. 2 of the German Commercial Code will be filed with the commercial registry in Munich; we will be glad to send you a copy on request.

Glossary

A–D

Accumulation The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Affiliated enterprises In the consolidated financial statements of the Munich Reinsurance Company (parent company) all companies are deemed affiliated enterprises in which the Munich Reinsurance company holds the majority of the voting rights either directly or indirectly (subsidiary companies).

Assistance
Range of services going beyond the traditional scope of insurance and cost reimbursement. The idea of assistance services is to help claimants quickly and unbureaucratically in the event of a loss occurrence, taking care of the necessary arrangements to remedy the situation.

Associated enterprises Enterprises on whose financial and operating decisions a significant (but not a controlling) influence can be exercised, regardless of whether this influence is actually exercised or not. A significant influence is presumed if the proportion of voting rights lies between 20% and 50%.

At amortized cost Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period until maturity and credited or charged to income over the same period. Writedowns are made for impairment or uncollectability.

Cash flow statement Statement showing the origin and utilization of cash during the business year. It shows the change in liquid funds separately according to
- cash flows from operating activities,
- cash flows from investing activities,
- cash flows from financing activities.

Cedant Client of a reinsurance company.

Cession The reinsuring of risks by a primary insurer with a reinsurer.

Combined ratio The sum of the loss ratio and the expense ratio. The better the results of the underwriting business, the lower this ratio will be; ratios over 100% indicate loss-making business.

Consolidation Combining the items from the individual financial statements of the companies belonging to the Group into one consolidated financial statement, in which items involving intra-Group transactions are eliminated.

Contingent liabilities Possible obligations whose existence will be confirmed by the occurrence or non-occurrence of an uncertain future event and which are therefore not shown as liabilities in the balance sheet. They must, however, be included in the notes to the financial statements (example: guarantee obligations).

Deferred acquisition costs Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) are capitalized and amortized over the term of the contracts.

Deferred tax assets/liabilities Deferred taxes derive from temporary differences between accounting on the basis of International Accounting Standards (consolidated financial statements) and national tax law. If asset items are valued lower, or liabilities higher, than in the tax balance sheet of the Group company concerned, the resulting future tax relief must be recognized as a deferred tax asset. If the accounting differences between the consolidated financial statements will lead to future tax burdens, these must be recognized as deferred tax liabilities.

Deposits retained on assumed reinsurance and ceded business Deposits retained on assumed reinsurance are claims which reinsurers have on their cedants for cash deposits that have been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.

Derivative financial instrument Financial instruments whose increase or fall in value is based on and determined by the change in the amount of an underlying value (a particular interest rate, security price, exchange rate, price index, etc.). The main derivatives are futures, forwards, swaps and options.

E–N

Earnings per share A ratio calculated by dividing the consolidated profit by the average number of shares issued. For calculating diluted earnings per share, the number of shares is adjusted by the effects of exercised or still to be exercised subscription rights.

E-business Abbreviation for electronic business. Umbrella term for business conducted via electronic media such as the Internet.

Equity method Investments in associated enterprises have to be valued in the consolidated financial statements using the equity method. The “at equity” value corresponds to the Group’s proportionate share of the shareholders’ equity of the enterprise concerned.

Expense ratio Ratio, in per cent, of operating expenses to earned premiums.

Fair value The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s-length transaction. Where there is an active market, the fair value of an asset is its current market value.

Financial Accounting Standards (FAS) US accounting regulations that give detailed rulings on individual accounting questions and which must be complied with by listed companies that prepare accounts in accordance with US GAAP.

Forward rate agreement (FRA) Interest-rate forward contract traded over the counter, in which a current interest rate that appears favourable is secured for a date in the future. The parties to the contract will settle the contract on the basis of the difference between the market interest rate applicable on the due date and the agreed interest rate.

Futures Standardized contracts to trade a financial instrument on a money market, capital market, precious-metals market or currency market at a specific price and on a specific future date. Frequently, rather than actually delivering the underlying financial instrument on that date, the difference between closing market value and the exercise price is settled in cash.

Goodwill Any excess of the purchase price of a subsidiary over the acquirer’s interest in the fair value of the net assets as at the acquisition date. Goodwill is amortized over its useful life.

Gross/net The terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance. Instead of “net”, the term “for own account” is sometimes used.

Hedging Protecting against undesirable developments in prices by means of special financial contracts, especially derivative financial instruments. Depending on the risk to be hedged, a distinction is made between two basic types: “fair value hedges” safeguard assets or liabilities against the risk of changes in value; “cash flow hedges” reduce the risk of fluctuations in future cash flows.

International Accounting Standards (IAS) Standards formulated by the IASB with the intention of achieving internationally comparable preparation and presentation of financial statements.

International Accounting Standards Board (IASB) An international body of 14 accounting experts responsible for issuing International Accounting Standards. The IASB’s objective is to achieve uniformity in the accounting principles that are used by businesses and other organizations for financial reporting around the world

Investments for the benefit of life insurance policyholders who bear the investment risk This mainly involves investments for policyholders under unit-linked life insurances. It also includes investments under index-linked life insurance policies whose performance depends on share or currency indices.

Loss ratio Ratio, in per cent, of claims expenses to earned premiums.

