Munich Re Group Annual Report 2003

More than words

Münchener Rück
Munich Re Group

The Munich Re Group

Reinsurance, primary insurance and asset management complement each other in our Group to form a strong blend of financial services. We are one of the world's largest reinsurers and the second-largest primary insurer in Germany.

Reinsurance: We have been in the business of insuring insurers since 1880.

Primary insurance: Our primary insurers – the ERGO Group with its brands VICTORIA, Hamburg-Mannheimer, DKV, D. A. S. and KarstadtQuelle, plus Karlsruher and Europäische Reiseversicherung – provide cover for private individuals and for small and medium-sized businesses.

Asset management: Our subsidiary MEAG manages our assets and offers investment products for private clients and institutional investors.

Key figures (IAS) 2003

MUNICH RE GROUP		2003	2002 (adjusted)*	2001	2000	1999
Gross premiums written	€bn	40.4	40.0	36.1	31.1	27.4
Result before amortisation of goodwill	€m	2,012	11	–415	2,615	1,821
Tax	€m	1,793	–574	–1,040	399	383
Minority interests in earnings	€m	–34	–74	145	321	185
Profit for the year	€m	–434	288	250	1,750	1,133
Investments	€bn	171.9	156.3	162.0	159.4	150.9
Return on equity	%	–2.6	1.7	1.2	8.3	6.5
Shareholders' equity	€bn	18.9	13.9	19.4	23.6	18.5
Valuation reserves not recognised in balance sheet**	€bn	1.8	1.1	16.4	21.9	19.2
Net underwriting provisions	€bn	147.5	143.0	138.6	131.5	123.5
Staff at 31 December		41,431	41,396	38,317	36,481	33,245

* Adjusted owing to first-time application of IAS 39 (rev. 2003).
** Including amounts apportionable to minority interests.

REINSURANCE*		2003	2002	2001	2000	1999
Premium income	€bn	24.8	25.4	22.2	18.3	15.4
Investments	€bn	80.4	68.6	71.0	64.9	59.6
Net underwriting provisions	€bn	56.7	55.3	50.8	43.9	40.4
Reserve ratio property-casualty	%	205.0	201.1	245.6	225.6	250.9
Large and very large losses (gross)	€m	1,078	1,886	4,749	1,150	1,807
Thereof natural catastrophe losses	€m	288	588	213	427	1,161
Combined ratio non-life	%	96.7	122.4	135.1	115.3	118.9

* Before elimination of intra-Group transactions across segments.

PRIMARY INSURANCE*		2003	2002	2001	2000	1999
Premium income	€bn	17.6	16.6	15.7	14.4	13.5
Investments	€bn	108.3	104.4	103.6	102.9	97.5
Net underwriting provisions	€bn	91.0	88.4	87.4	87.3	82.9
Reserve ratio property-casualty	%	114.5	116.3	113.9	113.1	102.8
Combined ratio non-life	%	96.4	99.9	101.4	97.2	96.4

* Before elimination of intra-Group transactions across segments.

Our shares

		2003	2002 (adjusted)*	2001	2000	1999
Earnings per share**	€	–2.25	1.54	1.34	9.41	6.13
Dividend per share	€	1.25	1.25	1.25	1.25	0.95
Amount distributed	€m	286	223	221	221	168
Share price at 31 December	€	96.12	114.00	305.00	380.00	251.80
Munich Re's market capitalisation at 31 December	€bn	22.1	20.4	54.0	67.2	44.5

* Adjusted owing to first-time application of IAS 39 (rev. 2003).
**Taking into account the capital increase in November 2003.

Our vision

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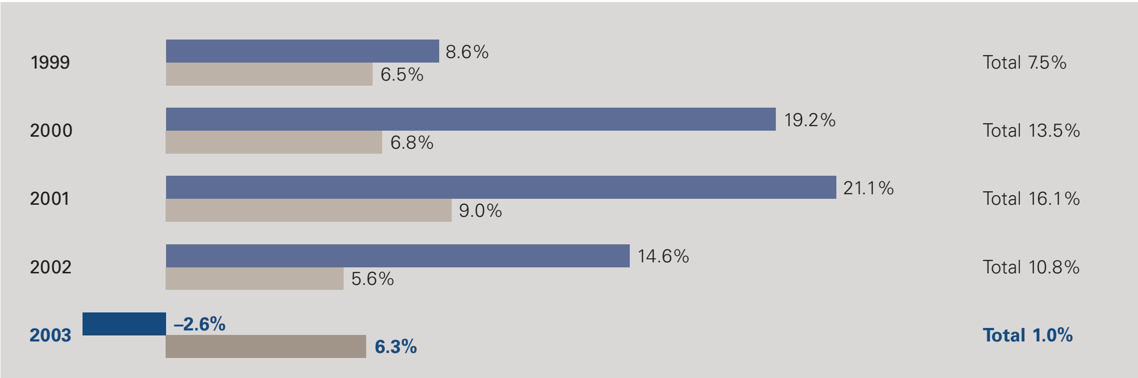
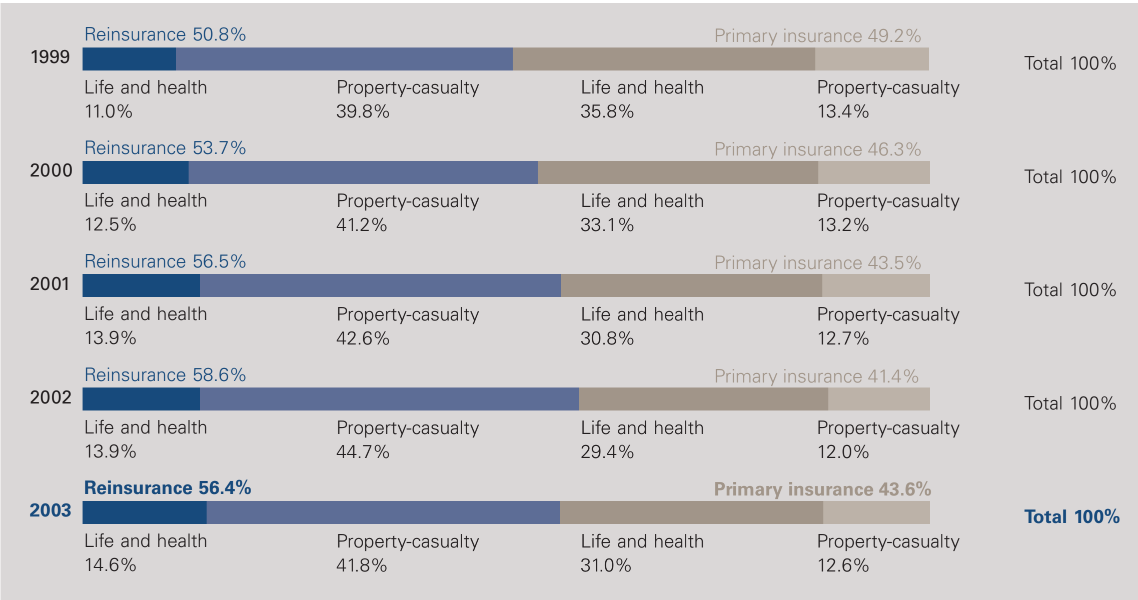
As a Group we aspire to be one of the leading risk carriers and providers of financial services. We create lasting value by systematically building on our strengths:

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

Premium growth

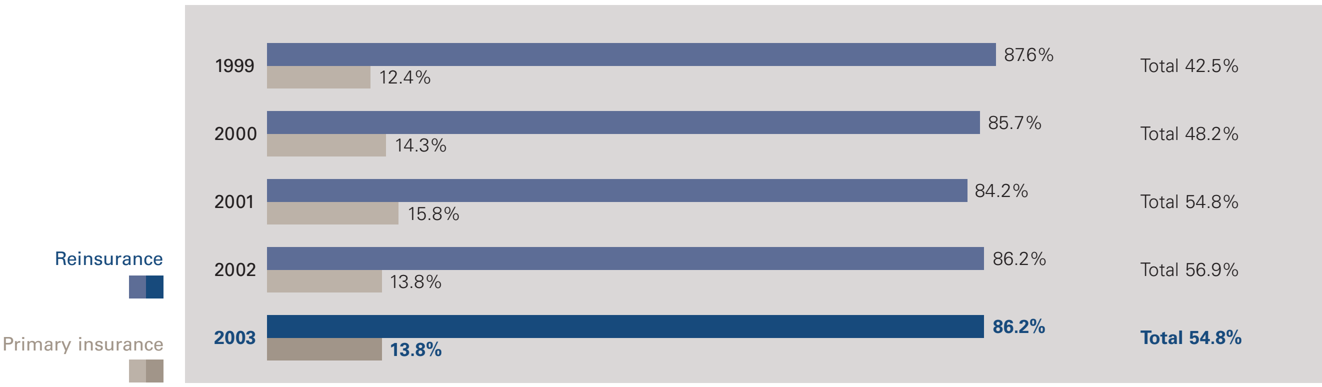


Shares of premium income from reinsurance and primary insurance, broken down by life and health and property-casualty*



* After elimination of intra-Group transactions across segments.

Share of premium income from outside Germany*



* After elimination of intra-Group transactions across segments.

Munich Re Group
Annual Report
2003

Discussing issues openly, taking and implementing clear decisions, and ensuring quality – that's the way to make our future profitable.

Notable events in 2003

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Strengthening our capital base

The issue of two bonds in spring and the capital increase in the autumn added a total of around €7bn to our capital base, strengthening it both quantitatively and qualitatively. This puts us in a good position to exploit attractive market opportunities (see page 16).

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SARS

A new disease sent a tremor of fear around the world: SARS. Even if our claims burden was manageable, the epidemic illustrated one aspect very clearly: the risk that emanates from new infectious diseases (see page 52).

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Rating

Downgradings in our rating were one of the consequences of the unparalleled bear market on the stock exchanges. Our clients continue to place their confidence in Munich Re. We know what they expect from us (see page 70).

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50 years of knowledge dialogue

Munich Re held its first client seminar in 1953. Since then we have greatly developed and expanded our range of services – be it in brochures, internet platforms or above all individual consultancy – and have become a much sought-after knowledge partner (see page 48).

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New branch in Beijing

We were the first foreign reinsurer to obtain a reinsurance licence in China, enabling us to operate as a reinsurer without restrictions and transact business in the domestic currency. We took a decisive step forward in October when we opened a branch in Beijing (see page 51).

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Success in cooperation with the HVB Group

Our cooperation with the HVB Group is going well – in fact, better than planned. Our stake in Hypo Real Estate Holding, the HypoVereinsbank sister company responsible for financing commercial real estate, was not needed for this cooperation so we sold it, significantly reducing our investment in the German banking sector (see page 92).

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Heat wave

The summer of 2003 was an event calculated to occur on average every 450 years. Climate change is continually showing new facets, causing those affected and decision-makers to think about new solutions like multi-peril crop insurance (see page 54).

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Munich Re and Allianz

Latterly, our "principles of cooperation agreement" with Allianz largely governed issues that had been dealt with or rendered obsolete by decisions and measures taken over the years. We therefore mutually agreed to terminate it and continue to work well together in reinsurance without it.

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Environmental certification

EMAS
GEPRÜFTES UMWELTMANAGEMENT

Munich Re Munich had its environmental management system successfully certified for the second time. We are convinced that only sustainable development provides a viable basis for the future. We apply this guiding principle not only in our operational ecology but also in our reinsurance business and investments (see page 79).

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Change in leadership

In 2003, the scene was set for a change at the head of Munich Re. Our new Chairman of the Board of Management, Dr. Nikolaus von Bomhard, has been at the helm since 1 January 2004. He is carrying on the motto of his predecessor Dr. Hans-Jürgen Schinzler – "profitability before growth" – clearly pursuing and reinforcing the message (see page 20).

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Combined ratio below 100%

We had set ourselves a combined ratio target of below 100% in both primary insurance and reinsurance. With 96.4% in primary insurance and 96.7% in reinsurance, we more than met our objective, mainly as a result of our insistence on risk-commensurate prices and conditions (see pages 96 and 117).

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New accounting standards

Thanks to modern IT systems at MEAG, we have been able to opt for early application of the new IFRS accounting standards IAS 32 and 39. These standards improve the rules for writedowns on equities by recognising changes in value promptly and thus providing for greater clarity (see page 156).

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Our interviews contain more than words – namely clear intentions and measures, open declarations and values, future-oriented scenarios and positions.

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Dr. Nikolaus von Bomhard
Chairman of Munich Re's Board of Management

Dear Shareholders,

There is no question about it: the business year 2003 was a disappointment for both you and me. What made it such a difficult year for Munich Re?

To begin with, we were confronted with an unprecedented plunge in most of the world's major share price indices, especially the DAX. This development hit Munich Re shares particularly hard. Within a period of three months, our shares lost over 60% of their value and fell to their lowest level since 1992. The effects of the bear market on the value of our investments, and thus on our capital base, were severe. In order to restrengthen our equity capital and take advantage of the favourable business environment in our sector, we issued two subordinated bonds in spring and carried out a rights issue in autumn. I regard the impressive oversubscription of all three issues as an encouraging sign, indicating that our investors share my conviction that we will overcome the difficulties we have encountered. There are indeed good reasons for holding this view, which I will come to in a moment.

The exceptional loss in the value of our investments led to several downgradings in our credit rating by some rating agencies. Despite the general importance attached to this grading in reinsurance, our clients stood by us. Our lower rating did not result in any significant loss of business – proof of the exceptional reputation we enjoy as a reinsurer worldwide. Nevertheless, it is naturally my aim to reattain a rating from all the important agencies as soon as possible that reflects our position among the top reinsurers.

At the end of this difficult year, despite a high Group underwriting profit, we show a net annual loss. The reasons for this are mainly writedowns for impairments of goodwill and the negative result of our shareholding in HypoVereinsbank AG valued at equity. Also, the new tax legislation of recent years in Germany has had a substantial impact on our result, as losses on our equity investments are only considered to a small extent in determining taxable income. By contrast, the earlier first-time application of the revised accounting standards IAS 32 and 39 eased the burden on the result for the year. The capital market has given us credit for this measure.

All in all – and this is the good news – with the financial statements for 2003 we have drawn a line under three difficult years.

How do I envisage Munich Re's future? My main objective is to fulfil, on a sustained basis, the expectations that you rightly have with regard to return on equity and hence on your investment. In order to achieve this, we have set ourselves ambitious targets that ensure we have only value-producing business on our books. For 2004 we aim to record a profit of €2bn after tax. That is a challenging objective, but is does not require any fundamental strategic realignment. Rather, we have to consistently implement our existing strategy and adhere to our high standards in the quality of our business, without any ifs and buts.

Our technical result in primary insurance and reinsurance must and will show that our staff really know their business. In addition, Munich Re must reap the benefits of its traditional strengths, above all its globally recognised knowledge of risk. I place great emphasis on comprehensive management of the risks on both sides of the balance sheet, i.e. those of our underwriting business and those of our investments and – particularly important – their interdependency. We must not expose our capital with risks that are foreign to our business. Finally, I intend to strengthen our capacity for innovation so that we play a key role in shaping the future with new business models and products that keep us at the forefront of the insurance industry and mark us as a top player.

Why do I expect the Munich Re Group's development to be positive? For the year 2003 we had set ourselves the objective of achieving a combined ratio of below 100% in our reinsurance business. This we clearly succeeded in doing with a figure of 96.7%, which has met with a suitably positive response. I have no doubt that our strictly profit-oriented underwriting policy offers the prospect of a combined ratio of under 100% in the business year 2004 as well. This forecast is naturally subject to the precondition that large and very large losses remain within normal bounds.

The quality of our portfolio in reinsurance has been greatly enhanced in the last two years. During the recent renewals for 2004, we succeeded in increasing prices by another 5%. At the same time we significantly improved treaty conditions, which have a crucial influence on the risk profile. Where we were unable to achieve our objectives, we terminated our participations. Including the planned reduction in large quota share treaties, our business volume decreased by over €1bn. Premium income for 2004 in non-life reinsurance will only increase to a limited extent again, if at all, whereas premium in the life segment keeps on growing at a stable double-digit rate. I am sure that the high quality of our portfolio in terms of prices and conditions has laid the foundations for a sustained positive result trend that will continue to give you and me considerable satisfaction.

Our primary insurers have also taken important steps in the last few months to get back on track as regards earnings. Structures, processes and products have been thoroughly analysed with the aim of increasing profitability. A new management structure in the ERGO Group will improve corporate management, simplify decision-making and unify back-office processes for the group companies. This will further enhance group mentality. Starting in 2002, the companies of the ERGO Group launched a cost-reduction programme designed to save €300m a year by 2005. Given these developments, I am convinced that our primary insurers will already turn a profit again in the current business year. Then their strengths will really make themselves felt again: we are among the top providers in German life insurance, where we remain convinced of the potential for long-term profitability. In Europe, we are the market leader in private health insurance. And in property-casualty insurance, the quality of our business is reflected in another very good combined ratio of 96.4%.

We have further refined our internal risk model. As a consequence, we have markedly reduced our equity exposure and – as announced – especially our investment in the German financial sector. We have completely sold our stake in Hypo Real Estate Holding, and cut back our shareholding in Allianz to around 12%. We have reduced our substantial shareholding in HypoVereinsbank AG to approximately 18% by not participating in its capital increase. The marketing cooperation between the HVB Group and ERGO, of course, remains unaffected by this.

All these measures are starting to bear fruit, but we have not yet reached our goal. The above examples show that we are already well on the way. You can find out more about this in the interviews preceding the individual sections of this report.

Ladies and gentlemen, I am convinced that Munich Re is on course for a profitable future – to the benefit of us all. You can count on my resolve.

Yours sincerely,

"The more information we get, the better the price for the coverage can be."

DR. TORSTEN JEWORREK

HANS BRINGS

Owing to their complex structure, globally operating groups have very special insurance needs. Outstanding know-how is required to understand and evaluate their risk situation. **Hans Brings**, Head of Corporate Insurance for the Dutch group Unilever, spoke with Munich Re Board member **Torsten Jeworrek** about risk management, transparency and the role of insurers.

JEWORREK: What are the criteria you use when you want to buy insurance? I suppose buyers like Unilever take the approach that they do not make a decision about the type of product or coverage they buy on an isolated basis but adopt a sort of a holistic balance sheet view?

BRINGS: At a very high level we look at our combined risk portfolio and secure it in such a way that the balance sheet is not hit to an extent that Unilever cannot afford. Our concern is to buy only insurance where the financial impact of risk outweighs our risk appetite. During 2003 we modelled our exposures into a loss forecast, thereby taking account not only of the history but also of all the recent changes in our company that would have an effect into the future. This model then had the capability to calculate the optimal programme structure that showed the lowest cost of risk combined with a volatility within the boundaries set by the Board. Unilever is a financially strong company, so in those regions where we need insurance, it is important for us that the products offered by the insurance industry are the ones we want. That is unfortunately not always the case.

JEWORREK: I see your point. In this respect we on the one hand need to accept the limits of insurability for certain risks. On the other hand it is a fact that for large risks a technically correct price is often difficult to get. For Munich Re it is essential to provide coverage only if the correct technical price is achievable, i.e. we will not be able to follow cycles in the future when prices are not justifiable. Munich Re has created sophisticated pricing models to find out what the price for the overall risks needs to be. This means that the price we charge is based on the assessment of the information we get, i.e. the more information we get and the more transparent Unilever's risk situation is to us, the better the price for the coverage can be.

BRINGS: I do understand that we have to provide adequate information in order for you to offer the right product at the right price. In our system we were not able to provide information because of our supply-chain structure, which has changed dramatically over the last couple of years. Production is organised in regional sourcing units that sell to local sales units, etc. Due to this complexity it took about two years to get the right business interruption exposure information in the appropriate form. We advised all underwriters and they understood the position.

JEWORREK: That reveals our approach: the expertise to make the assessment. Not just underwriting by regarding everything as either black or white. The assessment of the exposure includes the measures applied to reduce or limit the risk, which are taken into account by our specialists. Only this high degree of expertise enables us to take this underwriting approach and guarantees optimum treatment of customers.

BRINGS: Most important to us is that it does not pay to change insurers every time a cheaper one comes along. We prefer to deploy time and effort

> "In the field of natural perils the coverage offered by the worldwide insurance and reinsurance market is too limited."
>
> HANS BRINGS

> "For risks like IT viruses or terrorism, the industry is even faced with the limits of what is insurable."
>
> DR. TORSTEN JEWORREK

on risk control in our company. I see that as my number-one responsibility. Our risk-control programme is very extensive and managed centrally by my team. The main elements are risk self-assessments regularly performed by all locations, engineering surveys wherever needed (our preferred providers do around 200 per year), discussions with local management on recommendations both from the self-assessments and from the surveys and advice on new projects. Because of the success of these programmes we see our company as a relatively low risk. However, for the rare occasion that something big does happen, Unilever wants companies like Munich Re that are ready to stick by us and are able to pay if a large claim occurs.

JEWORREK: That is how we also interpret our relationships. In these relationships it is important to accept the basic insurance principle: an insurance premium is not an investment where one pays in with a payback guarantee later on. The annual premium is paid for the risk transfer, which means the insurer is immediately prepared to meet its full obligation. Of course, the risk-underlying capital, which allocated amount depends on the individual risk profile, needs to achieve an annual return expected by our shareholders. In return Unilever gets capital relief, which in the end is a win-win situation.

BRINGS: That's right. However, one major problem is caused by the increasing number of restrictions and exclusions. What we ultimately need is cover for all relevant risks and we are ready to pay a reasonable price for this. But that is not always possible. An example: in the field of natural perils the coverage offered by the worldwide insurance and reinsurance market is too limited. The sublimit introduced for earthquake in some regions is too low for us and leaves too much risk on our balance sheet.

JEWORREK: With regard to certain risks like natural perils, the insurance industry is faced with accumulation problems. To manage the available capital efficiently, quality risk management must prevent risks which have a high correlation from becoming too dominant in the overall portfolio. The worldwide exposure of these risks exceeds the limit of the available capital of the insurance industry. For other correlated risks like IT viruses or terrorism, the industry is even faced with the limits of what is insurable. Such risks are difficult or even impossible to insure, as they cannot be modelled. Nevertheless with regard to newly emerging risks, I think the private insurance industry has an obligation to find solutions to make them insurable. By fulfilling this task, the insurance industry is providing a service to society and supporting industrial progress and new developments.

Munich Re shares

Stock market year 2003
The storm has abated

The first three months of 2003 were still characterised by a severe bear market. Uncertainty regarding the Iraq crisis and the subsequent war was one of the determining factors, but so was a general reluctance to invest and consume. Since then, share price indices have been showing an upward trend again.

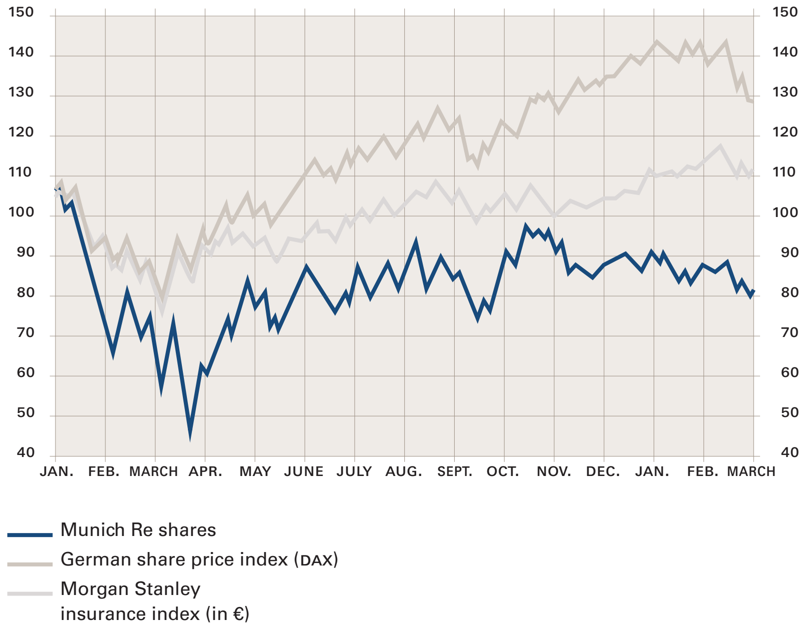
Proceeding from the already weak prices at the beginning of the year, the stock markets showed considerable volatility. In Europe, important share price indices like the EURO STOXX 50 and the DAX fell to new recent-year lows in March, before rallying significantly. The stock markets in the USA and Japan also recorded price setbacks to begin with, but they recovered over the course of the year and closed with overall gains year on year.

Shares of many German financial service providers performed worse than the market as a whole in the first quarter. This also had an impact on Munich Re shares, which came under massive pressure, especially in March.

In the second quarter, the US economy began sending out positive signals again, but in the eurozone – particularly in Germany – the mood remained subdued, as it did in Japan and the emerging markets. Nevertheless, by the end of May, share prices had recovered to their end-of-2002 level.

Share performance January 2003 to March 2004

(1 January 2003 = 100, status: 25 March 2004, source: Datastream)



As Munich Re shares began from a very low level in the second quarter of 2003, they clearly outstripped the DAX in the following period. In April, we issued two subordinated bonds, whose success supported the recovery. However, our shares were unable to make up for the initial losses: altogether, they recorded a negative performance for 2003.

Throughout the summer, discussions regarding Munich Re's capital situation placed a strain on our share price. Whilst the capital increase in November caused it to rise appreciably at first, by the end of the year it had lost some of the ground it had gained and consolidated itself at the October level.

Key figures for our shares

		2003	Prev. year
Number of shares at 31 December	m	**229.6**	178.7
Share capital	€m	**587.7**	457.4
Year high**	€	**117.32**	291.99
Year low**	€	**49.93**	94.15
Year-end closing price**	€	**96.12**	108.43
Annual performance (excluding dividend)	%	**–11.4**	–62.6
Beta relative to DAX		**1.4**	1.3
Market capitalisation at 31 December	€bn	**22.1**	20.4
Market value/book value* at 31 December		**1.2**	1.5
Average daily turnover	'000	**2,402**	1,027
Earnings per share**	€	**–2.25**	1.54***
Dividend per share	€	**1.25**	1.25
Dividend yield at 31 December	%	**1.3**	1.1
Overall dividend amount	€m	**286**	223

* Share price at the end of the year as a percentage of the shareholders' equity shown in the balance sheet, excluding minority interests.
** Taking into account the capital increase in November 2003.
*** Adjusted owing to first-time application of IAS 39 (rev. 2003).

The average daily turnover of Munich Re shares rose by 134% compared with the previous year. Altogether, the free share capital was turned over approximately 3.6 times.

Capital measures in 2003

Reuters	DE 016 696 579 =
Bloomberg	MUNRE
ISIN	XS 016 696 579 7
WKN	843 278

Reuters	DE 016 726 052 =
Bloomberg	MUNRE
ISIN	XS 016 726 052 9
WKN	843 449

In April 2003, via its 100% subsidiary Munich Re Finance B. V., Munich Re issued subordinated bonds in two tranches which met with very high demand. The press and the capital markets rated the successful placement of this very large issue as a clear expression of confidence in the Munich Re Group. Subordinated bonds are counted as equity capital by the leading rating agencies up to a certain point and are recognised by the German Federal Financial Supervisory Authority as own funds in the calculation of solvency. The main part of the issue, the euro tranche, had a volume of €3bn, an amount unprecedented in the euro subordinated bonds market. A pound sterling bond with a volume of £300m was placed at the same time. At the end of 2003, the euro tranche was listed at 111.09% and the pound sterling bond at 115.77%.

At the beginning of November we carried out a rights issue. A total of 50,912,946 new shares were issued at a price of €78 each. The market responded very well to this measure, too. 99.9% of the subscription rights were exercised. Raising an amount €3.9bn, the capital increase substantially improved our capitalisation both quantitatively and qualitatively. This strengthened capital base is an important prerequisite for exploiting profitable business opportunities.

Munich Re shares included in many indices

Munich Re shares have been represented in important national and international share price indices for many years. And since 2001 they have also been included in the Dow Jones Sustainability and the FTSE4Good index family. These sustainability indices only accept companies that fulfil certain ecological and social criteria and are among the best in their sector. Our inclusion in these indices underscores how intent we are on promoting sustainable development.

Index weightings of Munich Re shares
Status: 31 December 2003

	Weighting (%)
DAX 30	3.9
DJ EURO STOXX 50	1.2
MSCI Euro	0.8
FTSE EUROTOP 100	0.5
DJ Sustainability World	0.3
FTSE4Good EUROPE	0.5

Reuters	MUVGn
Bloomberg	MUV2
ISIN	DE 000 843 002 6
WKN	843 002

www.munichre.com/ir-d

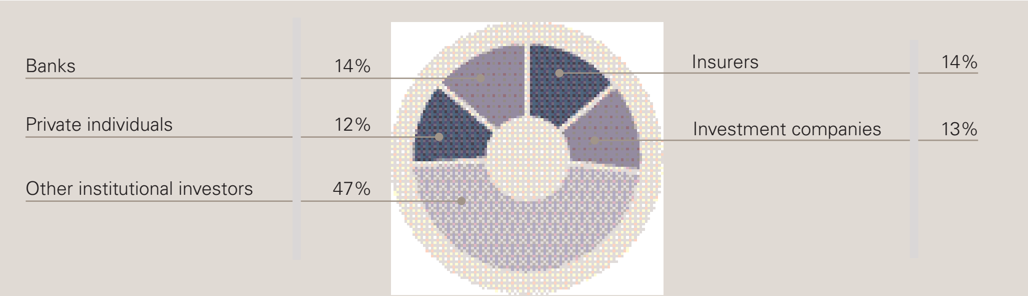
Munich Re shares, which were first listed on the Munich stock exchange in 1888, are no-par-value registered shares. They are traded on all the German stock exchanges and are also included in Xetra trading. Additional data and news on our shares can be found on our website, in the daily papers and in material published by specialist providers of financial market data.

Free float over 80%

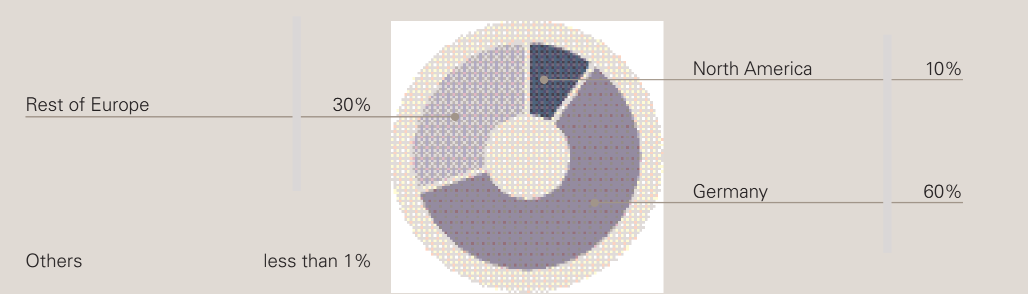
The number of Munich Re shareholders has risen from around 122,000 at the beginning of 2003 to over 187,000. The proportion of private investors in our share capital increased in the course of 2003 from just under 6% to its present level of around 12%. Munich Re's largest shareholder, with a stake of nearly 10%, is now Bayerische Hypo- und Vereinsbank AG. Allianz's stake decreased during the business year 2003 from 22.4% to 12.4%, and by 2 March 2004 had fallen to 9.4%. To reduce our reciprocal shareholdings, Allianz had redeemed its MILES bonds (issued in 2000) by repaying the holders in Munich Re shares and had only participated to a limited extent in Munich Re's capital increase of November 2003.

Our free float, which is important for the weighting of Munich Re shares in various share price indices, has grown significantly from around 45% in 1999 to its current level of 80.6%.

Investor groups



Regional distribution



Unchanged dividend

We propose to pay our shareholders an unchanged dividend of €1.25 for the year 2003. The overall amount distributed will thus total €286m.

Recognised quality of investor relations work

The aim of our investor relations work is to enable the capital markets to make an appropriate assessment of our current business situation and our future prospects. Our objective here is to provide prompt and detailed information and always be there to answer analysts' and investors' enquiries, particularly in difficult times. In 2003, we held several telephone conferences, over ten road shows in the USA and Europe, and over 100 individual meetings with investors and analysts at our offices, as well as taking part in several investment conferences around the world.

Munich Re shares are continually monitored by over 50 analysts. At the end of the year, 21 of these gave our shares a positive rating (2002: 23), 19 a neutral one (2002: 17), and 8 a negative one (2002: 11).

Analysts' recommendations on Munich Re shares

Rating	31.3.2003	30.6.2003	30.9.2003	31.12.2003
Positive	35%	33%	38%	44%
Neutral	37%	40%	40%	40%
Negative	28%	27%	22%	16%

Reuters Institutional Investor Report singled out our capital market communication in 2003 as the "most improved IR in the insurance sector by the buy side". The leading French daily, Le Figaro, and La Vie Financière, a top French finance magazine, awarded us the "Prix des fils d'or du meilleur service actionnaires" for best communication with individual shareholders among all the EURO STOXX 50 companies. We see these awards as an incentive to constantly develop and further improve our service and transparency. Private investors also made great use of our information services again last year. Via our shareholder hotline and our e-mail postbox for private investors, we answered numerous questions, especially about the Annual General Meeting and the capital increase.

shareholder@munichre.com

We take account of the interests of our shareholders in many areas of our operations. For example, we have introduced a value-based management system; we realise the principles of corporate governance and comply with recognised standards of responsible corporate management (see page 68); our long-term incentive plans (see page 202) grant the Group's management stock appreciation rights, underlining our objective of increasing Munich Re's market value by creating a financial incentive to gear corporate policy to this goal.

www.munichre.com/ir-d

We also publish our investor relations information on the internet. We will be glad to send you our quarterly reports and other Munich Re publications on request. You can find our address on page 223.

Great interest in the Annual General Meeting

The 116th Annual General Meeting of Shareholders on 11 June 2003 was again attended by over 4,000 at the ICM – International Congress Center Munich; compared with the previous year, the attendance rate rose from 53.7% to 57.5% of the share capital. The proposals of the Board of Management and Supervisory Board on the individual agenda items were adopted by the shareholders with very clear majorities.

www.munichre.com/AGM2004

Our internet service for the Annual General Meeting is very advanced and has met with a good response from shareholders: nearly every fifth admission card was ordered electronically in 2003. The option to authorise a proxy nominated by the company – also online – has proved increasingly popular as well. The proxies represented almost as many shareholders as the banks did through voting rights from shares held in custody. Shareholders unable to attend in person again had the opportunity to follow the Annual General Meeting live via a special shareholder portal on the internet. All the information relating to our 2004 Annual General Meeting can be found on our website.

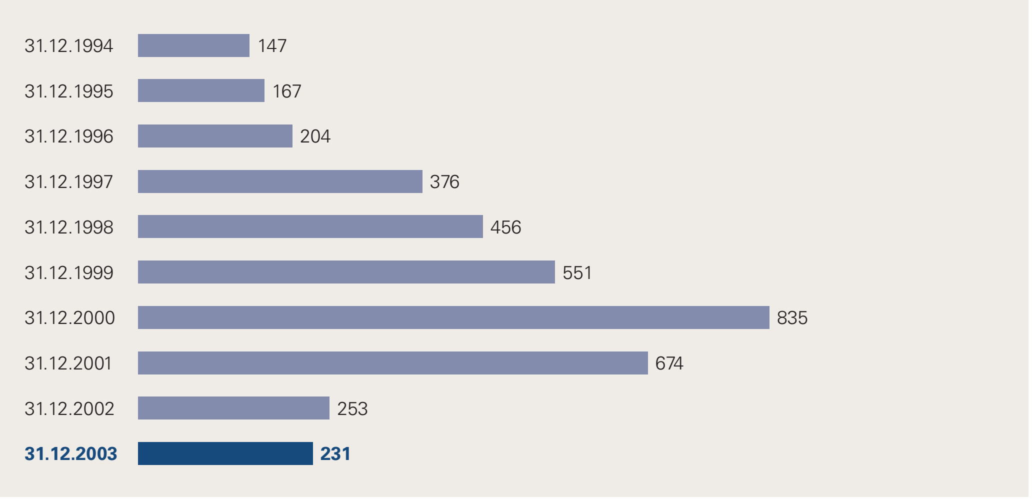
Performance of a specimen portfolio

At the end of 1994, with the share price at DM 2,870.00 (= €1,467.41), a portfolio of 100 Munich Re registered shares with a par value of DM 100 (= €51.13) required a total investment of €146,760.77 (excluding transaction costs). After the two stock splits in August 1997 and January 1999, this investment today amounts to a portfolio of 2,000 no-par-value shares.

By reinvesting dividends to purchase further shares and making use of "opération blanche" (i.e. also reinvesting the proceeds of subscription rights), a German shareholder would have been able to add a total of 402 no-par-value shares to the portfolio.

On the basis of a price of €96.12 per share on 30 December 2003, the value of the portfolio amounts to €230,880.24, equivalent to an increase of 57.34%. According to the internal rate of return method, this works out an average annual return of 5.18% per year.

Performance of a specimen deposit as from 31 December 1994 in €'000



Other capital market instruments

Our bonds exchangeable into Allianz shares were issued in May 2000 with an annual coupon payment of 1.00% on the face value. Investors are entitled to convert each of their exchangeable bonds into Allianz shares, making the investment a combination of bond and call option. The bonds' volume totals €1.15bn. At the end of the year they stood at 105.50%. Their term ends on 9 June 2005 with a redemption rate of approximately 108.6%.

On 31 December 2003, the term of our two natural catastrophe bonds ended. These had a total volume of US$ 300m and had been placed with institutional investors. The term of the bonds had begun on 1 January 2001.

DR. MARC SURMINSKI

“What I want is for us to be the first choice – for our clients, investors and staff.”

DR. NIKOLAUS VON BOMHARD

ARNO SURMINSKI

Especially with a new Chairman of the Board, questions abound. Insurance journalists **Arno Surminski** and **Dr. Marc Surminski** had the opportunity to interview **Dr. Nikolaus von Bomhard** in Munich and address a variety of topics, including Munich Re's corporate structure, the situation of its primary insurance group, corporate identity and questions of management.

MARC SURMINSKI: If you were a politician, what would your election programme have been as a candidate for Munich Re's Chairmanship?

BOMHARD: Restoring confidence would have been my most important pledge: strengthening self-confidence within the Group in what we are good at and regaining the confidence of external parties, be they shareholders, analysts or the general public.

ARNO SURMINSKI: But this loss of confidence mainly stemmed from the subsidiaries. With hindsight, would you say that it was a mistake to build up the primary insurance group? Your competitors have abandoned comparable strategies.

“Was it a mistake to build up the primary insurance group? Your competitors have abandoned comparable strategies.”

ARNO SURMINSKI

BOMHARD: It's unfair always to be pointing the finger at the primary insurers in our Group. Don't forget: there was plenty of room for improvement in reinsurance – just think of the underwriting results of the last few years. The fact that our primary insurance group's result is not satisfactory does not worry me provided that it is soon operating profitably again. Give us a little more time and our strategy will prevail.

ARNO SURMINSKI: “Management” seems to be the focus of criticism when it comes to ERGO's results. Are you going to put ERGO on a tighter leash from Munich?

BOMHARD: It's all too easy to see a certain management or structural model as the sole means of salvation. As the parent company, we have to understand better what makes ERGO tick and where we can give support. As Chairman of ERGO's Supervisory Board – my only seat on another Board – I will ensure that the legally required control and counsel is provided.

MARC SURMINSKI: Let's stay with management for a moment. Assuming that Munich Re now faces a fundamental change, a watershed, how do you intend to handle this?

BOMHARD: By making sustained profitability the guiding principle and by leading with clear objectives. We need a clear focus on the fundamentals, on our core business, and the decisions taken must be rigorously implemented. You know, I believe in our business and the strengths of our Group. I want to communicate this enthusiasm.

ARNO SURMINSKI: Your staff have gone through quite a lot recently. Isn't that a problem for corporate identity?



BOMHARD: Our staff's corporate identity has changed in the recent past towards an attitude of "we are a completely normal company; we have to prove ourselves, just like others do". This new attitude is producing ways of thinking and acting that will help the company progress. I consider that healthy.

MARC SURMINSKI: What do you expect of your staff in future?

BOMHARD: All staff have to know how and where they add value for our Group as partners in enterprise. They should be inquisitive, innovative and look beyond their own immediate horizons, trying to keep the big picture in view. They should thus be constantly readjusting, while at the same time preserving Munich Re's inner values.

MARC SURMINSKI: With you as Chairman, a "reinsurance man" has now taken over the helm. Is that a signal that Munich Re is setting a new course in terms of earnings from underwriting business, with less dependency on investments?

BOMHARD: Absolutely right. My job is clearly to manage insurance risks in such a way that they produce growth in value that gives us a decisive edge on the competition. At the same time, I attach great importance to an investment policy that matches our commitments on the liabilities side of the balance sheet.

MARC SURMINSKI: According to the most recent figures, Munich Re is the world's largest reinsurer in terms of premium income. Is that a ranking worth fighting for?

BOMHARD: Not any more. On the contrary, we are considering how much business we can dispense with in a certain market phase without undermining the overall structure of our figures. Many reinsurers today have business on their balance sheets that is not really reinsurance in the strict sense, so a comparison between reinsurers in terms of size has little meaning. In other words, being first in the rankings is not a key issue. What I want is for us to be the first choice – for our clients, investors and staff.

MARC SURMINSKI: We have had a harder market for a couple of years now, and your combined ratios are worse than those of your competitors.

BOMHARD: That's no longer the case! It is difficult anyway to determine how success in reinsurance should be measured. In my view, the combined ratio is not an ideal yardstick. Let me explain why. To make a proper comparison, you need to know the precise composition of the portfolio you are considering. It makes more sense to look at a company's ratios along the time axis, provided the portfolio remains comparable. In Munich Re's case, there is a clear fall in this ratio. Compared with companies that have similar business in their portfolio, we are now in a better position.

"Those wishing to invest in the insurance industry simply can't ignore us. This is what a market leader must aspire to."

DR. NIKOLAUS VON BOMHARD

ARNO SURMINSKI: Many outside observers criticise the fact that your long-standing predecessor is now on the Supervisory Board. Doesn't that restrict your freedom to do new things? Isn't there always a feeling of dependency and of needing to act in a certain way out of consideration?

BOMHARD: I don't feel restricted in any way. I can ask my predecessor things I could not ask many others, and I also know that he will let me do what I consider essential and right.

MARC SURMINSKI: Where do you see Munich Re in ten years' time?

BOMHARD: In ten years' time I see it as the reinsurer with the largest profit and the best reputation. We manage risks more efficiently than others because we know more about risks and how to handle them. We are more innovative than the competition, we shape important developments in our industry. The same applies to primary insurance. Those wishing to invest in the insurance industry simply can't ignore us. This is what a market leader must aspire to and what we owe our shareholders.

Strategy:
Geared to profitability

Our strengths

The Munich Re Group's objective is to be one of the leading risk carriers and providers of financial services and to create lasting value and quality as a reinsurer and a primary insurer. Our asset management units support us in this objective.

We aim for market leadership in those areas where we see opportunities for profitable business development. In so doing, we build on our strengths:
– our technical skills in underwriting business, such as the identification and modelling of risks, and the pricing of covers;
– our knowledge and our competence, which we are systematically expanding with regard to topics of the future like climate change and biosciences, and which we use in our business;
– our capacity for innovation, which supports us in translating changes in our economic, social and legal environment, for example, into appropriate business measures at an early stage and in utilising the resultant opportunities for our clients and for us;
– our financial strength;
– our global network in reinsurance and the franchise strength of our primary insurers.

The reinsurers and primary insurers in our Group have strong brands and leading market positions. We count on the know-how our of staff throughout the world, their experience, and their specialist and intercultural knowledge. In order to be the "preferred partner in risk", we offer our clients the best possible service and security. For us, risk-commensurate prices are the decisive key to success.

Our progress in 2003

Over the last few years we have adopted particular strategic courses, which shaped our decisions in 2003.
– Since our fundamental reorganisation in 2001, we have consistently geared our reinsurance business to the objective of profitability.
– Reinsurers and primary insurers in the Group have prioritised their target markets, clients and products according to anticipated earnings.
– We have substantially reduced the risks in our investments by cutting back substantial shareholdings in the insurance and banking sector, especially in Allianz, Bayerische Hypo- und Vereinsbank AG and Hypo Real Estate. Beyond this, we have lowered the proportion of equities in our investment portfolio.
– We have significantly strengthened our capital base both quantitatively and qualitatively through the issue of subordinated bonds last spring and the capital increase in November 2003.

Objectives and results in 2003

Segment		Key indicators	Objective	Result
Reinsurance	Non-life	Combined ratio	< 100%	96.7%
	Life	Embedded value operating earnings	> 10%	13.3%
Primary insurance	Property-casualty	Combined ratio	97%	96.4%
	Life and health	Embedded value operating earnings	> 10%	9.1%
	Partnership with HVB	Annual premium of polices written via HVB	€320m	€400m
Asset management	Group investments	Return on investments	4.5%	4.3%
	Shareholding in Allianz		< 15%	12.2%

Challenges and market prospects

The demand for insurance services is rising worldwide. As a consequence of technological developments, new risks are continually emerging. Altered risk profiles – due to climate change, for example, or the growing concentration of values – result in new requirements for insurance. Demographic trends and the crisis in social security systems are major challenges and opportunities for private insurance, for in the long run there is no getting round the fact that more personal provision on a funded basis will be essential.

Changes in legal parameters – be they the foreseeable modifications in reinsurance supervision, accounting standards (IFRS) or the fundamental revision of solvency rules (Solvency II) – require tailor-made solutions from reinsurers.

The quality of internal risk management models, especially those of insurers, becomes vitally important in an increasingly globalised and technological world, with its new risks, changes in risk scenarios and connections between risks that were previously considered mutually independent.

The extreme volatility of share prices over the last few years, with their dramatic consequences for insurers' market capitalisations, investments and ratings, underlines the high demands placed on corporate risk management systems, especially in the current environment of historically low interest rates.

Our strategic guidelines

Against this background, the reinsurers and primary insurers in the Group are aiming to achieve a return on equity of 12% after tax. Our strategic guidelines on the way to meeting this objective are:

- Profitability takes precedence over growth. Our product design and our underwriting are geared to long-term sustainable profitability in both reinsurance and primary insurance. This commitment to consistent earnings orientation rules out volume-oriented growth aimed at achieving or defending certain positions in the rankings. Value-based management, which sets clear financial objectives, provides the requisite framework.

– With strong business pillars in reinsurance and primary insurance, supported by our own Group asset management, we carry, manage and finance risks along the whole value-added chain of the insurance industry.
– Our simultaneous involvement in reinsurance and primary insurance improves our internal balance of risks and results, and creates greater overall stability. Nevertheless, it is still our objective to achieve sustainable profitability in all business segments, independent of each another.
– On the assets and liabilities sides of the balance sheet, and in the relationship between them, we strive for an optimised portfolio and value-based capital allocation. Internal risk models support decision-making. If a risk-commensurate return on capital cannot be achieved in the medium term, disinvestments will be made in order to continually optimise our underwriting activities and increase their yield.
– Our risk management system is constantly adjusted to the increasing complexity of the different risks and to the greater volatility of the capital markets, whilst the decision-making tools are fine-tuned to developments in our business environment.

How does Munich Re manage its business?

Our system of value-based management is consistently geared to one central goal: increasing our corporate value.

To achieve this objective,
– we optimise the use of capital for managing risks;
– we gear all our activities to an ambitious and risk-adequate result target that also meets the expectations of external investors;
– we ensure the necessary comparability of value-creating measures and initiatives through the use of uniformly defined performance measures, thus providing a sound basis for decision-making;
– we have integrated non-financial factors into our strategic management, so that our value-based management represents a holistic management system;
– we closely link strategic and operative planning by defining our strategies in balanced scorecards, from which we derive initiatives, performance indicators and responsibilities;
– we promote an entrepreneurial culture among staff through the clear allocation of responsibility and accountability, which makes it more evident how much individuals can contribute to increasing value in their particular areas of work. In addition, ambitious return targets, integrated in our incentive system for the Board of Management and underwriters, ensure that the principles of value-based management are realised.

In this way, we create the basis for better identifying those fields of business which add value for Munich Re and for optimising the use of our resources.

Reinsurance:
Excellent operative business and earnings quality

- We aspire to be the most profitable among the five largest reinsurers. We therefore analyse the business opportunities that present themselves on the basis of whether they offer risk-adequate prices and conditions, and decide with the help of our value-based management tools which of the opportunities to utilise.
- Owing to the global market presence of the reinsurance group, we can strongly diversify the risks we accept. This is a competitive advantage when it comes to earning risk-adequate margins across the reinsurance cycle.
- We aim for organic, result-oriented growth in order to consolidate and, where appropriate, also improve our market position. Here, too, profitability is the determining yardstick.
- We continue to expand our strengths: competence, quality and capacity for innovation. With this in mind, we are moving ahead with our programme of knowledge management. In selected topic areas, we are extending our lead in quality and opinion leadership.
- We are working hard worldwide to optimise and accelerate our operational procedures as well as our administration and processing systems.
- Bolstered by the €3.9bn raised in the capital increase of 2003, our financial strength is beyond doubt.
- In our target markets, we aim to be recognised as an attractive employer.

Risk-commensurate prices and conditions – A hallmark of quality

The insurance market has always experienced fluctuations in capacity, rates and results. In order to make ourselves as independent of cyclical market movements as possible, we focus hard at all times on achieving risk-commensurate prices and conditions based on our calculations of the technically required level.

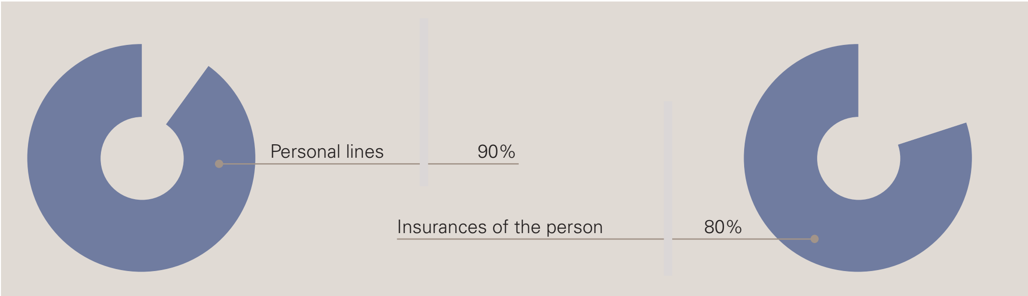
Risk-commensurate prices and conditions are the deciding factor for us, as only these will enable us to earn sustainable profits and to build up successful and reliable business relationships.