Market value The amount obtainable for an asset in an active market.

Minority interests in shareholders’ equity and earnings That part of the shareholders’ equity and earnings of our subsidiaries that is apportionable to shareholders outside the Group.

Net → Gross/net

N–R

Net asset value Measurement of the fair value of companies. The starting point is the proportional equity capital of the company to be valued, plus the valuation reserves, any special reserves, claims equalization provisions and similar provisions. The net asset value after tax includes the deferred tax liabilities resulting from the adjustment of the equity capital.

Net expenses for claims and benefits These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining underwriting provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Operating expenses Commission, personnel costs and general expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission.

Operating result before tax Pre-tax operating profit/loss on the enterprise's ordinary activities. Any extraordinary income and expenses are not included in this result.

Options Derivative financial instruments where the holder is entitled – but not obliged – to buy (a call option) or sell (a put option) the underlying asset at a predetermined price within a certain period. The writer of the option is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser

OTC derivatives Derivative financial instruments which are not standardized and are traded not on an exchange but directly between two counterparties via over-the-counter (OTC) transactions.

Other securities held to maturity Fixed-interest securities which the company has the intention and ability to hold to maturity. They are valued at amortized cost.

Other securities held for trading Securities held for trading comprise temporarily held investments purchased with the intention of obtaining the highest possible return from short-term fluctuations in the market price. They are accounted for at their market value at the balance sheet date. Changes in market value are recognized in the income statement.

Other securities available for sale Securities that will neither be held to maturity nor are assignable to the “held for trading” category. These securities are accounted for at market value. Changes in value are reflected in shareholders' equity without impact on earnings.

Premiums Premiums written means all premium income that has become payable in the business year. The portion of this premium income that constitutes payment for insurance cover in the business year is referred to as earned premiums.

Primary insurers Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

Provision for future policy benefits Underwriting provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance.

Provision for outstanding claims Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

Provision for premium refunds Provisions for premium refunds are made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. They also include the unrealized gains and losses from the accounting of certain investments at market value to the extent that policyholders would participate in these gains and losses on realization (provision for deferred premium refunds).

Rating Standardized assessment of the credit standing of debt instruments and companies by specialized independent rating agencies.

Reinsurers Insurance companies that assume the insurance risks of other insurance companies without themselves having any direct contractual relationship with the policyholder.

R–V

Retrocession Reinsurance of reinsurance business assumed from other insurance companies (a re-insurance of reinsurance). Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Retrocessionaire Reinsurer that provides retro-cession cover for other reinsurers (reinsurer of reinsurers).

Risk The possibility of negative budget variance inherent in any economic activity. In insurance, it is also understood to mean the possibility of a loss being caused by an insured peril. In addition, insured objects or persons are frequently referred to as risks.

Scorecard Instrument for strategy implementation which systematically links strategic objectives (financial and non-financial) with initiatives and action plans. Short-term milestones help in checking the achievement of the objectives.

Segment reporting Presentation of the items in the annual financial statements according to classes of business and regions.

Shareholder value Management concept which puts the value of a company and the increasing of this value for the shareholders at the centre of its business strategy.

Special funds Investment funds with a maximum of ten unit-holders that are not natural persons. As the fund owners pursue specific objectives with their investments, investment policy is geared to individual requirements.

Swap Agreement between two counterparties to exchange payment flows over a specified period in order to profit from relative cost benefits that one party enjoys on a particular financial market. In the case of an interest rate swap, payment obligations in the same currency but with different interest rate conditions (e.g. fixed/variable) are exchanged. In the case of currency swaps, the payment obligations exchanged are in different currencies.

Underwriting provisions Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Unearned premiums The portion of premium income in the business year that is attributable to periods after the balance sheet date is accounted for as unearned premiums in the underwriting provisions.

Unit-linked life insurance A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

US Generally Accepted Accounting Principles (US GAAP) The principles of US accounting that are stipulated as compulsory for listed companies in the US.

Value-based management The concept of value-based management is geared to increasing the value of a company on a long-term basis. Value is only created long term if a company regularly earns a profit that exceeds the costs of the equity capital invested.

Index of key terms

Important dates

Annual General Meeting	18th July 2001
Dividend payment	19th July 2001
Interim report as at 30th June 2001	30th August 2001
Half-year press conference	30th August 2001
Interim report as at 30th September 2001	29th November 2001
Provisional figures for consolidated financial statements 2001	22nd March 2002
Balance sheet meeting of Supervisory Board	23rd May 2002
Balance sheet press conference	24th May 2002
Interim report as at 31st March 2002	28th May 2002
Annual General Meeting	17th July 2002
Dividend payment	18th July 2002
Interim report as at 30th June 2002	29th August 2002
Half-year press conference	29th August 2002
Interim report as at 30th September 2002	28th November 2002

Besides this English translation of the official German original (also available from the company), a translation of our annual report is obtainable in Spanish. You will also find our annual reports and interim reports, along with further information about Munich Re, on the Internet (http://www.munichre.com).

Service for investors and analysts
If you have general questions on Munich Re shares, please use our shareholder hotline:
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E-mail: Shareholder@munichre.com

If you are an institutional investor or analyst, please contact our investor relations team:
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