The following factors enable us, as the world's leading reinsurer, to define and implement risk-commensurate prices and conditions:
- Joined-up thinking, e.g. in the modelling of risks
- Understanding the influence of macro- and microeconomic factors
- Know-how and experience, globally and in the individual markets
- Ability to develop pricing tools which adequately reflect the exposure of the risks covered
- A value-based management system
- Disciplined underwriting
- Stringent risk management

Primary insurance:
Profitable personal lines business

– The primary insurers in our group aim for profitable growth in the core fields of insurance and private provision and in asset management. In the German primary insurance market, they aim to profitably extend their excellent position especially in personal lines business and insurances of the person (life, health and personal accident).

Personal lines and insurances of the person as a proportion of overall business



– Their business operations are focused on Europe, where strategic core markets are defined. In Southern and Eastern European markets with growth potential, business is to be strengthened through organic, profit-oriented growth, and also through selective acquisitions where appropriate.
– The primary insurance companies are further expanding their various distribution channels. The ERGO companies pursue a multi-channel distribution strategy, based on their own sales force of tied agents, contacts with brokers, direct sales and exclusive cooperation Germany-wide with the HVB Group. The Karlsruher Insurance Group uses cooperative banks as external marketing partners.
– In order to achieve their profitability objectives, the primary insurers are taking steps in all areas, functions and processes to enhance efficiency and cut costs.

Asset management:
Adjustment of equity exposure and reduction of concentration risk

The Munich Re Group companies have largely transferred asset management to MEAG, which performs a supporting service function. They aim to maximise the profit contribution from their own investments by investing funds with due regard to optimum security and profitability, to maintaining sufficient liquidity and flexibility at all times, and to an appropriate mix and spread. They therefore pursue a principally conservative investment policy.

Strategic asset allocation is based mainly on the assessment of the market, our risk tolerance, and liquidity requirements. As part of the risk management process, the proportion of investments in equities in particular is continually adjusted to requirements. A result of this strategy is that we have reduced our shareholding in Allianz and sold our stake in Hypo Real Estate, thereby further mitigating the concentration risks.

In our asset-liability management process, we adjust the periods to redemption in our bond portfolio as far as possible to the match the terms of our liabilities.

We aim to expand MEAG's third-party business, in particular by utilising the marketing channels that exist in both reinsurance and primary insurance.

“Sustainable companies tend to outperform their peers.”

DR. THOMAS KABISCH

PETER OPPENHEIMER

Quality and sustainability go together – this view is reinforced by the London analyst **Peter Oppenheimer**, Head of Portfolio Strategy at Goldman Sachs, in a talk with **Thomas Kabisch**, Chief Executive of MEAG, Munich Re's asset management company. The investment experts spoke about sustainable investments, the "MEAG Nachhaltigkeit" fund and the return prospects of ethically oriented companies.

OPPENHEIMER: What for you is the connection between asset management and sustainability?

KABISCH: For an asset manager, sustainability means ensuring a level of constant positive growth rather than following too risky growth paths. Sustainability also focuses on the ability to initiate change, the will to structure our future and to bear responsibility toward our stakeholders. It is really a major challenge to all of us to integrate sustainability criteria into our daily work.

OPPENHEIMER: In your opinion, is there an interesting return in sustainability investment?

KABISCH: Well, there is some research on that issue. The essence of the findings: sustainable companies tend to outperform their peers. So we do not sacrifice performance by investing in sustainable assets. One of the reasons is that a lot of these companies have very strong corporate governance codes, which are also a measure for sustainability.

"Sustainability also focuses on the ability to initiate change, the will to structure our future."

THOMAS KABISCH

OPPENHEIMER: Why do you think companies focus on sustainability?

KABISCH: In my opinion social responsibility is a by-product of financial success. A prosperous company has more capacity to protect its reputation, to be responsive to stakeholders and to invest in environmental protection. Sustainability reduces legal risks and litigation costs. These are the reasons why we believe in an outperformance if we consider sustainability aspects in our investment decisions.

Besides this, MEAG manages a sustainability fund for German private and institutional investors. Here we cooperate with the Swiss Group SAM, which stands for Sustainable Asset Management. Their analysts deliver the relevant input data for the composition of the Dow Jones Sustainability Index. For our sustainability fund "MEAG Nachhaltigkeit", they identify per industry sector the 10% best-in-class companies. Out of that 10%, our portfolio managers actively compose the fund assets.

OPPENHEIMER: Do you exclude entire industries from your fund?

KABISCH: We do not invest in tobacco, alcohol, gambling, armaments and firearms. By the way, we also consider sustainability when investing our Group's assets: about 80% of the equity and corporate bond holdings are represented in one of the leading sustainability indices. We are pretty far advanced in the field of sustainability. Our shares are included in the two main sustainability indices: the Dow Jones Sustainability World Index and FTSE4Good Index.

OPPENHEIMER: This leads to another point. Sustainability is dominated by large multinational companies. Which aspects do you see coming along with that phenomenon?

KABISCH: I believe it might even be favourable for global companies to follow one principle all over the world – ethical or environmental. One positive aspect is that these multinational companies export their sustainability concepts to developing countries.



"I think quality and sustainability are very close."

PETER OPPENHEIMER

OPPENHEIMER: One important thing which has to be addressed when making investment decisions is that sustainability is a long-term concept. This must be balanced with the short-term expectations from the capital markets. A longer-than-usual time horizon needs to be addressed when investing in sustainable companies. In this respect, do you consider smaller companies with long-term growth perspectives which are not yet in the benchmark?

KABISCH: Our portfolio management is free to invest up to 20% of the fund volume outside the benchmark. Within this degree of freedom we pick promising innovators or other smaller companies for "MEAG Nachhaltigkeit" which are leaders in sustainable technologies.

Let me briefly address a more common point. When looking at sustainability investments, I believe there is no difference in the attitude of analysts in various countries. Would you agree that a British-based analyst takes the same approach to the whole field as an American, French or German analyst?

OPPENHEIMER: Yes, I would. I think it is pretty similar now, because companies that dominate the main indexes are actually global by definition. One thing that may vary is the pressure that comes from investors. For example, in the US there is a measurable drive from pension funds. They have strengthened their ethical criteria. It is beginning to become quite important in the UK as well.

KABISCH: Do you think that quality and sustainability aspects belong together?

OPPENHEIMER: They appear to merge very much. It is very difficult to imagine a company that seems to have quality, consistent performance, a strong history of good execution in business and strong corporate finance without at the same time having sustainable principles. I think quality and sustainability are very close and it is difficult to separate them.

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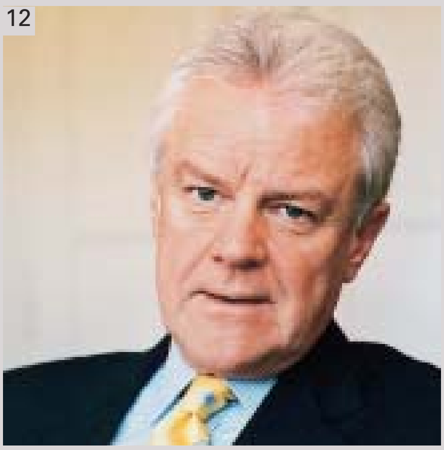


Group profile

The Board of Management

(in alphabetical order)

01 Dr. jur. Nikolaus von Bomhard

(Chairman of the Board of Management
from 1 January 2004)

* 1956, lawyer, with Munich Re since 1985
Executive Offices (from 1 January 2004)
Press (from 1 January 2004)
Internal Auditing (from 1 January 2004)
Strategic Planning (from 1 October 2003)
Europe 2 and Latin America (until 31 December 2003,
from 1 October 2003 together with Mr. Daschner)

02 Clement Booth

(until 30 September 2003)

* 1954, underwriter, with Munich Re from 1986 until 2003
Special and Financial Risks
Investor Relations
Strategic Planning

03 Georg Daschner

(from 1 October 2003)

* 1949, chartered insurer, with Munich Re since 1965
Europe 2 and Latin America
(until 31 December 2003 together with Dr. von Bomhard)

04 Dr. jur. Heiner Hasford

* 1947, lawyer, with Munich Re since 1978
Finance
General Services
Organisational Design and Development

05 Stefan Heyd

* 1945, lawyer, with Munich Re since 1975
Corporate Underwriting/Global Clients

06 Dr. rer. nat. Torsten Jeworrek

(from 1 October 2003)

* 1961, mathematician, with Munich Re since 1990
Special and Financial Risks
Information Technology

07 Christian Kluge

* 1941, chartered marine insurer,
with Munich Re since 1964
Europe 1
Corporate Communications

08 John P. Phelan

* 1947, underwriter, with Munich Re since 1973
North America

09 Dr. jur. Hans-Jürgen Schinzler

(Chairman of the Board of Management
until 31 December 2003)

* 1940, lawyer, with Munich Re from 1968 until 2003
Executive Offices
Press
Internal Auditing

10 Dr. phil. Detlef Schneidawind

* 1944, lawyer, graduate in business management,
with Munich Re since 1973
Life and Health
Human Resources

11 Dr. jur. Jörg Schneider

* 1958, business graduate, lawyer,
with Munich Re since 1988
Accounting
Controlling
Taxes
Investor Relations (from 1 October 2003)
Information Technology (until 30 September 2003)

12 Karl Wittmann

* 1945, chartered insurer, with Munich Re since 1961
Asia, Australasia, Africa

The Supervisory Board

Chairman
Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

Deputy Chairman
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Klaus Peter Biebrach
Employee of Munich Reinsurance Company

Peter Burgmayr
Employee of Munich Reinsurance Company

Rudolf Ficker (until 31 December 2003)
Former Member of the Board of Management of Munich Reinsurance Company

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

Gertraud Köppen
Employee of Munich Reinsurance Company

Prof. Dr. rer. nat. Hubert Markl
Former President of the Max Planck Society

Wolfgang Mayrhuber
Chairman of the Board of Management of Deutsche Lufthansa AG

Prof. Karel Van Miert
Professor at the University of Nyenrode

Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Chairman of the Board of Management of Siemens AG

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder
Chairman of the Board of Management of Volkswagen AG

Dr. jur. Hans-Jürgen Schinzler (from 2 January 2004)
Former Chairman of the Board of Management of Munich Reinsurance Company

Dr. jur. Dr. h. c. Albrecht Schmidt
Chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG

Dr. rer. nat. Dipl.-Chem. Klaus Schumann
Employee of Munich Reinsurance Company

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

Wolfgang Stögbauer
Employee of Munich Reinsurance Company

Josef Süßl
Employee of Munich Reinsurance Company

Judy Võ
Employee of Munich Reinsurance Company

Ludwig Wegmann
Employee of Munich Reinsurance Company

Membership of the Supervisory Board committees

Personnel Committee
Ulrich Hartmann (Chairman)
Dr. Bernd Pischetsrieder
Herbert Bach

Standing Committee
Ulrich Hartmann (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt
Josef Süßl

Audit Committee
Dr. Albrecht Schmidt (Chairman)
Ulrich Hartmann
Prof. Dr. Henning Kagermann
Klaus Peter Biebrach
Dr. Klaus Schumann

Conference Committee
Ulrich Hartmann (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Wolfgang Stögbauer

The Munich Re Group:
Risk is our business

Reinsurance + Primary insurance + Asset management = Munich Re Group

The Munich Re Group is one of the leading risk carriers and financial services providers. Over 40,000 staff in 60 countries vouch for the outstanding quality of its service. Its business extends across the whole value-added chain in insurance and reinsurance. It also operates in the field of asset management.

MUNICH RE GROUP

REINSURANCE

- **Munich Re Group** (Münchener Rück Munich Re Group)
- American Re-Insurance Company (American Re)
- Munich American Reassurance Company (MARC Life)
- Munich Reinsurance Company of Canada (MROC)
- Munich Reinsurance Company of Australasia Ltd. (MRA)
- Munich Reinsurance Company of Africa Ltd. (MRoA)
- Münchener Rück Italia S.p.A. (MRI)
- New Reinsurance Company (nouvelle ré neue rück new re)
- Great Lakes Reinsurance (UK) PLC (Great Lakes UK)

PRIMARY INSURANCE

- **ERGO Versicherungsgruppe AG** (ERGO)
  - VICTORIA
  - Hamburg-Mannheimer
  - Deutsche Krankenversicherung AG (DKV)
  - Deutscher Automobil Schutz (DAS)
  - KarstadtQuelle Versicherungen
  - ERGO Previdenza S.p.A.
  - ERGO Hestia S.A.
- Karlsruher Versicherungen
- Europäische Reiseversicherung AG (Die Europäische. Reiseschutz und mehr...)
- Mercur Assistance AG
- Munich Re Underwriting Ltd. (Watkins Syndicate)

ASSET MANAGEMENT

- MEAG MUNICH ERGO AssetManagement GmbH

Reinsurance:
We insure insurers

When Munich Re was founded in 1880, it was one of the first independent reinsurance companies, i.e. a reinsurer not run by a primary insurer. Ever since this time, reinsurers have functioned as risk managers, assuming part of the risk covered by primary insurers. Thus, in the insurance industry's value chain, reinsurers and primary insurers are two complementary elements.

The reinsurance market is, by nature, internationally oriented, since many large and catastrophe risks can only be borne in economic terms if they are spread globally. For perils such as windstorm or earthquake, reinsurers can only achieve the required balance of risks if their portfolios are global in composition.

Soon after its establishment, Munich Re expanded its activities to foreign countries. Starting in 1886, it began opening representative offices in Europe, followed by a branch in the USA in 1899. Today it is the largest reinsurer in the world: 5,000 insurance companies in around 160 countries rely on its expertise and financial strength. Of the gross premiums written in 2003, around 73% came from property-casualty and 27% from life and health business. Munich Re offers a full range of products – from traditional reinsurance to alternative risk financing.

Among other things, we reinsure the risks of oil rigs, satellites and natural catastrophes, and those arising from the use of genetic engineering and information technology or from corporate management.

Reinsurance locations

Structure of the reinsurance group

Our reinsurance business is organised in seven operative divisions, six of which service our property-casualty business and special lines, and one of which deals with life and health reinsurance. Full responsibility for each client account lies in one pair of hands. The operative divisions are also responsible for our business locations abroad and for our subsidiaries doing business there.

The division Life and Health underwrites our life and health reinsurance business worldwide. It reflects the structure of many of our clients, which conduct these two classes of business separately from property-casualty insurance, often through independent companies.

In our division Europe 1, we handle the property-casualty business from our clients in Germany, Switzerland and Austria, Eastern Europe, Greece, and Turkey.

Our division Europe 2 and Latin America services clients from Northern, Western and Southern Europe, as well as from Latin America.

EUROPE 1

Munich, Athens, Moscow, Warsaw

EUROPE 2 AND LATIN AMERICA

London, Madrid, Milan, Paris

Bogotá, Buenos Aires, Caracas, Mexico, Santiago de Chile, São Paulo

SUBSIDIARIES/BRANCHES
Munich Ré France, Münchener Rück Italia S.p.A.
Münchener Rückversicherungs-Gesellschaft Sucursal España y Portugal
Munich Reinsurance Company UK General Branch

ASIA, AUSTRALASIA, AFRICA

Beijing, Hong Kong, Kuala Lumpur, Mumbai, Shanghai, Seoul, Singapore, Taipei, Tokyo

Accra, Cape Town, Durban, Johannesburg, Nairobi, Port Louis, Tel Aviv

Auckland, Brisbane, Melbourne, Perth, Sydney

SUBSIDIARIES/BRANCHES
Munich Reinsurance Company of Australasia Ltd.
Munich Reinsurance Company of Africa Ltd.
Munich Reinsurance Company China
Munich Reinsurance Company Singapore Branch
Munich Reinsurance Company Hong Kong Branch
Munich Reinsurance Company Malaysia Branch
Munich Reinsurance Company Korea Branch

SPECIAL AND FINANCIAL RISKS

Geneva, Johannesburg, London, Munich, New York, Sydney

SUBSIDIARIES/BRANCHES
New Reinsurance Company
Great Lakes Reinsurance (UK) PLC
Munich American Capital Markets
Munich-American RiskPartners
Nova Group

NORTH AMERICA

Atlanta, Boston, Chicago, Columbus, Dallas, Hartford, Kansas City, Los Angeles, New York, Philadelphia, Princeton, San Francisco, Seattle, Montreal, Toronto, Vancouver

SUBSIDIARIES/BRANCHESS
Munich Reinsurance Company of Canada
American Re-Insurance Company
Temple Insurance Company

CORPORATE UNDERWRITING/GLOBAL CLIENTS

London

SUBSIDIARIES/BRANCHES
Munich Re Underwriting Ltd.

LIFE AND HEALTH

Atlanta, Chicago, London, Montreal, Princeton, Santiago de Chile, Toronto

SUBSIDIARIES/BRANCHES
Munich American Reassurance Company
Munich Reinsurance Company Canada Branch (Life)
Munich Reinsurance Company UK Life Branch

The division Asia, Australasia, Africa services business from clients in three continents and the Pacific Islands, an area with a wide range of very different insurance markets.

Our division North America is responsible for our subsidiary American Re-Insurance Company and for Munich Reinsurance Company of Canada.

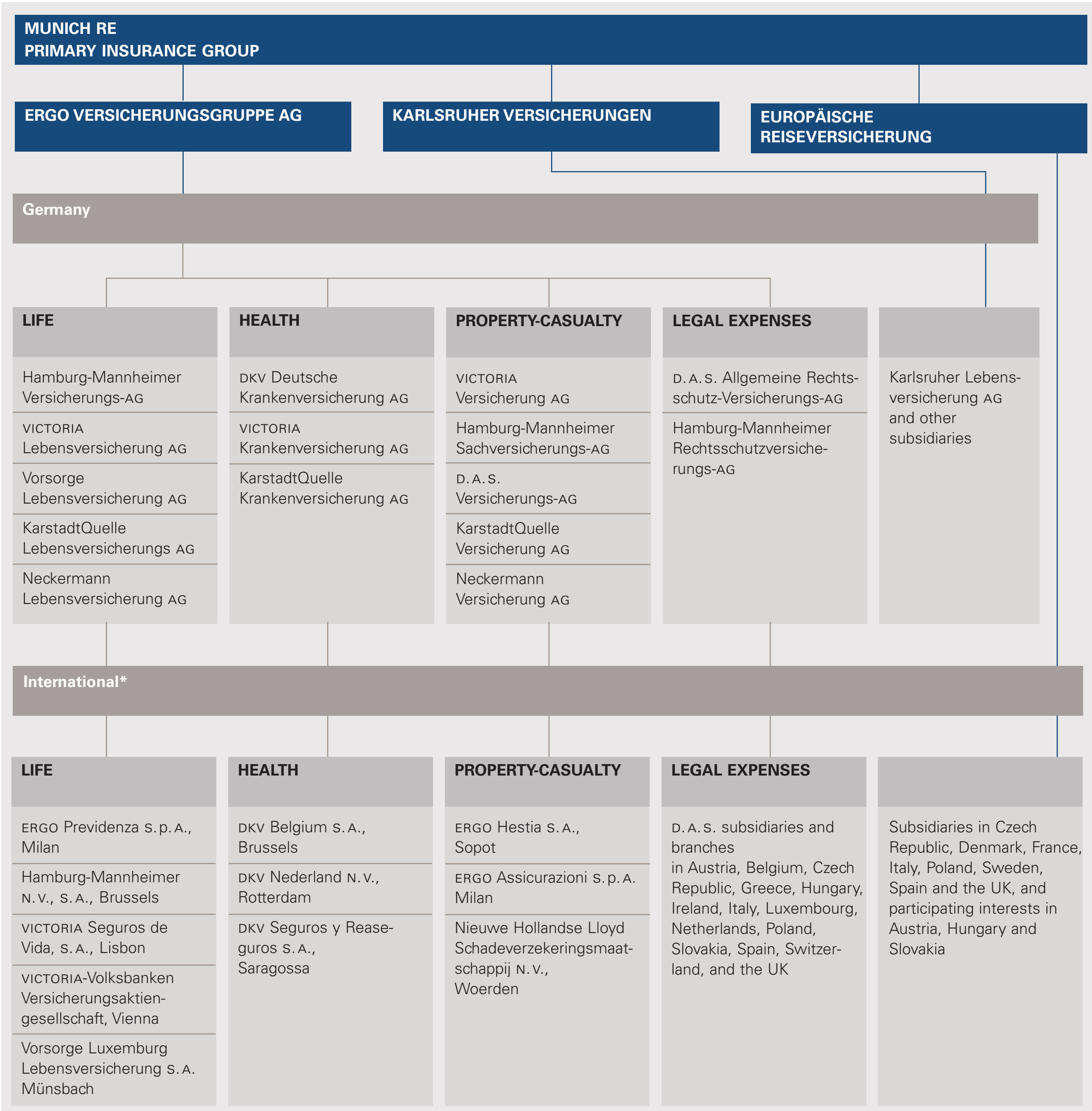
The division Corporate Underwriting/Global Clients handles our accounts with major international insurance groups (hence “Global Clients”) and writes business worldwide in selected special classes such as agriculture and workers’ compensation insurance. Its most important markets are the UK, Germany and the USA. In addition to this, it performs the important function of corporate underwriting for the reinsurance group in non-life business: its staff clarify fundamental, cross-divisional issues of underwriting policy and quality assurance, integrate actuarial methods in our business processes and set standards for claims management and reserving.

Special and Financial Risks (SFR) is responsible for the special classes of credit, aviation and space, entrepreneurial and special risks, and for Munich-American RiskPartners (MARP). In addition, it coordinates overarching innovation projects in the non-life divisions, such as the establishment of new distribution channels. SFR develops and implements such projects for specific divisional topics as well, and functions as an interface between the capital market and the insurance market. SFR is also responsible for the purchase of Group reinsurance (retrocession).

Primary insurance:
We offer security for private clients and for small and medium-sized businesses

The second main pillar of the Munich Re Group is primary insurance business. Here we focus on Europe and particularly Germany, where we are the second-largest primary insurance group in terms of gross premiums written in 2003.

As primary insurers, we provide more than 30 million clients – mainly private individuals and small and medium-sized firms – with security and service in life, health and property-casualty, including legal expenses insurance. 29% of the business derives from property-casualty insurance and 71% from life and health insurance.



* Only ERGO companies with a premium volume of more than €50m are listed by name.

Structure of the primary insurance group

Our primary insurers comprise the ERGO Insurance Group, the Karlsruher Insurance Group and Europäische Reiseversicherung.

The ERGO Insurance Group was created in 1997 by merging the long-established German companies VICTORIA, Hamburg-Mannheimer, DKV and D. A. S. 2002 saw the acquisition of KarstadtQuelle Versicherungen. The main emphasis of the ERGO Group's business is on personal lines insurances, especially insurances of the person, i.e. life, health and personal accident insurance. Another important segment of ERGO's business is insurance for small and medium-sized firms as well as, on a selective basis, industrial business. In health insurance and legal expenses insurance, ERGO is the market leader in Europe through DKV and D. A. S. respectively.

ERGO's marketing is built on the interplay of different distribution channels: apart from its own strong sales organisations, its exclusive Germany-wide partnership with the HVB Group plays an important part. ERGO also has a joint venture with KarstadtQuelle AG for the sale of insurance products.

The Karlsruher Insurance Group consists of five companies that operate for the most part in life insurance, but also in all lines of property-casualty business. They mainly offer personal lines insurance and products for small and medium-sized firms. The group's distribution structure is based on an exclusive Germany-wide sales organisation, on collaboration with brokers and on a network of distribution partners. Life insurance is also sold through branches of cooperative banks, mainly in southwestern Germany.

With numerous subsidiaries and affiliated companies in 11 countries, as well as a network of strategic cooperation agreements, Europäische Reiseversicherung represents an effective international alliance that takes account of the further internationalisation of the travel industry. Its most important product is travel cancellation insurance.

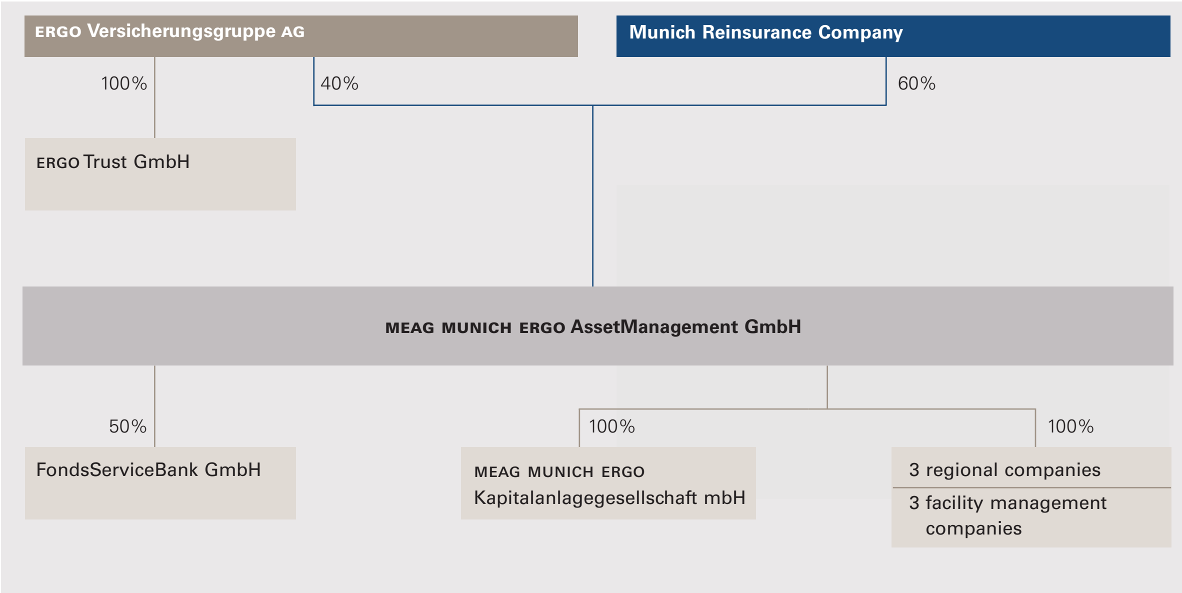
Mercur Assistance offers assistance services worldwide in the field of healthcare and mobility.

The Watkins Syndicate, which operates within Lloyd's of London, has belonged to the Munich Re Group since 1997. The syndicate is a primary insurer specialising in marine business and has taken advantage of the favourable conditions over the last few years to significantly improve its market position. It has broadened its risk profile through service companies in the Midlands and the North of England, in Hong Kong and in Singapore.

Asset management:
We are partners for investment

MEAG MUNICH ERGO AssetManagement GmbH is the investment management centre of the Munich Re Group. At the end of 2003, it had around €135bn of assets under management, making it one of the major asset managers in the European financial sector.

MEAG primarily manages our Group's investments. In this capacity, it is chiefly responsible for direct investment in securities and real estate, and for the assets held in segregated managed funds (special funds). Beyond this, it offers its expertise and know-how to both institutional investors and private clients.



Asset management structure

Munich Re and ERGO founded MEAG MUNICH ERGO AssetManagement GmbH together as a joint venture in 1999.

In 2003, the corporate structure of MEAG and its subsidiaries was reorganised and geared more strongly to third-party clients. Central core functions are bundled in MEAG MUNICH ERGO AssetManagement GmbH. The subsidiary MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH is one of the major investment fund companies in Germany, managing special and retail funds both for Group companies and for clients outside the Munich Re Group.

ERGO Trust GmbH designs, markets and manages investment products in the real-estate and financial services sector. It focuses on institutional investors both within and outside the Munich Re Group.

MEAG and HVB Wealth Management Holding each hold 50% of the shares in the joint venture FSB FondsServiceBank GmbH, which manages investment accounts and provides a wide range of services to partners, intermediaries and institutional investors.

“I do not regard the fight for fiscal promotion of life insurance as lost yet.”

DR. BERNHARD SCHARECK


HENNING GEBHARDT

"Is the life insurance industry undergoing a crisis?" –This question and the main factors of influence such as taxation, cost structure and transparency were discussed by **Dr. Bernhard Schareck**, President of the German Insurance Association and **Henning Gebhardt**, Senior Fund Manager Equities at DWS Germany, in Karlsruhe.

GEBHARDT: Dr. Schareck, has the life insurance industry solved the problems connected with the capital market? What are the consequences for your industry of the German government's plans to tax life insurance payments at the benefit stage?

SCHARECK: First of all, it's true that the life insurance industry has gone through a difficult time – but not a crisis. Insurance clients have not lost a single euro as a result of the stock market slump. Our industry is working hard on topics like the taxation of life insurance. Things are looking up again, and I do not regard the fight for fiscal promotion of life insurance as lost yet. The government has an obligation to create and maintain tax incentives for making private provision. Anything else would be short-sighted.

GEBHARDT: The debate about how life insurance companies should be taxed in future attracted a great deal of attention in 2003. The press spoke of a tax gift. What's your view?

SCHARECK: The current legislation was not a gift but the necessary correction of a shortcoming in the tax laws. Given positive stock markets and the divergence between commercial and tax accounts, we wouldn't have had to pay tax any more under the legal situation of 1999 – we would have always shown a loss. In the negative stock market situation, however, we could no longer offset our losses on shares. This was a systemic defect in German tax law. We therefore greatly welcome the fact that the law was changed on 19 December 2003. The difficulties of the last three years should now have been overcome, with the "hidden losses" being significantly reduced as a result.

> "Life insurers are also dependent on the current capital market situation for the returns they earn."
>
> DR. BERNHARD SCHARECK

GEBHARDT: Stock market slump, economic slowdown and the government's taxation plans have certainly had an impact on the insurance industry. But the fundamental problem in our view is one of asset-liability management: the balance between the assets and the liabilities sides of the balance sheet.



SCHARECK: Asset-liability management can be improved. But you shouldn't forget one thing in your criticism: generally, such models have horizons of 18 or 24 months. Insurers, on the other hand, offer contracts and guarantees for periods of 60 years or more.

GEBHARDT: The long-term nature of your products is something you must and can convey to your clients. The Germans of all people are security fanatics. On the one hand, they want to insure their lives; on the other hand, they regarded the return of 6% which the life insurance industry used to offer as almost permanently guaranteed. And now many are disappointed.

“The fundamental problem in our view is one of asset-liability management.”

HENNING GEBHARDT

SCHARECK: You're right. This may be down to a problem of communication in our industry. We have to make it much clearer to our clients that life insurers are also dependent on the current capital market situation for the returns they earn. The fact is that capital market slumps mean a reduction in policyholders' bonuses in life and annuity insurance.

GEBHARDT: Life insurance used to be considered separately from other products. Nowadays you find your products in keen competition with other forms of investment. Has there been any convergence?

SCHARECK: One trend is for clients and rating institutions to base comparisons solely on interest rates and returns. In so doing, they ignore an important aspect – that we also cover biometric risks. This fundamental benefit of our products first has to be paid for. We should emphasise this more strongly in future and be even more responsive to clients' needs and the capital market situation.

GEBHARDT: The basic problem that we analysts see, of course, is that in some cases insurers' profitability is rather weak because the returns they earn from their products have declined. We would like cost structures to be changed.

SCHARECK: I grant you there is some room for improvement in cost structures. But even if the cost problems still present in some parts of the industry are solved, we still won't earn the same returns as in the past. Clients and investors need to take one thing on board. During the phases of high interest rates in the past, we always had a relatively high inflation rate. Today we have low inflation and low interest rates. There is a connection between the two.

GEBHARDT: Many clients are clearly not aware of what they can expect from their life insurance company – which payments are guaranteed and which are merely prospective. Have companies neglected their duty to inform clients properly?

SCHARECK: Transparency must be improved. Take marketing, for example. From 2005 at the latest, clear rules will apply here: anyone selling insurance policies must write a report containing details of the information given to the buyer, including the promised return. In the event of a dispute, these notes can then be referred to. And on the investment side, new rules will improve safety standards in the field of risk analysis and risk prevention.

Business issues 2003

The high standards we apply to everything we do are one of Munich Re's distinguishing features: whether it be our business performance, our financial strength, our relations with partners, our competence and our opinion leadership on current issues, our capacity for innovation or our breadth of vision.

The following selection of topics from the business year 2003 shows the inseparable link that exists for us between these standards and reality.

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Growth market Asia__>> page 51
SARS__>> page 52
Drought__>> page 54
Disability__>> page 57
Awards__>> page 59

Service:
Munich Re as knowledge partner

Good service is a Munich Re hallmark. It includes answering questions like: "What would happen if Alzheimer's were curable?" or "How do you manage natural hazards?"

Many carefully devised, detailed solutions go to make up our extensive package of services. Those provided by our primary insurers are better known to the public, so we intend to focus in the following on the broad range of services we offer in reinsurance.

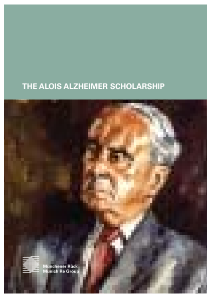
Ancillary activities demonstrate our expertise and capacity for innovation, supporting our reinsurance business and strengthening our client relationships. Naturally, our clients could approach other providers for individual services – management consultants or research institutes, for example. However, our service has a particular strength: we combine specialist knowledge with many years of international experience, all-round consultancy and, last but not least, our common interest in sharing risks. For our clients, the service we provide is real added value. It embraces elements that only we offer in this breadth. With these activities, we are the recognised market leader in quality.

Service in reinsurance – what this frequently means is acquiring, using and passing on knowledge: in seminars, through publications and via discussions with clients in the market. Service and knowledge are embodied by our centres of competences like Geo Risks Research, which studies the global distribution of loss potentials from natural hazards, especially the marked trend towards more catastrophe losses. Our staff analyse the causes, such as concentration of values, vulnerability and climate change, and evaluate the results. Clients often avail themselves of the wide spectrum of resultant services: through expert reports, statistics, accumulation studies, publications and presentations.

Another example is our Centre of Competence for Biosciences, where our scientists and insurance experts work hand in hand to provide clients with the latest findings and information on genetic engineering. They address questions like: What happens if genetically modified organisms are involuntarily released? What would it mean for health insurance if Alzheimer's were curable? What would be the consequences for life insurance if people lived to an average age of 90? Staff from this centre of competence initiate discussion rounds and take part as speakers in courses, workshops and seminars for our clients.

Here as our guests

The first seminar event documented in our company's chronicles took place in 1953. Back then, we laid the foundations for what has become a wide-ranging programme of ongoing dialogue and partnership – both important Munich Re constants. We were therefore proud to celebrate a 50th anniversary in 2003 under the motto "50 years of knowledge dialogue". Munich Re seminars are a central component of our client service. Over 40 seminars and similar events, with well over 1,000 participants from 71 nations, took place at Munich Re in 2003. Seminar topics ranged from "Basics of reinsurance" and "Management of natural hazards" to "Loss prevention in burglary insurance" and "Claims handling in disability insurance". In response to client requests and changes in market situations, we devise new seminars and revise or update existing ones. This was the case, for example, with one of our two scholarship programmes, the Alois Alzheimer Scholarship. Like the Dr. Horst K. Jannott Scholarship, this is geared to up-and-coming managers from the international insurance industry. With its varied programme, it covers all the main topic areas from insurance and reinsurance. Besides helping to foster the development of our international clients' future managers, we attach importance to inviting experts and cedants to our traditional client and market events, such as the International Liability Forum or the primary insurers' annual Reinsurance Managers Meeting. Our main aim here is to offer a platform for information and dialogue.



A brochure provides information on our Alois Alzheimer Scholarship (see page 223 for the ordering address).

We also pass on knowledge in printed form, of course. Over 100 brochures deal with topics like genetic engineering, damage caused by pharmaceutical products, nanotechnology, recycling, pipelines, high-rise buildings and 11 September 2001. Some of our publications, such as the World Map of Natural Hazards (available as a brochure, wall-map or CD-ROM), are regularly referred to in press reports. An example of how individually Munich Re responds to the interests of its clients, and the extent to which it supports them with print media, is the brochure "Recall of defective products: Practical guidelines for small and medium-sized companies". This contains explanatory notes, checklists and even an action plan.

Service online

We provide our clients with service in electronic form as well – with MIRA, Munich Re Internet Risk Assessor, in life and health business, for example. MIRA is an internet platform for underwriters. On over 10,000 webpages, it offers up-to-date information on risk assessment for areas such as medicine, occupations, financial situation, foreign countries and travel. This supplies our clients with an improved basis for their decision-taking prior to issuing policies.

We have listed all our publications in a 175-page catalogue (see page 223 for the ordering address).

A further online service is connect.munichre, a joint platform for Munich Re and its business partners. The internet portal gives users access to our extensive know-how, which we also tailor to meet individual client requirements. Besides this, connect.munichre makes available current information and a whole range of analytical and transaction tools. For licensed users, connect.munichre is a direct and secure interface to Munich Re. It supports our business partners in their daily work, in such fields as product development, risk management or claims settlement in property, casualty, marine and life insurance. The platform also takes country-specific features into account.

Healthcare is the topic dealt with by ATHENA, one of our information systems on the internet. It helps identify and evaluate hospital risks, recording deviations that result from inadequate diagnosis, therapy or aftercare, and passing this information on. ATHENA thus improves the quality of treatment and care and enables hospitals to avoid or reduce financial losses.

A well-organised input mask enables users to enter data quickly and fully, thus ensuring that all the requisite information is recorded.

The services provided by our unit Casualty Risk Consulting (CRC) primarily revolve around the subject of the environment. CRC staff analyse and evaluate for our clients the technical condition of production facilities, for example. These may be hazardous industrial plants of chemical or pharmaceutical companies, paint factories, steelworks, refineries, waste incineration plants or landfills. CRC's experts suggest measures for minimising risks to the environment, assess losses, determine causes and scope of damage, and offer clients support for clean-ups.

This overview of our range of services gives an impression of how broad the spectrum is. Service plays a major role in shaping our business relations, for alongside risk partnership, "knowledge partnership" is a key part of our client relationships. It results in close ties and delivers mutual benefits: with each service that we offer, we learn something about our clients' requirements; at each seminar, we obtain information on our clients' needs and wants. Whether it is the assessment of a site's earthquake exposure or a recall plan: these services are an inseparable part of our business.

Growth market Asia:
Outstanding position for Munich Re

In the increasingly significant Asian markets, Munich Re is building on its strengths: tradition, knowledge and strong capital resources.

The Chinese and Indian economies are growing rapidly. They need more insurance and reinsurance capacity every year to cover their risks. Munich Re began its involvement with the national markets at an early stage, thus securing a promising competitive position.

Breaking new ground in China

In 2002, Munich Re became the first foreign reinsurer worldwide to obtain a licence from the China Insurance Regulatory Commission to open a branch in the People's Republic. In October 2003, we opened our Beijing Branch. The licence gives us access to the whole composite insurance market. We can thus operate as a reinsurer without restrictions – including transacting business in the domestic currency – and this at a time when the Chinese insurance market is recording double-digit growth rates, reflecting the dynamic development of the economy as a whole. The demand for the widest possible range of products is high, from all forms of risk management and risk cover to asset-liability management.

Until the People's Republic joined the WTO in 2001, international reinsurers were only able to write foreign-currency business. The supervisory authority has now opened the door for licensed foreign reinsurers to write business in local currency as well. One consequence of the WTO agreement is that the monopoly of China Re, the sole state reinsurer, is being weakened. By the year 2006 its compulsory quota share cessions will be ended, so that there will then be open competition in the reinsurance sector as well. With the growth rates of recent years, the Chinese insurance market numbers among the most dynamic in the world. Before the end of this decade, it will be among the ten largest in the world. In 2002, for example, gross premium volume rose by 44% to US$ 37bn (€29.9bn).

As a result of our good business relations with this market, which date back to 1956, our portfolio is growing positively. With the opening of our representative offices in Beijing and Shanghai in 1997 and with our branch in Hong Kong, which has been in existence since 1962, we were very well represented in relation to market development. The opening of our branch in Beijing in October 2003 provides the platform we need to continue our successful operations in this market.

Tight regulation in the Indian market

The Indian insurance market is also growing in importance. For foreign companies, however, it still offers a rather restrictive environment. We intend to strengthen our involvement in India, especially by reinforcing our representative offices, which have been in operation since 1997. In addition, we are preparing to set up a service company that will further expand and intensify the services we offer. It will initially focus on life reinsurance.

As far as non-life business is concerned, we are supporting the introduction of legislation that allows us to set up a branch, thus giving us largely unrestricted access to the market. We are confident that under the WTO agreements the restrictions currently applying will be overcome.

SARS:
The risk of infections

SARS and BSE are just two examples of new infectious diseases that may endanger both people and the economy.

In spring 2003, a new disease triggered fear and panic around the world: SARS – Severe Acute Respiratory Syndrome. The symptoms were high fever, a sore throat, severe coughing and shortness of breath. SARS is an example of an infectious epidemic: a sudden, unexpected large-scale manifestation of an initially locally contained, infectious disease which spreads rapidly and with great virulence.

The SARS virus was probably brought to Hong Kong by an infected doctor from the southern Chinese province of Guangdong. From Hong Kong it then spread virtually all over the world. The epidemic broke out back in November 2002 and its first wave ended around mid-June 2003. According to statistics of the World Health Organization (WHO), around 8,445 people contracted SARS worldwide, 812 of whom died. Worst hit was the People's Republic of China, with 5,327 cases and 348 deaths, and Hong Kong (1,755 and 298 respectively). Apart from the threat to health, SARS had a huge impact on the economy. Tourism practically collapsed, economic activity flagged and stock prices in Asia fell. The Asian Development Bank estimated that the consequences for the GDP of the economies in East and Southeastern Asia alone totalled US$ 18bn, representing a good US$ 2m per SARS patient.

But it was not only Asian regions that were affected. In Europe and the USA, too, fear of SARS grew – with far-reaching consequences: trips to Asia were cancelled and European staff were ordered by their firms to return home.

Dampener on travel

As far as holiday travel was concerned, SARS mainly affected long-haul flights but not the bulk of holidays in Europe. The Munich Re subsidiary Europäische Reiseversicherung AG recorded a substantial reduction in business, but there was no major "SARS cancellation wave". This was due to the information campaign conducted by Europäische, as well as to the new "deterrent" in the form of a deductible in travel cancellation insurance (since 1 November 2002) and to a stricter checking of trip cancellations.

Europäische Reiseversicherung's new product Corporate Travel Insurance offers business travellers a combination of insurance, service and assistance. A 24-hour emergency team is available to provide help in any situation, even with unusual measures: when SARS was spreading through China, beds were provisionally reserved in specialist clinics.

Mercur Assistance, which among its other activities provides the emergency call centre for Europäische Reiseversicherung, DKV and VICTORIA Krankenversicherung, was also confronted with SARS when patients had to be repatriated or major use was made of "Demand Management", a medical information hotline for health insurers. Mercur Assistance's travel agency recorded fewer bookings for business travellers.

Serious as SARS was, the media dramatised its effects and fuelled fears of a global epidemic. Yet even though the danger from SARS was ultimately overrated, the significance of infectious diseases as a whole generally tends to be underestimated. In the last 30 years, scientists have discovered 20 new infectious diseases, including the cattle epidemic BSE. On top of this, already known viruses, which were thought to have been contained, have begun to spread again, e.g. cholera from southern India to China. In countries like Brazil, Zaire and Vietnam, the plague has re-emerged.

Infectious diseases on the advance

17 million people die from infectious diseases each year. The viruses that cause them are transmitted in very different ways. Particularly dangerous are those which cross species barriers. The human immune system is not equipped to fight off viruses from, say, cats.

WHO prognoses warn of an increase in infectious diseases in the next few years. They could spread quickly, given that both the world's population and the number of travellers are growing. Environmental pollution and climate change are likely to considerably exacerbate the problem. This gives rise to new questions and problems for insurance companies. They have to take into account that vaccinations and hygiene measures against infectious diseases offer less protection than experts had assumed for many years. It is also difficult to estimate the risks of epidemics, since the speed and methods of transmission differ from virus to virus. Other aspects to be considered are that the people who contract a disease react differently and that methods of treatment vary.

Epidemics as insured events

Epidemics can result in losses affecting various classes of insurance: from cancellation of events, business interruption and third-party liability to increased sickness and mortality involving medical personnel, especially in health, life and workers' compensation insurance.

Our experts keep a close eye on potential risks and devise suitable measures to control and contain them. Epidemics like SARS transcend borders, but the risks for the insurance industry depend very much on the local markets. Cover for business interruption, for instance, usually presupposes insured material damage. In some Anglo-Saxon insurance markets like the UK, the USA and Hong Kong, however, covers exist in which insurance protection is given without material damage, so SARS may also be a risk in property insurance.

In health, life and workers' compensation insurance, the loss potential for private insurers depends on the degree to which state social security systems in the respective countries provide cover for medical care, for continued pay in case of sickness, and for pension payments in the event of disability or death.

Drought:
Hundred-year summer causes billion-euro losses

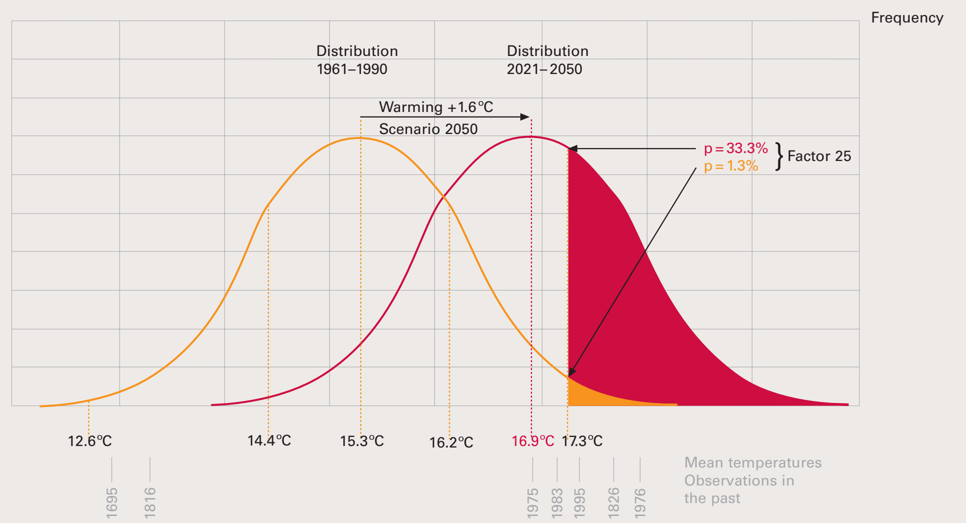
Europe is discussing the introduction of multi-peril crop insurance along US lines.

Too hot, too little rain: the extreme summer of 2003 gave rise to major crop losses for farmers in many regions of Europe, especially France. In Germany alone, the overall loss is estimated at more than €1bn. Since drought insurance is not available in Germany or most of the other EU states, the cost for the insurance industry was low. However, the drought of 2003 has fuelled debate throughout the EU on whether a state-backed multi-peril crop insurance should be introduced, based on the US model.

Increasing weather extremes and their consequences

The summer of 2003 was an event calculated to occur on average every 450 years at most. But there will be such heat periods more and more often in future. Climate scientists have stated that only slight rises in average temperatures can result in significantly greater changes in extreme values. This leads to more heat periods, more record downpours and more thunderstorms. The risk of severe weather and hailstorms also grows disproportionately with each degree that average temperatures climb upwards. The consequences: neither buildings and infrastructure nor the agricultural and livestock sectors are prepared for such extremes. This is why the losses triggered by these increasingly extreme events are so large – and they are becoming more frequent: what we call a hundred-year event today, will become a ten-year or 20-year event as a result of climate change.

Extreme values will increase – Summer temperatures in Central England



Temperature and precipitation distributions often produce typical patterns that follow the Gaussian bell curve. Extreme values occur rarely (at the ends of the bell curve); normal values occur frequently (in the middle of the curve). The example of summer temperatures in Central England clearly shows that extremely hot summers are very rare. Given a general increase in temperature, the frequency distribution (bell) shifts towards the right into the warmer zone. In a climate that is just 1.6°C warmer, a rare hot summer like 1995 (with an occurrence probability of 1.3%, i.e. on average once every 75 years) occurs 25 times more frequently. This means that we then have to expect a comparably extreme summer every three years. As a result of the current process of global warming, the hot summer in Europe in 2003 shifted from a 10,000-year event to a 450-year event (the occurrence probability was reduced by a factor of 20!).

Source: Climate Change Impacts UK 1996

Precipitation was already below average in the spring of 2003. In Bavaria, the amount recorded between February and August was only 40% of the usual quantity. Throughout Germany, the levels of lakes and rivers fell to record lows. Very high temperatures combined with prolonged periods of drought caused crop damage of varying severity, depending on the region. In the meteorological summer (June to August) the mean temperature in Germany was no less than 3.4°C above the average for the period 1961–1990 (the yardstick for the "climatic normal period").

What does this imply for agriculture? The prospects of achieving higher yields are constantly increasing, thanks to improved agricultural methods and more productive crop strains, but these yields are tending to fluctuate strongly because of weather extremes. The summer of 2003 was an example of this: European farmers sustained losses ranging from minor reductions in crop output to total losses. In Germany, the yield of wheat, barley, maize and the fodder crop triticale was about 15% lower than the five-year average (see below). Potato yields fell by 25% on average. The supply of green fodder also suffered badly, the ensuing fodder deficit amounting to 30% in Germany and as much as 60% in France.

Percentage decline in yield of various crops in 2003 compared to the five-year average

	Wheat	Barley	Rye	Maize	Triticale
Germany	–12	–14	–21	–17	–16
France	–13	–10	–13	–20	–12
Italy	–19	+5	–3	–36	+11
Greece	–14	–16	–3	–37	
Austria	–13	–9	–17	–14	–18

Sources: FAO (five-year averages), Coceral (harvest estimate 2003)

Counting only the main types of crop – wheat, barley, rye and maize – the loss to farmers in Germany adds up to around €700m, and in the EU to €3bn (see below). The most badly hit was France, where yields fell by around €1.3bn, especially due to the extreme losses in the main crops, wheat and maize.

Decline in yields in €m

	Wheat	Barley	Rye	Maize	Total
Germany	–325	–210	–75	–91	–701
France	–604	–142	–2	–466	–1,215
Italy	–171	+5	–	–592	–758
Greece	–26	–7	–	–113	–146
Austria	–23	–11	–3	–10	–46
Total	–1,149	–365	–80	–1,272	–2,866

Sources: FAO (five-year averages); Coceral (harvest estimate 2003)
Prices: Rheinische Warenbörse (Rhineland commodity exchange)

Since such drought losses are currently uninsurable in the EU, with the exception of Austria and Spain, the record summer only had a small impact on agricultural insurance. However, this also means that farmers were largely left to shoulder their crop losses alone. Emergency state programmes exist, but they do not give farmers a definite entitlement to claim. What is more, they usually cover only a fraction of the actual losses.

Risk management for agriculture

A solution to this problem is being intensively debated and negotiated in the EU. A state-backed multi-peril crop insurance, based on the US model, could be one solution. This has existed for decades in the USA and meanwhile covers all natural perils. The state acts as a risk partner to agriculture and the insurance industry by subsidising the premiums for multi-peril crop insurance, participating in the reinsurance and carrying the administrative costs. Without state support, the premiums would be too high for farmers, and state co-financing is required for catastrophes. The system has become one of the American farmers' most important risk management tools.

In Germany and other EU states, insurers and reinsurers are working closely together with farmers and agricultural associations to devise a cover against crop losses due to natural hazards. Munich Re's agricultural department is supporting this development work with its global experience of such systems, through technical contributions on expert committees, and in public relations activities.

Disability: Private provision pays

Personal insurance closes the gap in provision left by state cuts.

State benefits for occupational disability in Germany have fallen drastically since the "pension for reduced earning capacity" was reformed at the end of 2000. The life insurers in the Munich Re Group offer effective disability products that can bridge the gaps in provision. They are meeting the growing demand for such private provision with a differentiated range of covers. In reinsurance, Munich Re supports clients offering these products with its extensive range of services.

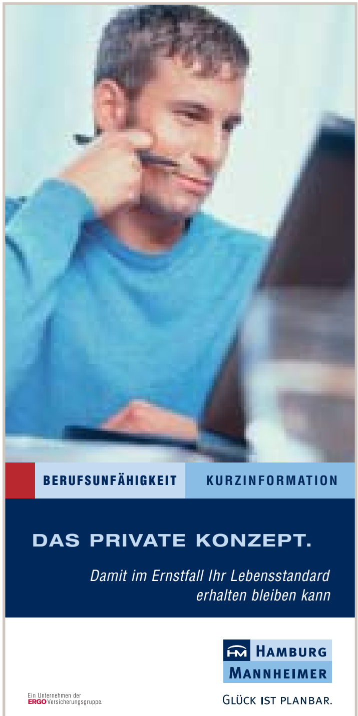
According to statistics published by the state pension insurance carriers, a good 20% of all employees in Germany have to retire early for health reasons. Around half of these are still under 40. However, since the last pension reform, the benefits payable under state social security have been significantly reduced. Employees born after 1 January 1961 are merely insured against general disability, i.e. they are only entitled to benefit if, for health reasons, they are no longer able to pursue an occupational activity of any kind. Otherwise, they are required to do jobs that may not match their training qualifications or professional experience. The state will pay a full or half pension for reduction in earning capacity, depending on how many hours the insured is still able to work in any job. The full pension is payable only to insureds with a remaining earning capacity of under three hours per day. Persons who can work between three and six hours per day receive just half the amount.

For all those born before 2 January 1961, the law provides for protection of legitimate expectation, i.e. their cover for occupational disability remains intact. Nevertheless, the envisaged "pension for reduced earning capacity in the case of occupational disability" amounts to only half the full pension for reduced earning capacity. In other words, this group is also in a considerably worse position with regard to state disability pensions as a result of the pension reform.

Protecting standards of living

Particularly exposed are people at the beginning of their working lives, since they can only claim benefits if they have paid compulsory contributions to state pension insurance for at least three years before any reduction in earning capacity. The self-employed and freelancers also have only small entitlements under state social security and are therefore more dependent on private provision.

Yet even those who receive a full pension for reduction in earning capacity face potential financial difficulties: the pension amounts to only a little more than a third of the recipient's last gross earnings on average. As a rule, they will not be able to maintain their standard of living with this pension – unless they have savings to draw on or have made private provision. This is why the demand for disability insurance in Germany rose sharply after the last change in the law in 2001 and continues to be high. State benefits have also been cut in other European countries, resulting in a similar increase in the significance of private disability insurance. The primary insurers in the Munich Re Group offer products in this field to meet the need for coverage as social security is reformed. In Germany, they have a share of over 10% in this growth market.



Private disability insurance protects against a sudden drop the policyholder's standard of living. The primary insurers in the Munich Re Group offer extensive consultancy and individually tailored products.

Disability insurance is a complex insurance product that is influenced by many factors. Thus, for example, profession, conditions of insurance and economic environment play a crucial part. As market leader, Munich Re supports primary insurers with its individual service: the occupational class tariff or the development of modern conditions of insurance are just two examples. Our range of services makes a decisive contribution to the profitability of these products for primary insurers and we benefit in turn from this as reinsurers.

Awards:
A sign of quality

In 2003, the Munich Re Group received a number of awards. We are delighted about such recognition, and thank all of our staff who contributed to this success.

Munich Reinsurance Company
Global Finance Award
Category Best Companies: Europe – Insurance
(US magazine Global Finance)

American Re
Best Overall Reinsurer
(2003 Survey of US Cedant Perceptions About Reinsurance and Reinsurers by Flaspohler Research Group)

Munich Re of Australasia
Reinsurer of the year
(Banking and Finance Magazine of Australia)

Mercur Assistance
Best German IT project
(Computerwoche and Gartner Deutschland)

MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH
- Second place among the “small groups” in the one-year performance class (Standard & Poor’s Fund Awards 2003)
- Best Bond Group Germany (Lipper Fund Awards 2003)
- First place for MEAG EuroRent in the five-year performance class (Standard & Poor’s Fund Awards 2003 in the European bonds category)
- Around 70% of the retail funds were given four or five stars (volume-weighted according to Standard & Poor’s at 31 December 2003)

Information on other awards can be found in the sections “Munich Re shares” (page 18) and “Corporate responsibility” (pages 74 and 81).

“A forward-looking human resources policy also depends on realising the potential of female staff.”

DR. NINA VON STEBUT

RENATE SCHMIDT

"Professional careers at Munich Re" was the title of a study commissioned by Munich Re from the Faculty of Social Sciences at Munich's Ludwig Maximilian University in 2000 with the aim of making better use of our female staff's potential. **Dr. Nina von Stebut**, head of the study, spoke with German Family Minister **Renate Schmidt** in Berlin about men and women, part-time work and parental leave, and possible measures that could be taken at political and company level.

STEBUT: Mrs. Schmidt, is there a difference in working life between men and women?

SCHMIDT: Statistically speaking, yes. But in reality, of course, "women" are every bit as individual as "men". We really should be getting away from the idea that there is a patent solution to women achieving professional success. I wouldn't for the life of me want the more colourful careers often pursued by women to become as limited as men's. A large percentage of women are not prepared to invest 100% of their lives solely in their jobs. But a large percentage of men do just that, not realising how much it impoverishes their personal lives. And in management positions, companies rely far too much on the "150% people".

STEBUT: That's fine, but I don't think it's enough to say: "You must be more active." Companies also need to invest more in up-and-coming female staff – right from the start – so that they have the relevant potential for management positions.

SCHMIDT: Of course, there is a need for some rethinking in companies. Women should not be regarded from the beginning just as potential mothers. Even if they are mothers or intend to have children, that should not disqualify them professionally. We shouldn't try to make women into "better men". Besides their professional qualifications, women have the ability to work in teams and solve conflicts: qualities that are vital in today's management positions.

> "There is a need for some rethinking in companies. Women should not be regarded from the beginning just as potential mothers."
>
> RENATE SCHMIDT

STEBUT: You're saying that men can learn from us? The important point for me is that women today are often just as well-qualified as men, sometimes even better. Despite this, we find time and time again that women with the same qualifications as men earn less for doing the same jobs.

SCHMIDT: I was a data processor back in the sixties and seventies, an absolute novelty for a woman. I was proud of what I earned, considerably more than all my female friends, but it was still much less than my male colleagues. Women are often too modest; a man fights for his salary, a woman is often embarrassed about it. We have to overcome this.

STEBUT: Let's go back to the issue of children. One of the points we have studied is: Are children the main reason why women don't make it into higher positions? The first question to ask here is whether the women concerned actually have children. And the results are that only 22% of the women in qualified positions between the ages of 30 and 40 at Munich Re have children.

SCHMIDT: ... unfortunately, far too few ...

STEBUT: ... and in management positions there are only 3% fewer. In other words, women with children do make it – but just as seldom as women without children. A further aspect: how are women and men in management positions regarded?

“Are children the main reason why women don’t make it into higher positions?”

DR. NINA VON STEBUT

The study shows that women in such positions are very highly rated by their staff, both male and female, especially in those areas which are not considered “classically female”, such as strategic orientation. Getting women into management positions is therefore of economic benefit for a company and, in the long term, certainly for society as well. We know the demographic trends and we know that in future we will need many more qualified staff. That means we have to integrate more women.

SCHMIDT: ... despite the danger of losing them. It’s good if they can remain integrated during a family phase – I mean, if the periods of parental leave are not too long, if working times can be offered that are family-friendly and above all involve the men, too. Munich Re should encourage its male management staff to take parental leave and work part time as well. That would set an example and bring the careers of men and women closer together. Naturally, there is also the fear among men that women will disrupt their networks which have functioned so well. We women have so far made much too little use of such networks.

STEBUT: That brings us to a structural question – as long as women remain the exception in management positions, there is little chance of these things happening. We need role models so that women can also build up networks throughout companies. To achieve this, a deliberate effort must be made to increase the proportion of women in management positions. We need concrete measures, and also a certain amount of pressure from the highest company level.

SCHMIDT: What is currently being promoted in German companies is greater compatibility of child-rearing and employment through suitable work-time models, and this is still too often limited to mothers. Such compatibility for both sexes is the issue of the future.

STEBUT: Compatibility is important. But that merely makes it possible for women to go to work at all. What about career development? We have seen that many women without children don’t advance through the ranks either. Companies must change their personnel investment habits in order to integrate women better. Munich Re has recognised that a forward-looking human resources policy also depends on realising the potential of female staff. As a result, the proportion of women in management positions has risen in the last few years from 9% to 19% today. These are important first steps – the results of the study will enable us to make further progress.

Corporate responsibility

We see **corporate governance** as an ongoing process and have taken further steps to enhance our responsible company management and control. __ >> page 68
The **rating agencies** continue to attest to Munich Re's high degree of financial flexibility and welcome our long-term strategy. __ >> page 70
The skills, creativity and dedication our **staff** are the foundation for our Group's success. __ >> page 72
Social commitment is an inseparable part of our corporate culture. That is why we give our support to social, medical and cultural projects. __>> page 76
Environment and climate protection are among our core competencies, concerned with addressing the development of significant risks. That is why we seek dialogue on these topics and pass on our know-how. __ >> page 79

Report of the Supervisory Board

Ladies and gentlemen,

The Supervisory Board concerned itself intensively with the Company's situation in the past year. We performed the duties incumbent on us by law and under the Articles of Association and monitored the Board of Management in its running of the Company. The Board of Management informed us promptly, extensively and regularly about all important business transactions. We were involved in all decisions of fundamental significance and held two extraordinary meetings for important measures to be taken. As Chairman of the Supervisory Board, I kept in close contact with the Chairman of the Board of Management between the official meetings and obtained ongoing information about the Company's position.

Focal points of the Supervisory Board's meetings

In the business year 2003, six meetings of the Supervisory Board took place, attended by all the members in virtually every case.

At an extraordinary meeting of the Supervisory Board on 26 March 2003, the Board of Management explained the key data for the business year 2002 and informed us in detail about the intention to strengthen Munich Re's capital base by issuing two bonds with a total volume of around €3.4bn. Another important topic was the further reduction of the reciprocal shareholdings of Munich Re and Allianz, without any effect on their business relations.

On 28 April 2003, at its balance sheet meeting, the Supervisory Board approved the company financial statements and consolidated financial statements for 2002. Also at this meeting, a decision was taken on the successor to the Chairman of the Board of Management, who was retiring on 31 December 2003.

At our meeting prior to the Annual General Meeting on 11 June 2003, the Board of Management gave a detailed report of business development in the first quarter of 2003.

On 15 September 2003, the Board of Management informed the Supervisory Board extensively about the development of the Group result in the first half of the year, which was marked by an extremely heavy tax burden. The Supervisory Board obtained information on the results in the Munich Re Group's reinsurance and primary insurance segments, as well as on the prospects for the business year 2003 and the business policy and planning for 2004. A subject also addressed was the structure of the remuneration system for the Board of Management.

On 16 October, another extraordinary meeting took place, at which we discussed in depth the volume and conditions of the planned capital increase.

At our last meeting of the year, on 5 December, the Board of Management briefed us in detail about the result of the first three quarters of 2003, the outlook for the 2003 annual financial statements, and the updated planning for 2004. We additionally discussed the efficiency of the Supervisory Board's work and the wording of the declaration of compliance by the Board of Management and Supervisory Board.

Between the meetings, we were informed comprehensively in writing about various business transactions, including the successful renewals in reinsurance business, the further reduction of Allianz's and Munich Re's crossholding, the subordinated bonds, the sale of Munich Re's stake in Hypo Real Estate Holding AG, and the termination of the "principles of cooperation agreement" with Allianz.

Committees of the Supervisory Board

The four committees of the Supervisory Board are each composed of shareholder and employee representatives. Except for the Audit Committee, they are chaired by the Chairman of the Supervisory Board. The composition of each committee is shown separately on page 36.

The Personnel Committee met five times in the year under review. It concerned itself with changes on the Board of Management, with the compensation structure and remuneration for members of the Board of Management, and with the latter's acceptance of seats on external supervisory, advisory and similar boards.

The Standing Committee, which met six times, considered in particular the Company's capital measures – the issue of the two hybrid bonds and the capital increase. It also discussed the further implementation of the German Code of Corporate Governance. In this connection it prepared proposals to improve the efficiency of the Supervisory Board's work and submitted these to the full Supervisory Board.

The Audit Committee met for the first time on 27 April 2003, and subsequently a further three times. Its first meeting dealt mainly with the company financial statements and the consolidated financial statements. In accordance with the newly organised responsibilities, it made preparations for the appointment of the external auditor, which has to be decided on by the Supervisory Board as a whole, and obtained the auditor's declaration of independence. Further main points of emphasis were the quarterly financial statements and risk management, which included taking a close look at the most important commercial and financial risks that exist for our group of companies. At three of the meetings, the auditors were present for part of the time and reported in detail on their audit work.

The Conference Committee as per Section 27 para. 3 of the German Co-Determination Act did not need to be convened.

Regular detailed information about the work of the committees was provided at the meetings of the full Supervisory Board.

Annual financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the following documents and gave them an unqualified auditor's opinion: Munich Reinsurance Company's bookkeeping, its company financial statements and its consolidated financial statements as at 31 December 2003, plus the management reports for the Company and the Group. The auditor's reports were promptly given to all the members of the Supervisory Board. The Audit Committee examined the company and consolidated financial statements, the management reports and the auditor's reports and discussed them in detail with the auditor at the Audit Committee meeting on 13 April 2004 in order to prepare for the examination of the audit by the full Supervisory Board. The results of the Audit Committee's discussion were then presented to the full Supervisory Board at its meeting the following day.

The Supervisory Board closely considered the company financial statements, the consolidated financial statements, the management reports and the proposal of the Board of Management for the appropriation of the balance sheet profit. On the basis of the Audit Committee's prior examination and our own examination, we approved the company and consolidated financial statements. At our balance sheet meeting on 14 April 2004, we adopted the annual financial statements drawn up by the Board of Management. 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.

Corporate governance and declaration of compliance

The Supervisory Board also devoted substantial attention to corporate governance requirements. In this context we examined the efficiency of the Supervisory Board's work, as envisaged in the German Code of Corporate Governance. Factors addressed included the information that the Supervisory Board receives from the Board of Management to prepare its meetings, and the flow of information between the committees and the full Supervisory Board.

On 5 December 2003, the Board of Management and the Supervisory Board published an updated declaration of compliance in accordance with Section 161 of the German Stock Companies Act and made it permanently accessible to shareholders on the Company's website. The declaration of compliance and other information on corporate governance is printed on page 68 of this annual report.

Personalia

On 30 September 2003, Clement Booth left the Board of Management for personal reasons. His successor in charge of the Special and Financial Risks Division with effect from 1 October 2003 is Dr. Torsten Jeworrek, who has been with Munich Re since 1991, most recently heading the divisional unit for Northern Europe and the UK. We thank Mr. Booth for his valued service and successful work for the Company.

Also with effect from 1 October 2003, Georg Daschner was appointed to the Board of Management. He has been with Munich Re since 1965, latterly as the head of Munich Re's branch in Spain. Mr. Daschner succeeds Dr. von Bomhard as the head of Europe 2/Latin America, being jointly responsible for that division with Dr. von Bomhard until the end of the year.

At the end of 2003, Dr. Hans-Jürgen Schinzler retired from the Board of Management, on which he had served as a member since 1981 and as Chairman since 1 March 1993. With entrepreneurial vision, he formed Munich Re into a leading global reinsurance group. We thank him for his impressive achievements and his great personal dedication.

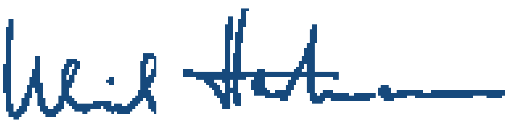
With effect from 1 January 2004, we appointed Dr. Nikolaus Bomhard Chairman of the Board of Management, of which he had been a member since 1 January 2000. We are confident that, under the leadership of Dr. von Bomhard, the Board of Management is excellently equipped to meet the challenges of the present and the future, as a well-balanced and convincing team.

Rudolf Ficker retired from the Supervisory Board on 31 December 2003. Dr. Schinzler was appointed by the Registration Court on 2 January 2004 to take his place. We thank Mr. Ficker, who successfully served the Company in various functions for over half a century, for making his wealth of experience available to the Supervisory Board during the last six years.

The Supervisory Board wishes to thank the Board of Management and all the staff for their hard work and commitment in the year under review.

Munich, 14 April 2004

For the Supervisory Board



Ulrich Hartmann
Chairman

Corporate governance: Transparent and efficient

We have taken the new version of the German Code of Corporate Governance as another spur to further enhance transparency in our Group.

"Corporate governance" stands for a form of responsible company management and control which is geared to long-term creation of value. Of particular importance to the Munich Re Group in this context are the promotion of shareholders' interests, efficient practices on the Board of Management and Supervisory Board, good collaboration between these bodies, and corporate communications which are open and transparent.

With its global operations, the Munich Re Group has to consider corporate governance rules in different national legal systems. It goes without saying that we observe both the respective national standards and internationally recognised best practices. In Germany, corporate governance rules are to be found in statutory provisions and also in the German Code of Corporate Governance, which came into force in 2002. The Code contains the main legal rules that must be observed by listed German companies; in addition it includes – in the form of recommendations and proposals – nationally and international recognised standards of good and responsible management.

www.munichre.com

Last year we reported in detail on the changes and "fine-tuning" connected with implementing the code. We have posted details of the duties, composition, remuneration structure and cooperation procedures of the Board of Management and Supervisory Board on our website. This includes information on the duties and composition of the four committees of the Supervisory Board (see also page 36), on the powers of the Annual General Meeting and how to participate in it, and on other topics of corporate governance.

New detailed rules concerning Board remuneration

In July 2003, the new version of the German Code of Corporate Governance of 21 May came into force. Additions mainly concerned some rules of detail relating to variable compensation components of the Board of Management, the presentation of the compensation system on companies' websites, and an individualised breakdown of compensation in the annual report. Munich Re's Board of Management and Supervisory Board have resolved to follow the Code's new recommendations with only one exception. The Company will not be providing an individualised breakdown of the Board of Management's compensation in the annual report. Fixed remuneration, performance-related components and components with a long-term incentive function are, however, published for the whole Board.

As envisaged in the German Code of Corporate Governance, the Supervisory Board reviewed the efficiency of its activities in the business year 2003. This chiefly involved looking closely at existing operational procedures on the Supervisory Board and cooperation with the Board of Management. As a result, the Supervisory Board took up numerous suggestions for improvements from its members to enhance the efficiency of the whole Board and its committees, such as discussing core strategic topics in more depth in future. Other points considered were the form, content and timing of reports from the Board of Management to the Supervisory Board, and the flow of information between the committees and the full Supervisory Board.

Munich Re is well aware that corporate governance is an ongoing process. We will pursue this issue, refining our corporate governance principles and thereby taking into account the guidelines laid down by the German Code of Corporate Governance. But for Munich Re the most important thing is that corporate governance is not only incorporated in rules and regulations but is also lived out in practice. Mainstays in ensuring this are internal auditing, risk management and a compliance office. Our Internal Auditing Division supports the Board of Management in its monitoring duties by performing risk-oriented reviews and audits. The Munich Re Group's risk management is explained in detail on page 131 ff. The Compliance Office makes sure that particular legal and supervisory obligations, such as those arising from securities trading law, are properly met.

On 5 December 2003, the Board of Management and the Supervisory Board published the following declaration of compliance, in accordance with Section 161 of the German Stock Companies Act:

"On 6 December 2002, the Board of Management and Supervisory Board of Munich Re published their first declaration of compliance as per Section 161 of the German Stock Companies Act. Since making this declaration, Munich Re has fulfilled the recommendations of the German Code of Corporate Governance (the Code) in the version of 7 November 2002, or will fulfil the recommendations of the Code in the version of 21 May 2003, with the following exceptions:

Item 5.4.5 para. 1 sentence 3 of the Code recommends that separate remuneration be paid for the chairmanship and membership of Supervisory Board committees. At Munich Re's Annual General Meeting on 11 June 2003, Article 15 of the Articles of Association was amended in this respect with effect from the business year 2003. The amendment to the Articles of Association was entered in the Commercial Register on 22 July 2003. Thus, since then, Munich Re has complied with the recommendation in item 5.4.5 para. 1 sentence 3 of the Code.

The annual consolidated financial statements have hitherto been published within the periods stipulated in the German Commercial Code. In 2003, the statements for the business year 2002 were published on 30 April 2003; Munich Re thus kept well within the legal deadline. In future, Munich Re will optimise its processes even further so that the 90-day deadline recommended in item 7.1.2 of the Code can be complied with for the first time in the Group's annual report for the business year 2004. The 45-day deadline for the publication of interim reports, provided for in Code item 7.1.2, is scheduled to be complied with for the first time as from the second quarter 2004.

The remuneration of the members of Munich Re's Board of Management is shown in detail for the whole Board in the notes to the consolidated financial statements, broken down according to fixed compensation, performance-related components and components with long-term incentive effect. In view of these informative details on the structure and amount of the remuneration and its components, Munich Re is dispensing with an individualisation of the remuneration within the meaning of item 4.2.4 sentence 2 of the Code."

Rating:
Fresh capital strengthens our operative business

Traditionally, Munich Re numbers among the reinsurers whose financial strength is given top ratings by the leading rating agencies. As a consequence of the share price losses on the stock markets worldwide, which affected both our capitalisation and our results, Munich Re – like most of its competitors – experienced a series of downgradings in 2003. The rating agencies A. M. Best, Moody's and Fitch still put Munich Re in their second-best category for financial strength, and Standard & Poor's in their third-best. They all attest to our superior market position, outstanding expertise and good capitalisation.

We see the capital measures we have taken, in conjunction with the enhanced profitability of our Group, as providing a good basis for an increase in our rating again.

Rating agency	Rating	Outlook
A. M. Best	A+ (Superior)	stable
Fitch	AA (Very strong)	negative
Moody's	Aa3 (Excellent)	negative
Standard & Poor's	A+ (Strong)	stable

The ratings for our subsidiaries on 26 March 2004 at a glance:

Reinsurance group

	A. M. Best	Moody's	S&P
American Alternative Insurance Corporation	A+		A
American Re-Insurance Company	A+	A2	A
Great Lakes Reinsurance (UK) PLC	A+		A+
Münchener Rück Italia	A+		A+
Munich American Reassurance Company	A+		A+
Munich Reinsurance Company of Africa	A+		
Munich Reinsurance Company of Australasia	A+		A+
Munich Reinsurance Company of Canada	A+		A+
New Reinsurance Company	A+		A+
Princeton Excess and Surplus Lines Insurance Company	A+		
Temple Insurance Company	A+		

Primary insurance group

	Moody's	S&P
D. A. S. Legal Insurance Co. Ltd.		A
DKV Deutsche Krankenversicherung Aktiengesellschaft		A+
Hamburg-Mannheimer Sachversicherungs-AG		A+
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft	Aa3	A+
KarstadtQuelle Lebensversicherung Aktiengesellschaft		BBB
VICTORIA Lebensversicherung Aktiengesellschaft	Aa3	A+
VICTORIA Versicherung Aktiengesellschaft		A+

The notes and debentures issued by our Group are rated as follows:

Notes and debentures

	A. M. Best	Fitch	Moody's	S&P
Munich Re Finance B. V., 6.75%, €3.0bn, Subordinated Bonds 2003/2023	a+	A+	A2	A–
Munich Re Finance B. V., 7.625%, £300m, Subordinated Bonds 2003/2028	a+	A+	A2	A–
Munich Reinsurance Company, 1.0%, €1,150m, Exchangeable Bonds 2000/2005	aa	AA		A+
American Re Corporation, 7.45%, US$ 500m, Senior Notes 1996/2026	a–		A3	BBB
ERGO International AG, 0.75%, €345m, Exchangeable Bonds 2001/2006 (Aventis)		AA–		A–
ERGO International AG, 2.25%, €345m, Exchangeable Bonds 2001/2006 (E.ON)		AA–		A–

Staff:
Quality pays

Be it performance-related compensation or family-oriented personnel policy: we invest in our staff and thus in the future of our Group.

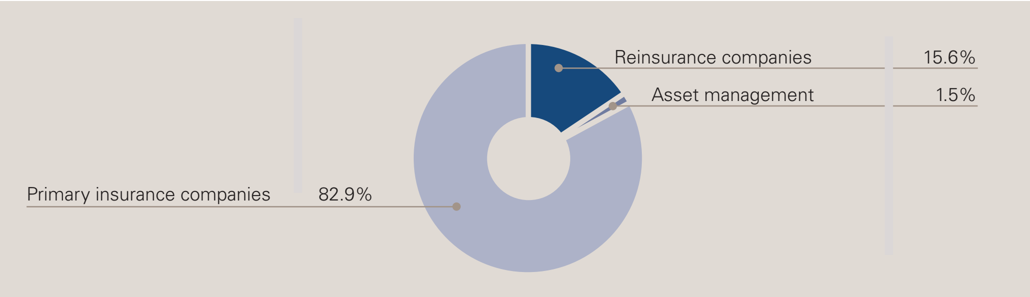
With their experience, expertise, creativity and commitment, our staff are the basis for our success. We offer them perspectives and systematic opportunities for development, and provide them with continual motivation and support.

Number of staff in the Munich Re Group constant overall

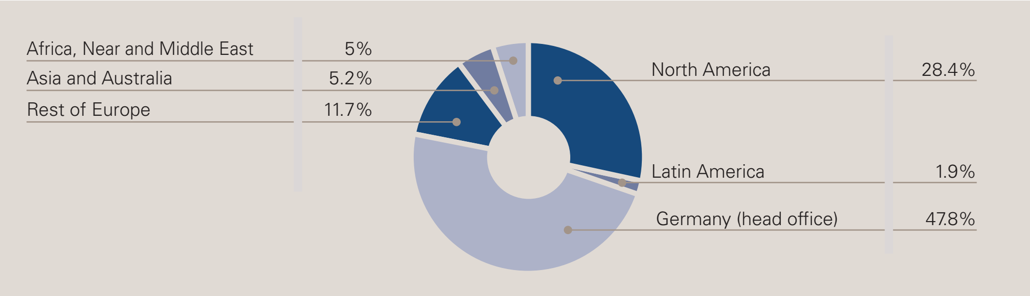
41,431 staff were employed with the Munich Re Group on 31 December 2003, 6,445 of these in reinsurance, 34,360 in primary insurance and 626 in asset management.

The almost unchanged total number of staff compared with the previous year conceals a few shifts within the Munich Re Group. The growth of 10.4% in reinsurance staff is primarily due to the consolidation of our subsidiary MedNet. In primary insurance and asset management, on the other hand, there was a slight decrease at nearly all the companies, an exception being a marked increase at ERGO International. The ERGO companies launched a programme for increasing efficiency in 2003, a major part of which involves reducing personnel expenses. ERGO plans to cut back personnel capacity among its German desk staff by a good 4% in 2004. It is giving priority to achieving this in a socially acceptable way through semi-retirement contracts, for example, and natural fluctuation. There are also various offers designed to encourage staff to reduce their working time, including trial part-time work, sabbaticals and the conversion of bonuses into free time.

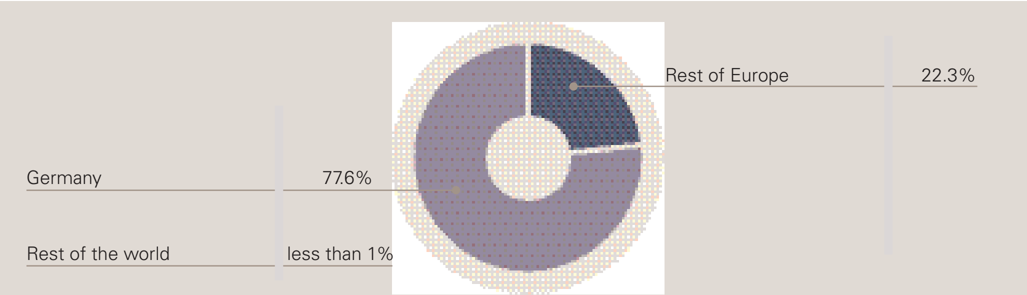
Munich Re Group staff



Reinsurance: Staff by region



Primary insurance and asset management: Staff by region



Performance-related compensation throughout the Group

A fundamental conviction of our human resources policy is that good performance should be rewarded. Performance-related salary components are important elements of a coherent compensation system. The Munich Re Group has meanwhile introduced such components for all senior executive staff.

For staff at Munich Re Munich, there are variable salary components whose amounts depend on individual components and the achievement of objectives. For senior executives there is additional performance-related compensation, dependent on the extent to which various performance factors are achieved and how the function of the staff member concerned contributes. American Re remunerates senior executives on the basis of a three-tier model: a basic salary is complemented by two variable compensation components, whose amounts are based on one-year and multi-year performance parameters.

The primary insurers also make use of variable compensation to reflect the performance of senior staff more strongly in their remuneration. Up to now the variable component used has mostly been based on individually agreed objectives. With the introduction of value-based management (see page 26) as a central management tool in 2003, the first ERGO companies now have a corporate performance component as well as the individual components. Other ERGO companies will follow suit in 2004.

Initial and advanced training to promote quality

The quality of our staff is a crucial success factor.

Training is important to us because
- it means that qualified staff can be drawn from our own ranks;
- it provides us with staff who have learned insurance business from the ground up and are also familiar with the corporate culture and corporate objectives of our Group companies;
- we thus fulfil our responsibility towards the economy and society as a whole.

In 2003, the ERGO Group gave jobs to 686 new trainees, despite its cost-saving programme. The intention is to maintain this figure in 2004. ERGO sees initial training as an important investment to which it will generally adhere – even in difficult situations.

Trainees at Munich Re Munich who decide to go and study after completing their training can qualify for a special return programme. This may involve maintaining contact with Munich Re through work as a student employee, for example, or as an intern.

Last year, the ERGO Management Academy (EMA) received special recognition for its activities in advanced training. The Financial Times Deutschland wrote that it could serve as an international role model. High praise indeed for a young project that has only been in existence since 2001. It supports ERGO in implementing group strategy in business practice and at the same time in developing the management qualities required for value-based management. Since the summer of 2003, a development programme has been in place for the second ERGO management tier as well: the Manager Performance Program. The target group for the services offered by EMA thus comprises approximately 800 senior executive staff.

We help combine job and family

At all companies in the Munich Re Group we attach great importance to a family-friendly human resources policy, which is a basic precondition for satisfied and motivated staff. We are convinced that it will help us succeed in keeping well-qualified young staff with their valuable know-how in our Group long term. Our companies have therefore introduced part-time schemes, created options for working from home, concluded appropriate agreements with their staff councils, and employed work-time managers and welfare officers.

Munich Re Munich was awarded a prize by the state of Bavaria back in 2000 for the measures it had taken to promote equal opportunities for women in the company. We are expanding employment models that allow staff to reconcile the needs of family and job better. In 2003, for instance, we launched a pilot project for teleworking. There is more about our commitment to promoting equal opportunities for women in the interview on page 60.

VICTORIA holds seminars to prepare parents for returning to work. In addition, it offers childcare and kindergarten places. In 2003 it received a "Job and Family" Basic Certificate from the Hertie Foundation. The underlying audit required for this not only evaluates measures that have been taken but also highlights development potential at the company and helps it to take further steps.

International perspectives

Cooperation across national and cultural boundaries has always been one of the hallmarks of our Group. The Munich Re Group's personnel policy supports this process by making systematic use of international human resources. Besides concrete offers to employ staff globally where they can best use and develop their qualifications, this requires close collaboration between the units responsible for human resources. Within the reinsurance group, we have therefore formed a worldwide network of human resources specialists that provides a healthy balance between international consistency and special regional features in our personnel policy. Thanks to these principles, we should be even more successful in future in utilising the human resources potential of our Group and offering our staff interesting perspectives.

Seeking and finding one another

Every year Munich Re is one of the top addresses for applications from highly qualified experts. Interesting vacancies recurrently arise for specialists from a wide range of fields. We also offer well-qualified young people of various disciplines places on our graduate-trainee programme. Job openings are published on our human resources pages on the internet. **www.munichre.com/jc-d**

Munich Re expanded its staff recruiting and marketing activities further in 2003. We have extended the scope of our online applications process on the internet, and in some cases can already dispense with applications on paper.

ERGO's common job database www.ergo.de/karriere gives users access to advertised job openings from all the career pages of the ERGO companies' websites. This keeps staff informed of career opportunities and promotes staff exchanges between the ERGO companies. **www.ergo.de/karriere**

Thank you

At this point we would like to cordially thank all the staff of the Munich Re Group for their commitment and loyalty in 2003. It is their hard work, skill and dedication that ensure the quality of our service and our further progress.

Social commitment:
Looking beyond our own backyard

All companies in the Munich Re Group accept their social responsibility. In 2003 we again supported the socially deprived, devoted ourselves to socially relevant issues and helped promote the arts.

We are committed to serving the communities in which our Group companies operate. This commitment is an integral part of our corporate culture. Our focal points in 2003 were supporting the socially disadvantaged, sponsoring young people and promoting healthcare. We frequently help initiatives that are not necessarily in the spotlight of public interest. The broad range of our social commitment in different countries mirrors the wide spectrum of Munich Re's fields of business.

Highlighting the plight of the homeless

Under the title "Architektur der Obdachlosigkeit" (Architecture of Homelessness), the Munich Pinakothek der Moderne staged an exhibition of architectural photography with a difference. Seven well-known photographers portrayed homeless people, their lives and their world – living spaces that have no walls but are delineated at most by cardboard or blankets. Munich Re supported the project financially in connection with the tenth anniversary of the Munich street magazine BISS. Since 1993, the BISS organisation has been helping people in social difficulties to help themselves.

A cardboard box advertises the exhibition "Architektur der Obdachlosigkeit".

For many years, Munich Re has been sponsoring the "Schwestern und Brüder vom heiligen Benedikt Labre" (Sisters and Brothers of St. Benedict Labre). This society offers homeless people in Munich a place where they can live, eat and work together. In each of the homes, several Christians – mostly women – help look after the occupants, some of whom are severely ill alcoholics. This society is a private initiative that does not receive support either from the state or a major charity. With the money donated by Munich Re in 2003, the society mainly purchased winter clothes.

Helping the disadvantaged

The companies of the Munich Re Group are also involved in numerous other projects for the socially disadvantaged. The Hamburg-Mannheimer foundation "Jugend & Zukunft" (Youth & Future) supports socially deprived young people with education and training programmes. It aims to prepare the youngsters for later working life and help them find qualified jobs. Since its establishment in 1999, the foundation has sponsored over 1,300 young people in Hamburg, Leipzig and Dresden in its "Job Locomotive" projects. Full-time social education workers provide training in making job applications, career guidance and video-assisted interview training. Each year, as a supporter of the foundation, Hamburg-Mannheimer Versicherungs-AG makes available four additional apprenticeships that are exclusively reserved for youngsters from these projects.

"Victorianer helfen" (Victorians help) is the name of a charity that the staff of VICTORIA set up in 1990. Thousands of them donate a few cents from their salary and commission each month. The company then adds half as much again to the employees' donations. As VICTORIA staff run the projects on a voluntary basis, all proceeds can be passed on in full to those in need. Besides supporting many individual measures, such as children's hospices and kindergartens, the money also helps finance larger projects like the "Friedensdorf International" in Oberhausen, which looks after war victims from various nations and provides them with medical care.

American Re's social commitment centres on the theme of healthcare. It sponsors, for instance, an organisation dedicated to supporting deaf and blind people: the New Jersey Association of the Deaf-Blind (NJADB). In 2003, one American Re staff member received a special award for her involvement. Last year American Re also again sponsored charity races in which the entry fees went to an organisation dedicated to supporting women suffering from breast cancer.

Promoting health

DKV is especially involved in the area of healthcare. It supported the touring exhibition "bodytravel. Reise in den Körper", which opened in 2002 and ended in Munich in spring 2003. The exhibition was a highpoint of the partnership between ERGO subsidiary DKV and the German Hygiene Museum in Dresden. DKV is the museum's main sponsor, with around half a million euros per year, and also supports it with funds for advertising and special campaigns.

The “bodytravel” exhibition offered spectacular intellectual and sensual stimuli on board a 65-metre ship.

In addition, together with the German Hygiene Museum, it awards the annual media prize “Im Zentrum der Mensch” (People in the centre), which it did for the fifth time in 2003. The prize is worth €12,000, making it one of the major awards for science journalists. It recognises outstanding German-language journalism that succeeds in making expert knowledge understandable for normal readers and thereby promotes awareness of healthy living.

DKV has become the first private health insurer to include hospices in its catalogue of benefits. It also sponsored their work with donations in 2003. Hospices enable people suffering from terminal illnesses to spend their last few weeks and months in comfort and dignity. Thus, for example, it has provided the Lazarus Hospice in Berlin with financial support for the construction of a new bathing area. And in the summer, it donated a garden for the Cologne Lebenshaus Hospice.

Creating educational opportunities

Munich Reinsurance Company of Africa is dedicated to helping its local communities in a “Corporate Social Involvement Programme”. Within this programme, for instance, it supports the Montessori pre-school Henley on Klip, which gives children with problematic social backgrounds a basis for educational development so that they can go on to attend normal schools. Munich Reinsurance Company of Africa is the main sponsor of this nursery school. It supports the school not only financially but also in an advisory capacity and through participation in school bodies. Thanks to its help, it proved possible to open a new branch of the school in 2003.

Promoting musical talent

Munich Re again sponsored talented young people in 2003 through its financial support for the Gustav Mahler Jugendorchester, helping the best young musicians in Europe on their way to becoming world-class artists. In 2003, Munich Re was the main sponsor of the Easter tour, which took the youth orchestra to Japan for the first time: conducted by Pierre Boulez, it gave four concerts, in Tokyo, Nagoya and Osaka. The Japanese emperor and his wife even came to hear the orchestra in Tokyo.

The orchestra, founded in 1986, fosters the development of highly talented young musicians from all over Europe, giving them the chance to play together and gain valuable experience with great conductors.

The environment:
Globe with a future

For the Munich Re Group, environmental protection and sustainable development are of strategic importance. Our new environmental audit, our know-how regarding renewable energy, and a sustainability fund were instrumental in helping us move further forward in 2003.

Munich Re regards economy and ecology as two inseparably linked aspects of its long-term-oriented business operations; the connection is especially close in the case of climate protection. By systematically integrating aspects of sustainability into our business, we ensure optimum quality in the acceptance of risks and thus further the long-term success of our business.

As a service provider, Munich Re itself puts relatively little strain on the environment. This means that the issue of sustainable development presents quite different challenges for us than it does for an industrial firm. We see it as one of our main tasks to actively pass on our know-how and to seek and cultivate dialogue with our clients, the public and politicians, our aim being to help positively influence risk behaviour. On the capital market, the transparent presentation of our operations has resulted in our shares being included since 2001 in the best-known sustainability share indices, the Dow Jones Sustainability World and the FTSE4Good.

New certificate for our environmental management system

We are integrating aspects of sustainable development successively and on a broad scale into our business operations. This applies both to ecology in our internal operations and to classes of our reinsurance business and our capital allocation. We are using the tools of our environmental management system based on EMAS (European Eco-Management and Audit Scheme) to constantly improve in all segments. Particular focal points of our environmental commitment are sensitising our staff to the relevant issues, determining the compatibility of our environmental objectives with other corporate objectives, and exerting a positive influence. The concepts we arrive at are being implemented step by step in our everyday operations. The underlying principle is: "As little regulation as necessary, as much individual responsibility as possible." In December 2003 we submitted ourselves for the second time at our headquarters in Munich to an audit by an independent accredited environmental verifier and had Munich Re certified for the first time in accordance with the international standard for environmental management systems ISO 14.001. As a result, we have simultaneously created the basis for introducing our environmental management system at our business units in other countries, including those outside Europe.

Our environmental magazine "Perspectives" provides more detailed information on Munich Re's environmental management system and our concrete activities in the area of environmental protection and sustainable development (see page 223 for the ordering address).

We back renewable energy

The Federal German parliament has committed itself to covering 50% of all German energy requirements with renewable forms of energy by the year 2050. This has led to a boom in the use of these energy sources. As the technologies involved are virgin territory for many of our clients, and even for manufacturers and operators of such systems, we endeavour right at the development stage to establish the risks and opportunities and evaluate these for insurance cover. This service is highly valued throughout the market. It underscores our current leading role as risk carrier in the field of wind power, geothermic energy and biomass/biogas.

We see it as our duty, as a professional risk partner, to support these technological developments and to actively shape solutions for the insurance industry. By so doing, we want to play a part in facilitating the development of future markets for renewable energy. Important for such progress, in our view, is constructive dialogue with our partners. In May 2003, we therefore invited our clients in the German market to attend a conference with leading experts from the fields of technology and insurance. These experts discussed with those present – around 50 representatives from primary insurance companies – innovative projects, current technical developments and practical experience with operation and losses.

Besides this, Munich Re has made its specialist knowledge available to the Renewable Energy Project Group of engineering insurers at the German Insurance Association. This group published its concluding report in March 2003, providing a comprehensive overview of the state of the art and technical hazard potential of alternative energy plants.

Climate change and our business

Munich Re has concerned itself with the topic of climate change for three decades now. This phenomenon is linked to a rising number of weather-related extreme events, which in future will destroy values more and more frequently and threaten our living environment (see page 54), a point we made in our briefing of the German and international press in autumn 2003. Reinsurers have an important function as an early-warning system for such natural hazards. Munich Re consequently aims to play an active part in strategies designed to avoid or reduce the effects of global climate change. We also participate in a wide range of international studies, organisations and initiatives, such as the IPCC (Intergovernmental Panel on Climate Change), UNEP (United Nations Environmental Program) and the ISDR (International Strategy for Disaster Reduction). In 2003 we forged ahead with our interdisciplinary project "The Challenge of Climate Change". The aim of this project is to integrate sufficiently well-verified prognoses on climate change into our business decisions. For the fact is that climate change affects the whole insurance industry, including of course Munich Re's business – from underwriting to investment (see page 30). In 2003 we concentrated particularly on adjusting insurance products, designing appropriate covers, exploiting potential investment options and offering consultancy services. We are proceeding on the assumption that emissions trading, which commences in 15 EU Member States on 1 January 2005, will rapidly expand. However, a few important preconditions for global trading have not yet been met: the Kyoto protocol is not yet binding in international law, as it still has to be ratified by some countries. As soon as this happens, we will implement our business plans for selected areas so as to be the preferred partner for our clients in this field as well.

Primary insurers and environmental protection

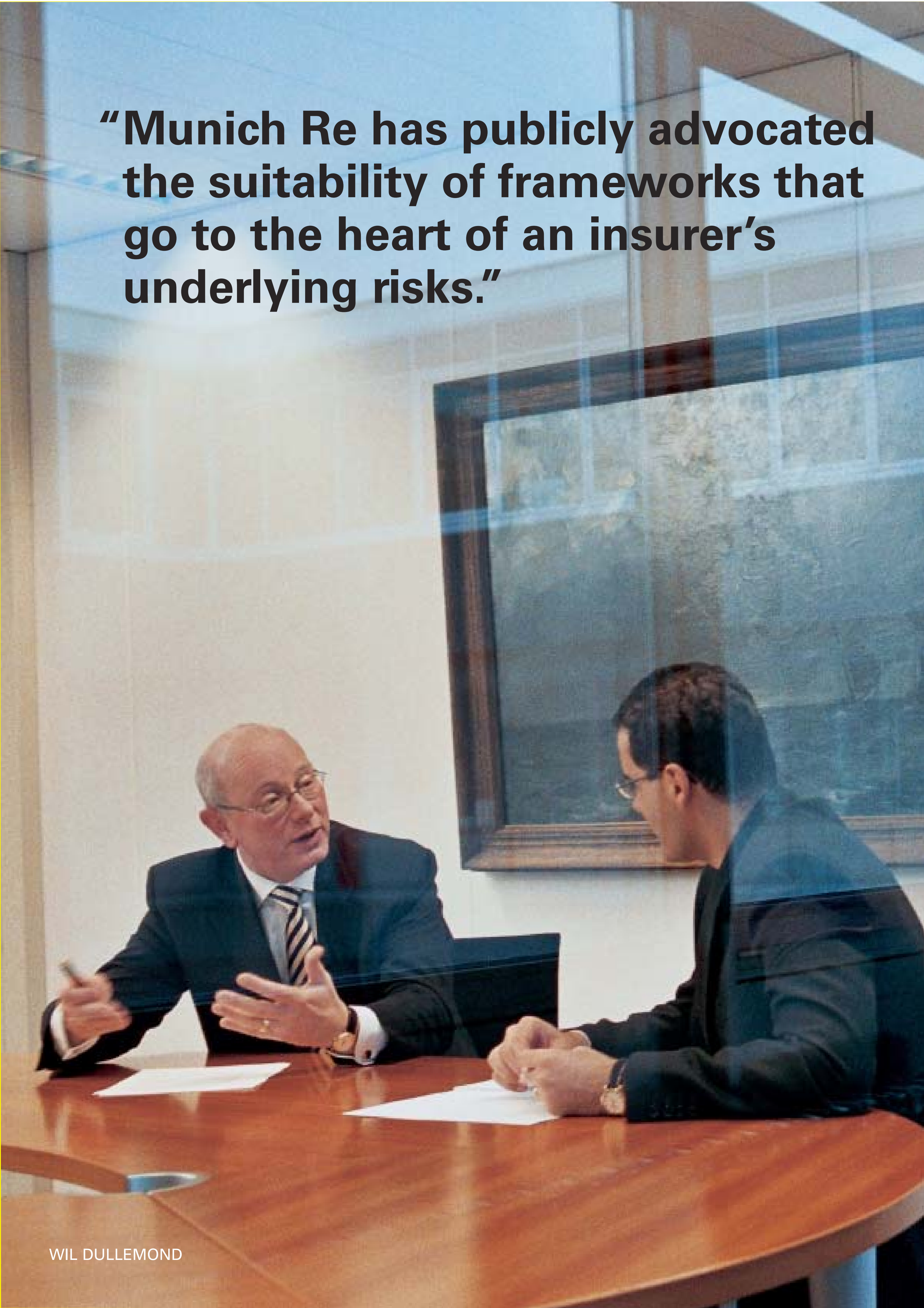
“Prevention is better than cure” is the guiding principle of the ERGO Group when its comes to environmental protection. VICTORIA is therefore systematically expanding its involvement, according to plan. In 1998 it became the first insurance company in Europe to be audited in line with the strict requirements of the EMAS regulation and to be awarded the EU seal of quality for operational environmental management. VICTORIA Lebensversicherung AG was also awarded the EMAS certificate in 2002, followed by VICTORIA Krankenversicherung AG in 2003.

Last year, VICTORIA completed the conversion of its head offices in Düsseldorf. Upgrading to the very latest process control system and extensive energy management has substantially reduced heating energy requirements. Ecological concerns were consistently taken into account in modernising the existing buildings.

The British subsidiary of the ERGO company D. A. S. was certified in accordance with ISO 14.001 in 2003, becoming one of the first insurance companies in the UK to introduce an environmental management system of this type.

Europäische Reiseversicherung has participated in the City of Munich’s ECOPROFIT project since 2001 and received a second award for its efforts in the resources-saving category in 2003. ECOPROFIT stands for ecological project for integrated environmental technology. The companies that take part carry out operational measures to reduce environmental impact and at the same time to profit from the resultant cost savings.

“Munich Re has publicly advocated the suitability of frameworks that go to the heart of an insurer’s underlying risks.”



WIL DULLEMOND


CHARLIE SHAMIEH

How suitable are internal risk models for supervisory purposes? What is the relationship between capital and risks? How can supervisory standards be made comparable internationally? These and similar topics were the subject of a discussion in the Dutch town of Appeldorn between **Charlie Shamieh**, Head of Munich Re's Integrated Risk Management Division, and **Wil Dullemond**, Chairman of the IAIS (International Association of Insurance Supervisors) Subcommittee for Solvency, Solvency Assessments and Actuarial Issues.

SHAMIEH: The IAIS, a relatively young organisation, has recorded some impressive achievements in the area of risk and solvency regulation in such a short time. How did your group manage to reach consensus given the varying stages of development in local supervisors' frameworks?

DULLEMOND: I think there are three main reasons for this. Firstly, ten years ago there was virtually nothing in the international arena on insurance regulation, so it was possible to start from a clean sheet of paper. Secondly, the IAIS is represented by supervisors focusing on the content and issues of substance. Finally, in my subcommittee, we have the privilege of working with some highly qualified and experienced people who are fully committed to making effective progress.

SHAMIEH: Munich Re has publicly advocated the suitability of frameworks that go to the heart of an insurer's and reinsurer's underlying risks in preference to generic, factor-based approaches to risk and solvency regulation. Does the IAIS also embrace a more targeted, proactive and risk-based approach?

DULLEMOND: We are in full agreement that insurance capital requirements must be risk-based. In my view, the company, or the executives of an insurance entity are the first to know their business and we should stimulate or encourage companies to deepen their knowledge of the risks and the way they quantify and manage them. The role of the regulator then, is to "get comfortable" with the methods and the results produced by these models. However, sometimes (e.g. where the company does not have the necessary resources to build an internal model), regulators need a compromise solution that out of necessity must be more factor-based. The challenge for us then is to tailor those factor-based approaches so that they do not represent a "lowest common denominator" compromise.

"For example, we would need to be convinced that the model is being run from an independent risk management unit that has no business interests."

WIL DULLEMOND

SHAMIEH: As the world's largest and most diversified non-life reinsurer, Munich Re has always said: "Take away the principle of diversification and you take away the most fundamental feature of the insurance and reinsurance business model". How does the IAIS propose to embrace this principle in its regulatory framework?

DULLEMOND: The IAIS is fully aware of this issue – we are in a process of trying to define a common understanding of what is capital and how we should measure capital according to risk. And of course, you can't ignore the diversification effect in that process. However, the precise way in which we do this is still under discussion. We have to be careful to ensure that smaller insurers and reinsurers do not see this as creating a non-level playing field.

SHAMIEH: Some of your represented local supervisors have developed pioneering approaches built around the admissibility of internal risk and capital models, thereby encouraging insurers and reinsurers to represent their risks using a more robust, independent and bottom-up risk-based approach. How important is it that regulatory frameworks encourage best practices in risk management, including a deep understanding of the risks they carry and their capital requirements?

"Take away the principle of diversification and you take away the most fundamental feature of the insurance and reinsurance business model".

CHARLIE SHAMIEH

DULLEMOND: There are some regulators who are hesitant about internal models and to convince them of their appropriateness, one really needs to couple their use with a set of principles that should be fulfilled before their results can be admitted. For example, we would need to be convinced that the model is being run from an independent risk management unit that has no business interests. One can also imagine a regulatory framework that admits the results of these internal models in a "going concern" situation coupled with a more factor-based (safety-net) approach for determining minimum solvency requirements in a "run-off" situation.

SHAMIEH: The differences between local accounting standards in the insurance sector makes comparability of solvency levels across jurisdictions perhaps a more challenging task than in any other sector. Realistically speaking, how long do you think it will be before these issues can be satisfactorily resolved to aid the IAIS in its mandate to set international standards?

DULLEMOND: The answer to this question should be seen in the context that the IAIS is still a young organisation and the idea of developing a common view on accounting principles in insurance for supervisory purposes was not an issue we have tackled directly up until now. We would certainly like to see the work of the IASB develop in a way that aids comparability between jurisdictions for both general purpose and supervisory accounting requirements. In the meantime we think we can still make some good progress on the principles for setting capital requirements with the possibility in the future of a global standard for capital requirements.

SHAMIEH: Could you please outline your Subcommittee's key areas of focus in the next 12 to 18 months?

DULLEMOND: We have four main areas of focus. The first, which is the most advanced, is a standard on suitable forms of capital. Secondly, there is our work on a supervisory framework paper – this is essentially an IAIS strategy paper where we are taking stock of what has been achieved, looking more closely at leveraging the work produced by the other subcommittees and arriving at a fresh prioritisation of activities. The third is a paper examining how the supervision process should work in practice. And finally, we are developing standards for capital requirements. We are unlike a Basel Committee in that we cannot simply set standards in an accord – we have to take care that in trying to reach consensus in the international arena we do not opt for a solution that represents the lowest common denominator, yet continue to advance in manageable steps – as opposed to giant leaps – with meaningful achievements over time.

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Business parameters

Macroeconomic parameters continued to be not very favourable for the insurance industry in 2003. To begin with, in the period prior to the war in Iraq, the global economic environment was characterised again by weak growth. Only from the second quarter onwards did the economy as a whole start to pick up again. On the capital markets, important European share price indices fell in the spring to recent-year lows.

In the USA, economic growth was adversely affected initially by rising energy prices, as well as by investor and consumer reluctance. Driven by a strongly expansive monetary and fiscal policy, however, economic activity began to revive from spring onwards. In particular, private consumption rose strongly as a result of tax reduction programmes, and there was also high public spending on defence. Altogether, real growth in GDP for 2003 amounted to 3.1%, compared with 2.2% in 2002.

In Japan, rising exports and strong investment contributed to real GDP growth of around 2.7% in 2003. Nevertheless, the country still found itself in deflationary waters.

Fuelled by high private and public consumption, GDP in the UK grew in real terms by 2.3% in the period under review.

In the eurozone, economic development stagnated initially, owing to weak export and domestic demand. The economies of several countries, including Germany, shrank in the first two quarters compared with the respective previous quarter. In the second half of the year, favoured by increasing exports, the economy started to gain ground again. With an annual GDP rate of 0.4%, however, growth as a whole remained weak. The strongest growth rates, as in the previous year, were achieved by Greece (around 4%), Ireland and Spain. Bringing up the rear were the Netherlands and Portugal.

In Germany, real GDP stagnated at a rate of –0.1% in 2003, thus providing – as in the previous year – scarcely any impulses for demand in the insurance sector. Seasonally adjusted, unemployment in Germany continued to increase in the period under review, with 4.3 million people out of work by the end of the year. The number of people in employment fell by 1.0%. The difficult situation persisting on the labour market had an adverse impact particularly on private consumption, which declined by 0.4%. With the government's Agenda 2010 programme, initial steps towards political reform were taken, but private demand continued to suffer as a result of the general logjam of reforms, especially in the area of social security. This also applies in particular to the demand for insurance products.

In the emerging markets, economic activity accelerated over the course of the year, especially in Asia, fuelled to a significant extent by growth in exports and – after the SARS epidemic had abated – by strong domestic demand. China again showed the highest growth rate in the region, with 9.1%. Latin America benefited from the economic upswing in the USA, Argentina seeing a return to positive growth after the financial crisis, and Brazil offering signs of economic revival at the end of the year. Growth in the European emerging markets remained robust, despite the weakness of the economy in the eurozone. In Poland, momentum accelerated as a result of strong expansion in exports compared with the disappointing previous year. Among the countries that will be joining the European Union in May 2004, those from the Baltic States achieved the highest growth. With a growth rate of 7.3%, Russia profited from the still high level of energy prices. Turkey continued its economic recovery from the financial crisis it experienced in 2001.

Prior to the war in Iraq, oil prices rose to US$ 37 per barrel. Over the course of the year, they fell again somewhat, but stayed at a high level. Not least for this reason, inflation rates in most industrial nations remained at virtually the same level as in the previous year, whilst core rates of inflation (excluding energy and food prices) fell further.

In view of the still weak economic data and continuing concerns about deflationary trends, the US Federal Reserve cut its discount rate by a further 25 basis points in June. The European Central Bank also lowered its key interest rates by 25 and 50 basis points in March and June respectively. After reducing its key interest rates in February and July, the Bank of England became the first major international central bank to raise them again – by 25 basis points in November 2003, followed by a further 25 basis points in February 2004.

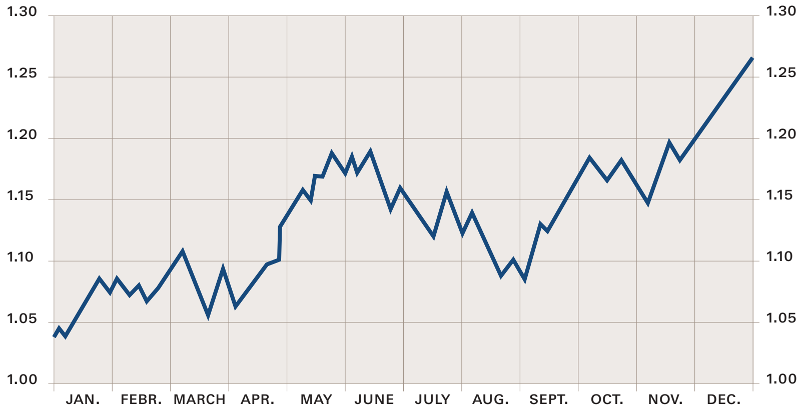
Developments on the capital markets

In the first quarter of the year, adversely affected by the approaching conflict in Iraq, prices on the international stock markets continued the downward trend of the previous years. The most important indices in Europe, such as the EURO STOXX 50, the DAX and the FTSE 100, hit new recent-year lows in March. But in the subsequent period, as a result of the incipient economic recovery in the USA and other countries, and owing to companies' improved profit expectations, the markets staged an impressive rally, whose trend continued up to the end of the year. Thus the most important share price indices recorded a marked increase year-on-year, with the EURO STOXX 50 showing a 16% rise in its year-end level, and the DAX growing by 37% in the period under review.

Yields on ten-year US and German government bonds fell markedly in the first few months of the year owing to weak economic data and the debate concerning deflationary trends. In June, the yield on US government bonds sank as low as 3.1% and that on German government bonds to under 3.5%. But in the subsequent months, there was a significant trend reversal, with the yield on US and German government bonds rising to 4.3% by the end of the year. Nevertheless, the yields still remained well below the level of past decades. It is against this background that the further reduction in German life insurers' policyholder bonuses for the year 2004 must be seen.

On the currency markets, the value of the euro increased markedly against the US dollar over the year and in November surpassed its previous all-time high of US$ 1.19.

US$/€



Development of the insurance industry

The insurance industry was greatly influenced by the state of the economy as a whole. Although the improved environment on the capital markets from spring onwards brought appreciable relief on the investment side, this was not nearly enough to compensate for the losses of many insurance companies from the preceding years.

On the reinsurance markets, the trend towards risk-commensurate prices and conditions continued throughout 2003. The renewals at the beginning of the year, at 1 April and at 1 July were marked by further improvements in this respect. The upward trend in prices was especially pronounced in liability insurance. There were just a few lines of business where price reductions were observable. One of these was aviation insurance.

With only a few exceptions, traditional market players and also relatively young companies showed discipline in their underwriting. The lessons of exaggerated competition for market share at the expense of profitability have been learnt. A factor that encouraged the maintenance of market discipline was the strain put on individual companies' capitalisation by the reserve strengthening that was necessary, especially for business written in the USA in the late nineties.

Since last spring, the capitalisation of the insurance industry has continually improved, thanks to underwriting earnings, capital measures and the more favourable capital market situation. The series of rating downgradings involving many companies, which began in 2002, came to an end in the course of the year. Altogether, the rating levels of most of the leading reinsurers have fallen by one whole notch or more compared with three years ago.

Life reinsurance maintained its long-term growth trend. It continues to profit from the generally rising demand for life insurance resulting from demographic changes and a growing need for private provision. On top of this, new business opportunities for life reinsurance are emerging from the difficult capital market situation and from changes in regulatory parameters that are increasing insurers' need for reinsurance cover. Health reinsurance continues to benefit from the long-term global trend towards greater liberalisation of healthcare financing, necessitated by the generally tight financial situation of state social security systems.

Development of the most important insurance markets

Driven by an improving economy and stable to rising prices for insurance cover, the strong growth in premium volume was maintained in US non-life insurance, according to initial estimates. The improvement in prices and conditions in both insurance and reinsurance was reflected – with a time lag – in falling combined ratios and better underwriting results for insurers. The consolidation trend in life and non-life business in the US insurance market is persisting.

Improved prices and conditions were also a feature of the European insurance and reinsurance markets. Against this background, some markets recorded premium growth in primary insurance far in excess of overall economic growth. In France, for example, provisional figures show that gross premium income increased by 7.5% in property-casualty insurance, 11% in health and personal accident insurance, and 9% in life insurance. Premium volume in Switzerland grew by around 5% in non-life business, whilst declining by 4% in life.

Despite the weak development of the economy as a whole, the German insurance industry achieved nominal growth of 3.9% in gross premiums in 2003. To begin with, life insurers in particular continued to suffer from the poorly performing capital markets. Gross premium income in life insurance rose somewhat less than in the previous year, at a rate of 3.5%. The sale of "Riester" pension products was again disappointing. In private health insurance, gross premiums showed nominal growth of 7%. Owing to the drastic increase in the earnings ceiling for compulsory public health insurance at the beginning of 2003, the number of new clients insuring themselves privately in the first half of the year was well below the previous year's level. Gross premium income in property-casualty insurance was up by 2.8%. For the first time in five years, the combined ratio was well under 100%.

Insurers in Japan benefited from an improved capital market situation. Just as in Australia, the trend towards risk-adequate prices and conditions continued.

The emerging markets again registered high growth rates for gross premiums in 2003. This was due not only to the generally stronger overall economic growth but also to increasing insurance penetration in these markets. There was impressive expansion again in China (see page 51).

Business performance

Overview

The year began well, with negotiations for the renewal of our reinsurance treaties at 1 January 2003 proving very successful. Nevertheless, the business year 2003 posed major challenges for the Munich Re Group. The after-effects of the negative performance of the major stock exchanges over several years directly impacted the results of the first three quarters with very high writedowns and losses on the disposal of equities when the financial instruments were valued on the basis of IAS 39 (rev. 2000). These burdens have been reduced by the earlier retrospective first application of IAS 39 (rev. 2003) adopted by the IASB on 17 December 2003. This contrasted, however, with a higher negative result from the valuation of our stake in HypoVereinsbank AG. With these losses, the effects of the weak stock markets up to the end of March 2003 have now been absorbed.

On top of this came the fact that, since the German tax reform of 2001, the resultant losses from writedowns and disposal of equities are no longer tax-deductible or only partially so (in the case of life and health insurance companies). This legislation leads to a disproportionate tax burden in times of weak capital markets.

Results

At €2,012m, the result of our underwriting business showed a substantial improvement compared with the previous year's figure* of €11m. However, large writedowns on shares and goodwill, the losses on our investments in associated enterprises, and the high tax burdens resulted in a bottom-line loss of €434m.

Group result

in €m	**2003** IAS 39 (rev. 2003)	2002 IAS 39 (rev. 2003)	2001 IAS 39 (rev. 2000)	2000 IAS 39 (rev. 2000)	1999 IAS 39 (rev. 2000)
Result before amortisation of goodwill	**2,012**	11	–415	2,615	1,821
Operating result before tax	**1,325**	–360	–645	2,470	1,701
Result for the year	**–434**	288	250	1,750	1,133

The Group result for 2003 was heavily influenced by the following factors:
– We made writedowns of €849m (5,901m) on our securities available for sale.
– Losses on the disposal of securities amounted to €1,624m (2,703m); they mainly arose from the sale of shares.

* In the following reporting, all previous year's figures have been adjusted owing to the first-time application of IAS 39 (rev. 2003).

- The sale of our stake in Hypo Real Estate Holding, following its spin-off from HypoVereinsbank, gave rise to a loss that burdened our result for the fourth quarter with €258m. At the same time, however, this transaction reduced the hidden negative valuation differences on our remaining interest in Bayerische Hypo- und Vereinsbank AG (HVB) and our exposure in the German banking sector. The HVB Group made good progress in its 2003 Programme for the Future. Nevertheless, owing to extensive writedowns, it posted a loss of €2.6bn for the year. Our participation in the HypoVereinsbank Group had an impact of €763m on our result.
- We reduced our shareholding in Allianz to 12.2%. The sale of a 2% stake in November produced a profit of €390m for us.
- We made writedowns of €317m for impairment of goodwill.
- The overall tax burden for the business year 2003 totalled €1.8bn (–0.6bn), or 135% (159%) of the operating result before tax.

Large losses in reinsurance, i.e. losses giving rise to claims costs of over €5m each, were within the normal range, totalling €1,054m (1,844m).

Munich Reinsurance Company's result for the year according to its financial statements prepared on the basis of the German Commercial Code amounts to €510.8m (2,605.8m). Of this sum, €224.3m has been allocated to the revenue reserves so that, including the profit brought forward from the previous year, a balance sheet profit of €287.0m remains. The Board of Management will propose to shareholders at the Annual General Meeting that this profit be used for payment of an unchanged dividend of €1.25 on each share entitled to dividend and that any residual amount be carried forward to new account.

Balance sheet structure

in €m	31.12.2003	31.12.2002
ASSETS Intangible assets	4,940	5,777
Investments	171,881	156,278
Ceded share of underwriting provisions	8,038	10,230
Other assets	24,525	24,156
Total assets	**209,384**	**196,441**
EQUITY AND LIABILITIES Shareholders' equity	18,899	13,948
Minority interests	483	532
Underwriting provisions (gross)	155,514	153,196
Other liabilities	34,488	28,765
Total equity and liabilities	**209,384**	**196,441**

Valuation reserves

The difference between the fair value of our investments and their balance sheet value developed very positively:

All figures in €m	Valuation reserves 31.12.2003	Fair value 31.12.2003	Carrying amount 31.12.2003	Valuation reserves Prev. year	Fair value Prev. year	Carrying amount Prev. year
Unrecognised valuation reserves						
Real estate	1,555	11,630	10,075	1,620	11,468	9,848
Associated enterprises	400	4,596	4,196	–593	8,758	9,351
Loans	–170	15,876	16,046	–	12,644	12,644
Other securities	28	775	747	46	898	852
Total	**1,813**	**32,877**	**31,064**	**1,073**	**33,768**	**32,695**

The balance sheet reserves in the form of unrealised gains and losses on securities available for sale also increased. As at 31 December 2003, unrealised gains amounted to €7,812m, compared with unrealised losses of only €923m. Details are provided on page 174. Given the market conditions at the balance sheet date, the potential need for further write-downs on securities available for sale is small. This is partly attributable to the application of the stricter impairment rule for equity investments under IAS 36.61 (rev. 2003).

Premium

In 2003, we wrote gross premiums of €40.4bn (40.0bn), or 1.0 (10.8%) more than in 2002. The fact that this growth was relatively modest compared with the previous year is mainly due to the significant rise in value of the euro against the US dollar and other currencies, such as the British pound and Asian currencies, as well as to our selective underwriting policy. Adjusted to eliminate the effect of changes in exchange rates, premium income increased by 7.6% in 2003. This growth was almost exclusively organic.

Group premium income

in €bn	2003	2002	2001	2000	1999
Reinsurance	24.8	25.4	22.2	18.3	15.4
Primary insurance	17.6	16.6	15.7	14.4	13.5
Consolidation	–2.0	–2.0	–1.8	–1.6	–1.5
Total	**40.4**	**40.0**	**36.1**	**31.1**	**27.4**

We earned 56% (59%) of our Group premium income from reinsurance and 44% (41%) from primary insurance. Since 1999, premium volume has grown in reinsurance by around 61% and in primary insurance by 30%.

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 data.

Equity capital and financing

We continually monitor the capitalisation of our Group and the insurance companies belonging to it, with due regard to the requirements of insurance supervisory authorities and the criteria of the leading rating agencies. An increasingly important role is played by our internal risk model (see page 131), which we use to determine the capital requirements of individual business units, taking into account fluctuations in results and risk exposures. In the year under review, our shareholders' equity increased substantially. The notes to the financial statements provide detailed information on the composition of our shareholders' equity (page 183 f.). The valuation reserves for investments not accounted for at market value are given on page 93.

Group shareholders' equity

in €bn	31.12.2003 IAS 39 (rev. 2003)	31.12.2002 IAS 39 (rev. 2003)	31.12.2001 IAS 39 (rev. 2000)	31.12.2000 IAS 39 (rev. 2000)	31.12.1999 IAS 39 (rev. 2000)
Group shareholders' equity	18.9	13.9	19.4	23.6	18.5
Valuation reserves not recognised in balance sheet, including those apportionable to minority interests and policyholders (before tax)	1.8	1.1	16.4	21.9	19.2

The generally pleasing development of Group shareholders' equity since the end of the previous year up to 31 December 2003 was characterised by the following aspects:

– On 11 November 2003 we successfully completed a substantial rights issue. This strengthened our shareholders' equity by €3.9bn and also significantly enhanced its quality. As the subscription ratio of 99.9% shows, the market responded very positively to the capital increase.
– Net unrealised gains recognised in equity rose by €3,251m. This was mainly due to the positive trend on the stock markets since the second quarter and the reallocation of our Allianz shares from "associated enterprises" to "securities available for sale", as well as to the first-time application of the stricter impairment rule of IAS 39.61 (rev. 2003).
– The shareholders' equity of our subsidiaries from other currency regions was translated into euros at lower exchange rates, which had a curbing effect on our Group shareholders' equity.

The issue of two subordinated bonds in mid-April 2003, with a total volume of €3.4bn, also significantly strengthened our capital base. The placements were very successful: greatly oversubscribed, the bonds were issued each with the interest rates at the lower end of the initial spreads indicated.

As at 31 December 2003, there were bonds from the spring issues and from previous years with a carrying amount of €2,209m (2,205m) in circulation; of these €1,813m (1,720m) was apportionable to exchangeable bonds, where holders can demand redemption in certain shares at a previously fixed price instead of cash on maturity.

Liquidity

In the year under review, the liquidity of Munich Re and its subsidiaries was always assured. Our cash flow from operating activities amounted to €1.8bn (3.3bn) in net terms. The settlement of World Trade Center claims by our clients is progressing more slowly than expected, which means our payments are not having to be made as early as planned.

How we safeguard our liquidity and hedge against foreign currency risks is described in the risk report (see page 131 ff.).

Reinsurance

The Munich Re Group companies operate in virtually all classes of reinsurance and offer a full range of products – from traditional reinsurance to alternative risk financing and risk-transfer structures (see page 38).

Our reinsurance business is divided between seven divisions (see page 38 ff.): Life and Health; Europe 1; Europe 2 and Latin America; Asia, Australasia, Africa; North America; Corporate Underwriting/Global Clients; and Special and Financial Risks.

The addresses of the most important business units can be found on page 223 of this report.

Marketing, employees

As reinsurers, we write our business predominantly in direct collaboration with the primary insurers. However, the proportion of business that comes to us via brokers is steadily increasing. This includes business offered to us by industrial clients through their captives or by risk retention groups (alternative market business), which we accept via Munich-American RiskPartners (MARP).

On 31 December 2003, the reinsurance group had 6,445 (5,836) staff, 52.2% (49.7%) of whom were employed outside Germany (see page 72).

Overview

Our main objective in 2003 was to improve the quality of our portfolio. We achieved good results both in our existing portfolio and in our new business. This success is reflected in the favourable development of our combined ratio.

Combined ratios non-life

in %	2003	2002	2001	2000	1999
Loss ratio non-life	69.6	95.8	104.5	85.0	88.2
Expense ratio non-life	27.1	26.6	30.6	30.3	30.7
Combined ratio non-life	96.7	122.4	135.1	115.3	118.9

Result

The substantially better prices and conditions we achieved in the renewal seasons for the year under review and the previous year are reflected in a combined ratio of 96.7% (122.4%). We thus met our objective in operative property-casualty business in the year under review. Broken down by division, the combined ratio developed as follows:

Combined ratio by division

in %	**2003**	2002	2001	2000
Life and Health*	**97.8**	104.5	113.9	101.9
Europe 1	**96.5**	117.7	106.7	92.1
Europe 2 and Latin America	**96.6**	96.4	115.3	125.6
Asia, Australasia, Africa	**91.8**	86.8	112.5	99.1
North America	**99.1**	168.1	156.8	122.1
Corporate Underwriting/Global Clients	**98.0**	120.8	160.4	122.6
Special and Financial Risks	**92.9**	116.5	140.9	134.1

* Figures for health reinsurance only.

When interpreting the combined ratio, the particular circumstances of a class of business, e.g. the composition of the actual portfolio, must be taken into account. The following factors (among others) are important:

– The more the claims burden fluctuates over time, the greater the risk is and so the higher the rates needed to cover the risk must be. Greater fluctuations in the claims burden also require lower loss ratios in good years and lower average loss ratios, in order to guarantee the reinsurer a reasonable consideration for assuming the risk. This is particularly true in the case of exposure to natural catastrophes, which may occur rarely, but are often very severe when they do.
– Another important distinguishing feature relates to the time-lag between premium being received and claims being paid. The greater these periods are, the longer the premiums received can be invested in securities or other assets. High combined ratios in classes of business in which claims settlement takes a long time (e.g. liability) therefore also generally entail higher returns from investments with which the loss reserves are covered. These returns are not reflected in the combined ratio.

Although we had to cope with the after-effects of the bear market in the investment sector, the pre-tax operating result was clearly positive.

Reinsurance underwriting result

in €m	**2003**	2002 (adjusted)*	2001	2000	1999
Result before amortisation of goodwill	**2,717**	1,778	–687	1,525	1,208
Operating result before tax	**2,612**	1,649	–824	1,393	1,093
Group profit for the year	**1,632**	2,336	–52	1,321	1,093

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Premium

In original currencies, our premium income rose by 9.8% compared with the previous year. Of the total reinsurance premium, 37% derived from the eurozone, whilst 32% was written in US dollars, 15% in pounds sterling, 1% in yen and 15% in other currencies. As a consequence, changes in exchange rates have a strong impact on our premium income shown in euros. In 2003, the significant and persistent decline in the US dollar and other currencies against the euro had an adverse effect on our premium volume. This currency influence offset the very good premium growth in original currencies, so that premium income expressed in euros fell by 2.6% to €24.8bn (25.4bn).

Gross premiums by segment

in €m	2003	2002	2001	2000
Life and health	6,876	6,561	5,900	4,701
Property-casualty	17,919	18,884	16,296	13,624
Total	**24,795**	**25,445**	**22,196**	**18,325**

Life and health have a share of 27.7% (25.8%) of our total premium written in reinsurance. Around 36% of our gross premium in this sector comes from the eurozone and 54% from the USA, Canada and the UK. Here, too, the changes in exchange rates had a curbing effect on the good organic premium growth:

Gross premiums in life and health reinsurance

in €m	2003	2002	2001	2000
Life	5,461	5,277	4,769	3,865
Health	1,415	1,284	1,131	836
Total	**6,876**	**6,561**	**5,900**	**4,701**

The growth in our property-casualty reinsurance derived mainly from appreciable premium increases for business in force. Of the reinsurance treaties up for renewal for the year under review, we terminated 16% – measured in terms of premium volume – because risk-adequate prices and conditions were not achievable. At the same time, we not only agreed appreciably better terms of trade for the renewed business, but also acquired attractive new business. The following table shows premium development by class of business in euros:

Gross premiums in property-casualty reinsurance

in €m	2003	2002	2001	2000
Liability	3,444	3,514	2,402	1,934
Personal accident	1,293	1,302	1,213	1,043
Motor	3,186	3,337	3,448	3,335
Marine, aviation, space	1,742	1,896	1,398	1,158
Fire	4,874	5,294	4,481	3,363
Engineering	1,393	1,443	1,449	929
Other classes of business	1,987	2,098	1,905	1,862
Total	**17,919**	18,884	16,296	13,624

Life and health

Life and health

Responsible for:		Life and health reinsurance business worldwide		
		2003	2002	2001
Life				
Premium income	€m	**5,461**	5,277	4,769
Health				
Premium income	€m	**1,415**	1,284	1,131
Combined ratio	%	**97.8**	104.4	113.9

Demographic trends and the cutting back of state social security systems are continuing to have a very positive effect on life insurance business. Life reinsurance is benefiting over and above this from the unbroken demand for products that provide our clients with relief in meeting equity capital requirements and with financing their acquisition costs.

Premium income rose by 3.5% compared with the previous year, reaching €5,461m. We were able to defend or even improve our top positions in the important markets of Germany, Canada, the UK and the USA. The growth was solely organic, with our units in the UK and North America in particular writing attractive new business. The result was affected by several one-off factors, but may be rated as still satisfactory overall.

In our German business, premium volume reached about the same level as in the previous year. Owing to the difficult situation on the capital markets, demand increased for reinsurance products offering solvency relief and financing solutions. As the reform projects in German state pension insurance look certain to lead to a growing need for private and company pension cover, we expect strong impulses for our new business in this market.

In the UK, thanks to the good market positioning of our branch, premium again grew appreciably. The main reason was the assumption of insurance portfolios in reinsurance. For the future, we expect growth to be lower, but coupled with attractive market conditions.

In the other core European markets – France, Italy, Spain and the Netherlands – our operations were also characterised by concentration on profitable fields of business. Having strengthened our presence, we were able to further expand such business in these countries.

We expect the reinsurance markets in Eastern Europe to continue developing positively. In 2003, we successfully pursued the expansion of our business in these markets as planned.

In the USA, our subsidiary Munich American Reassurance Company (MARC) recorded pleasing organic growth of 18% and maintained its position among the leading providers. Risk experience in core business was favourable. The overall result reached the planned level.

Munich American Reassurance Company

		2003	Prev. year
Gross premiums written	US$ m	**1,136**	961
Net earned premiums	US$ m	**663**	588
Result for the year	US$ m	**35.7**	16.3
Investments	US$ m	**2,704**	2,288

In Canada, Munich Reinsurance Company Canada Branch (Life) achieved exceptionally strong organic growth of more than 60%. Risk experience was again very positive. The Branch further extended its position as leading provider in the market.

Several Asian life insurance markets offer the promise of remarkable potential in reinsurance. This applies especially to China, where our new licence and the continuing expansion of our local presence mean we have an excellent basis for developing our business (see page 51).

The global healthcare market – consisting of the segments "financial cover", "services" and "benefits" – still promises significant growth in the next few years. Particularly the area of private financial cover for healthcare – our core field of business – is an attractive market. The USA accounts for the largest volume, whereas the biggest growth is expected in markets outside the USA and Europe. As a leading global provider with integrated reinsurance and service concepts, we are well prepared for this. We have optimised our organisational structure and for years have been consistently expanding our expertise.

New treaties in the UK and the USA with large premium volumes more than compensated for losses in premium due to our systematic withdrawal from unprofitable business. Our premium income rose substantially compared with the previous year, impressively continuing the past growth trend.

We were again able to improve the result compared with 2002. This is also reflected in the combined ratio of 97.8% (104.4%), the main reasons being the positive contributions of newly written business with large premium volumes and the good development of the business in force, especially as a consequence of successful remedial measures at American Re.

With a share of around 30% of the premium income, the USA is the most important and also currently the most profitable market. Thanks to our consistently profit-oriented underwriting policy, we have succeeded in achieving a return to risk-commensurate prices and writing attractive new business. But we have also significantly improved the profitability of our portfolio in force. We are proceeding on the assumption that the market environment as a whole will remain favourable and we aim to carry on growing strongly there.

In the UK, we were able to develop client accounts with large premium volumes. From the portfolio in force, we expect a continuing positive contribution to results in the coming years.

Insurance companies' need for innovative reinsurance solutions has increased in Germany, because of the rising trend in large claims triggered by cost-intensive treatments with the latest medical technology. We expect this situation to yield interesting business opportunities for us.

The strong privatisation trend is continuing in China. At the same time, the market is opening up further for foreign investors, and the insurance industry is gradually being liberalised. We have already entered into cooperation with the most important companies. We will take advantage of the reinsurance licence we were recently granted to extend our position in this important market.

We are also reckoning with substantial growth potential in India. However, the opening and liberalisation of this market is proceeding relatively slowly. Since most of the business opportunities there are not yet profitable, we are currently being very selective. In the coming years, we expected business prospects to improve. So as to be properly prepared for this trend, we have already set up a service company for the management of health-care.

Property-casualty

We have now had two renewal seasons in which we have improved prices and conditions, in some cases very markedly, so that now a technically appropriate level has largely been reached. In 2003, the consequences of these extensive remedial measures made themselves really felt in the result for the first time.

The combined ratio in property-casualty reinsurance fell to 96.5%, thus being well below the 100% mark for the first time in five years. We therefore achieved one of our most important objectives. With our risk management and underwriting, our combined ratio has been markedly improved.

Premium income in our non-life reinsurance fell by €965m or 5.1% in 2003. Although we implemented price increases, acquired attractive new business and raised our shares in existing treaties, our selective underwriting policy and negative currency translation effects made themselves felt.

With 1.8 percentage points of the combined ratio, burdens from natural catastrophes in 2003 were on the low side. The following were the most notable. In spring 2003, several tornadoes raged in the US state of Oklahoma, which gave rise to losses of €90m for us. In September, Hurricane Isabel hit the US East Coast with wind speeds of up to 200 km/h, cutting a devastating path of destruction. Nevertheless, the claims burden for Munich Re remained within reasonable bounds at around €60m. The autumn wildfires in California cost us €46m and Typhoon Maemi in Korea €38m. Claims costs for other large losses stayed within the normal range. On 14 August 2003 the biggest power cut ever occurred in the US North East and Canada, affecting around 50 million people. Although the losses for the economy were enormous, our claims costs remained relatively low at approximately €50m.

In industrial property insurance, competition became keener again towards the end of 2003 and put distinct pressure on prices and conditions in some instances. Despite this, we generally succeeded in keeping prices and conditions at an attractive level. The reason for competition becoming keener in industrial property insurance is the success of remedial measures that is becoming apparent. In addition, there were new reinsurers, especially companies domiciled in Bermuda. Altogether, this has only partially replenished the reinsurance capacity that shrank in the last three years. Some of the new market players have focused particularly on reinsurance against natural catastrophes. Still, nowhere has the influx of capacity had a serious effect on the high degree of underwriting discipline prevailing, which is essential in view of the greater risks.

In liability insurance we were able to keep prices and conditions at a level commensurate with our technical requirements. Only in industrial liability insurance, especially that for pharmaceutical risks, do we consider the rating level still to be inadequate. Interest in industrial property and liability insurance has visibly increased among various providers, including established companies domiciled in Bermuda. Nevertheless, despite isolated setbacks, we again managed to raise prices for this market segment as a whole in both insurance and reinsurance in 2003.

Price reductions, albeit for the most part still at a risk-commensurate level, took place in aviation insurance. Prices for the insurance of offshore risks fell towards the end of 2003 to a level we no longer regard as risk-adequate, so that we have already cut back our underwriting in this business segment. In marine and credit insurance, prices proved largely stable, although in marine they only just reached a sufficient level from our point of view.

In this environment of greatly varying market conditions, we benefit from our sophisticated capital-management and pricing tools. Overall, we have significantly improved the quality of our non-life reinsurance portfolio – thanks to our remedial measures, to our withdrawal from inadequately quoted business, to our acquisition of profitable new business, and to our higher shares in attractive accounts.

Munich Re's downgradings by various rating agencies last year did not result in any significant loss of business. We were able to maintain our market position.

Europe 1

Responsible for:		Germany, Austria, Switzerland, Eastern Europe, Greece, Turkey		
		2003	2002	2001
Premium income	€m	**2,056**	2,161	2,151
Combined ratio	%	**96.5**	117.7	106.7

2003 was a successful year for the division in all the markets and regions it services. Its combined ratio fell compared with 2002 by 21.2 percentage points to 96.5%.

The decrease in premium income is solely due to the loss of the business of Victoria Re, which in the previous year had been fully consolidated in the Europe 1 Division. After the termination of VICTORIA Re's operations, other divisions with the relevant regional responsibility now handle the business. We also terminated treaties for profitability reasons, but were able to more than make up for this lost premium by acquiring business from new clients.

With premiums of €1,284m (62.5% of the division's premium volume), Germany is still by far the most important market serviced by the division.

In Switzerland, our premium grew by 47.8% to €81m. We succeeded in almost completely renewing our existing business and acquiring new treaties. The result was very satisfactory.

Our premium income in Austria was up 24.7% to €180m. The pleasing profit we recorded was due to the success of our remedial measures and also to the low claims burden from natural catastrophes compared with the previous year, with its flood losses.

In Eastern Europe, we focus on selected target markets and there on a limited number of clients with whom we can expect to conduct profitable business relationships in the medium to long term. This strategy is intended to make optimum use of our resources. Our interest centres on the countries set to join the EU, especially Poland. We also achieved above-average growth in Russia, with premium of €15m. Facultative reinsurance for large individual projects plays an important role here.

In Greece and Turkey, we made good progress overall. In Turkey, where we closed our office at the end of 2002, we were able to renew all our business. The market is now serviced from Munich. We achieved a very good result in both countries.

Europe 2 and Latin America

Responsible for:		Northern, Western and Southern Europe; Latin America		
		2003	2002	2001
Premium income	€m	**3,193**	2,952	2,883
Combined ratio	%	**96.6**	96.4	115.3

We were able to maintain and in some cases even extend our leading position in the core markets. Business experience in the year under review was good. There were no significant major individual losses. Without the markedly higher claims costs for motor business in the UK and France reported at the end of 2003, the result would have been even more positive.

Premium volume rose by 8.2% to €3.2bn (3.0bn). The division's success is reflected in its combined ratio, which reached almost the same good level as in the previous year. Non-traditional reinsurance solutions are being marketed to an increasing extent in some sectors. For 2004, we expect the phase of risk-commensurate prices and conditions to continue.

In the UK, easily the division's largest market with premium income of €1.1bn, original rates rose in both liability and property insurance. This improved both the premium income and the results of proportional reinsurance. Rates in non-proportional reinsurance increased by between 10% and 30%. Nevertheless, our premium income showed a decrease of 4.4%, partly due to currency translation and partly because some major treaties were not renewed. There was an absence of large losses. In 2003, we were again able to defend our top position in property-casualty reinsurance.

In France, we increased our premium income by 45.9% to €188m and extended our position in the French market. We obtained the technically necessary prices in all sectors. The level of rates remained stable.

Reinsurance capacity in Italy has shrunk, partly owing to the withdrawal of competitors. The consolidation process in primary insurance has continued. Primary insurers are basing the selection of their reinsurers more and more on quality. Our subsidiary in Italy, Münchener Rück Italia (MRI), benefited from this trend in the past business year and reaffirmed its leading market position through successful renewals with important clients. Including life and health reinsurance business, MRI's premium income grew by 3.5% to €648m. It was unable to repeat the very good result of the previous year, which had been favoured by one-off factors.

Münchener Rück Italia*

		2003	Prev. year
Gross premiums written	€m	648	626
– Life and health	€m	119	161
– Property-casualty	€m	529	465
Net earned premiums	€m	358	340
– Life and health	€m	77	109
– Property-casualty	€m	281	231
Loss ratio non-life	%	70.8	77.9
Expense ratio non-life	%	33.9	30.6
Combined ratio	%	104.7	108.5
Profit for the year	€m	4.7	51.0
Investments	€m	1,410	1,354

* Consolidated financial statements in accordance with IAS.

In the Netherlands, we were able to retain our leading market position despite the keener competition due to new reinsurers entering the market. Notwithstanding a very selective underwriting policy and lower demand for reinsurance from some large cedants, our premium income stayed at the previous year's level. The result developed very satisfactorily.

In Northern Europe, the trend away from proportional towards non-proportional covers persisted. We were able to maintain our shares at a high level in property insurance. In liability insurance, we terminated treaties that did not appear attractive but also expanded shares in interesting business. Altogether, premium volume rose by 3.1% to €258m. The result improved substantially on that of the previous year.

We strengthened our position as the leading reinsurer in Spain. Greater demand, significant new business and higher shares in treaties with important clients boosted premium volume to €429m, a rise of 46.3% on the previous year. The risk-commensurate terms and conditions led to an appreciable improvement in the result.

In Portugal, we succeeded in adjusting the conditions for earthquake-exposed business to meet our requirements. Premium income grew by 22.9% to €49m. The result was significantly better than in the previous year.

Development in many countries of Latin America was affected by difficult economic and political conditions. Original rates in the insurance markets slid downwards in some markets. In our business, however, we were able to achieve prices commensurate with technical requirements. Owing to unfavourable currency influences, premium income decreased by 9.9% to €359m. Hurricane Fabian, which hit the Caribbean and Bermuda in September, gave rise to claims costs of €14m. The overall result still showed a marked improvement.

Asia, Australasia, Africa

Responsible for:		Middle East, Africa, Asia, Australasia, Greater China, Southeast Asia		
		2003	2002	2001
Premium income	€m	**1,676**	1,619	1,487
Combined ratio	%	**91.8**	86.8	112.5

In contrast to business in other branches of the economy, such as tourism or civil aviation, the reinsurance written by our division for this region was scarcely affected by the consequences of the respiratory disease SARS (see page 52 f.). Altogether, the division's premium volume was up by 3.5% to €1,676m. Without the negative currency influences from the strong euro, growth would have been 9 percentage points higher.

The division was again affected by natural catastrophes, albeit to a limited extent. Typhoon Maemi struck South Korea in September, leaving a trail of destruction. Although this was a "hundred-year" event, the division's claims burden only totalled around €38m. Claims costs for other major losses were within the normal range. The combined ratio increased by 5.0 percentage points compared with the previous year with its low loss level, but was still outstanding at 91.8%.

In Japan, the world's second-largest non-life insurance market, we maintained our position. Premium income totalled €242m. In Korea, we increased our premium volume by 48.3% to €168m and enhanced our leading position, thanks to the good development of the economy, to larger shares in attractive treaties and to new business.

Owing to the growing importance of the Indian market, we are preparing to establish a service company to supplement the representative office we have had there since 1997. It will initially focus on life reinsurance (see page 51).

In Australia and New Zealand, we are primarily represented by our subsidiary Munich Reinsurance Company of Australasia (MRA), which is the largest reinsurer in both markets. The consolidation process of recent years in the primary insurance sector continued in the year under review. Despite strong competition, MRA was able to further expand its shares in profitable reinsurance treaties.

Munich Reinsurance Company of Australasia (MRA)

		2003	Prev. year
Gross premiums written	A$ m	**933**	917
– Life	A$ m	**215**	140
– Property-casualty	A$ m	**718**	777
Net earned premiums	A$ m	**237**	229
– Life	A$ m	**130**	85
– Property-casualty	A$ m	**107**	144
Loss ratio non-life	%	**76.4**	72.8
Expense ratio non-life	%	**26.4**	27.7
Combined ratio non-life	%	**102.8**	100.5
Profit for the year	A$ m	**20.8**	21.9
Investments	A$ m	**988**	874

In July 2003, Munich Re became the first foreign reinsurer to obtain a licence for composite business for the whole People's Republic of China. This licence will enable Munich Re to intensify its operations in one of the most exciting and dynamic insurance markets and also to write business in renminbi (RMB), the domestic currency (see page 51). Hong Kong's economy was adversely affected by SARS, but thanks to good technical underwriting, Munich Re expects its treaty losses there to be small. Through the introduction of event limits, we greatly reduced our natural catastrophe exposure for Hong Kong and South China, which had previously been very high.

Despite stronger competition, we were able to keep our technical conditions at the same level in Taiwan, thus preparing the ground for sustained good results in the future. In Southeast Asia, we defended our leading position in all lines of business and, as in the preceding years, successfully geared client accounts to our profit targets. Although rates began to fall, we achieved our objectives in all areas. The result for the year was gratifying. There was an absence of claims burdens from natural catastrophes.

In Africa, we operate through our subsidiary Munich Reinsurance Company of Africa (MRoA), which writes business in 35 countries. In the past year, we further streamlined MRoA's structures, adapting organisational procedures even better to clients' needs and making them more efficient. Despite portfolio rehabilitation measures, MRoA recorded premium growth of around 23% in 2003. The bulk of our €356m premium comes from South Africa, where we are the market leader. Especially in motor business, we had to terminate treaties that did not meet our technical requirements. Owing to the favourable market environment and the lack of major losses in the second half of 2003, the combined ratio fell very markedly to 88.4%.

Munich Reinsurance Company of Africa*

		2003	Prev. year
Gross premiums written	Rm	**3,032**	2,458
– Life and health	Rm	**553**	439
– Property-casualty	Rm	**2,479**	2,019
Net earned premiums	Rm	**1,368**	1,381
– Life and health	Rm	**427**	549
– Property-casualty	Rm	**941**	832
Loss ratio non-life	%	**63.6**	71.3
Expense ratio non-life	%	**24.8**	28.6
Combined ratio non-life	%	**88.4**	99.9
Profit for the year	Rm	**178.8**	–5.8
Investments	Rm	**2,817**	2,968

* Consolidated financial statements in accordance with IAS.

Our premium income in the countries of North Africa and the Near and Middle East remained at around the same level as in the previous year, owing to negative currency influences. The result improved very substantially, partly thanks to the absence of major losses. A notable development was our resumption of business relations with clients in Iran. The most important country for us in this region is Saudi Arabia, where we expect a further consolidation in the insurance market following the introduction of a new insurance law. As a consequence of the minimum required capital, the number of insurance companies will fall from around 90 to approximately 25, making it possible to implement the necessary technical conditions and rates on the market.

In Israel, we successfully defended the price level achieved in 2002, and in several sectors, especially liability insurance, we managed to implement price increases. Although we terminated participations in some insufficiently rated treaties, our premium income from this market rose by 1.1% to €137m, consolidating our position as market leader. We succeeded in improving the result.

North America

Responsible for:		American Re-Insurance Company, Munich Reinsurance Company of Canada		
		2003	2002	2001
Premium income	€m	**3,987**	4,968	4,373
Combined ratio	%	**99.1**	168.1	156.8

Last year, we reported on the extensive restructuring and realignment of American Re. As a result of these measures, the company was well positioned to fully capitalise on improved market conditions during the year under review and to create the basis for a successful future: an underwriting organisation with an excellent market position focused on producing profitable business in all segments. American Re's objective in 2003 was to generate attractive pre-tax earnings, while improving the quality of its portfolio and strengthening its balance sheet. This objective was achieved.

The company recorded a pre-tax profit of US$ 504m in 2003. Premium volume decreased by 8.3% to US$ 4,611m, as the company withdrew from business segments that were not core to its reinsurance business, did not renew business that failed to meet its profitability goals, and declined business not in accordance with its underwriting and pricing guidelines. The strong euro also affected premium growth. As a result of recent developments in the area of general liability (including professional liability) and workers' compensation insurance, it was necessary to strengthen loss provisions by US$ 368m.

American Re ended the year with a statutory surplus of US$ 3,344m and a risk-based capital (RBC) ratio in excess of 220%, both much improved from last year and putting the company among the financially strongest reinsurers in the US market once again. In recognition of its financial strength, its improved operations and the subsidiary's strategic importance to the Munich Re reinsurance group, A. M. Best affirmed American Re's A+ (Superior) financial strength rating with a stable outlook.

American Re's combined ratio also improved: owing to the appreciably lower claims costs, the loss ratio in particular fell – despite the subsequent reserving – from 279.6% in the previous year to 102.6% in the year under review. One of the reasons for this decrease was the relatively low claims burden from natural catastrophes and other major losses in 2003.

The generally positive picture for the year under review was rounded off by American Re being named "Best Overall Reinsurer" in the 2003 survey of US cedants conducted by the Flaspohler Research Group.

American Re*

		2003	Prev. year
Gross premiums written	US$ m	4,611	5,030
– Life and health	US$ m	380	446
– Property-casualty	US$ m	4,231	4,584
Net earned premiums	US$ m	1,603	1,119
– Life and health	US$ m	37	46
– Property-casualty	US$ m	1,566	1,073
Loss ratio non-life	%	87.0	261.4
Expense ratio non-life	%	15.6	18.2
Combined ratio non-life	%	102.6	279.6
Result for the year	US$ m	262.1	–1,080.9
Investments	US$ m	14,169	12,843

* Consolidated financial statements in accordance with IAS.

Munich Reinsurance Company of Canada (MROC) achieved a profit of Can$ 4.8m in 2003 with a combined ratio of 111.8% (119.7%). Its business volume increased by 19.3%. MROC continues to maintain its leading and influential position in the market.

Munich Reinsurance Company of Canada

		2003	Prev. year
Gross premiums written	Can$ m	384	322
– Property-casualty	Can$ m	384	322
Net earned premiums	Can$ m	120	103
– Property-casualty	Can$ m	120	103
Loss ratio non-life	%	85.1	89.3
Expense ratio non-life	%	26.7	30.4
Combined ratio non-life	%	111.8	119.7
Profit for the year	Can$ m	4.8	0.6
Investments	Can$ m	1,056	423

Important events in the business year

In order to take best possible advantage of the profitable business opportunities that continue to present themselves in the US property-casualty market, Munich Re decided to increase Munich Re's capital by US$ 300m at the end of 2003.

American Re's British subsidiary transferred loss reserves and assets with a volume of over €400m to Munich Reinsurance Company's branch in the UK.

Munich Reinsurance Company's Canadian branch, which wrote property-casualty business in the Canadian market, was closed with effect from 31 December 2003. All assets and liabilities were transferred to Munich Reinsurance Company of Canada (MROC). This step is designed to optimise our Group structure and make better use of the capital employed.

Corporate Underwriting/Global Clients

Responsible for:		Globally operating clients, agricultural rsiks, workers' compensation business, loss portfolios, Lloyd's/US business		
		2003	2002	2001
Premium income	€m	**4,552**	4,699	3,615
Combined ratio	%	**98.0**	120.8	160.4

This division's premium growth is greatly dependent on the business of our global clients. Owing to currency influences, premium volume fell by 3.1% to €4,552m.

The combined ratio improved by 22.8 percentage points to 98.0% in comparison with the loss-plagued year 2002. Even after elimination of the special burdens in that year resulting from the World Trade Center reserve strengthening, the reduction amounted to 14.7%. Claims costs for natural catastrophes, which are included in the combined ratio figure, were within the normal range at €90m. However, we recorded substantial expenditure for late-reported claims from our clients arising from losses in previous years.

Global clients

We succeeded in consolidating and even extending our position in business with our globally operating clients. Every chance was taken to put cooperation with these clients on an even broader footing. The result was impacted by several fairly large losses, especially from engineering business of earlier underwriting years and from tornadoes in the USA.

Lloyd's/US business

Overall, selective shares in attractive business led to a consolidation of our portfolio in 2003 and to a slight volume increase only in some segments, measured in original currencies. In the year under review, we recorded appreciable profits.

Agricultural risks

Despite the disastrous drought in large parts of Europe (see page 54 ff.), we achieved a good result for 2003, with rising premium volume. Two factors were decisive here: virtually the only peril currently insured against in Europe is hail; on the other hand, experience in federal-supported multi-peril crop insurance in the USA – from which around 80% of our total premium derives – was positive.

Workers' compensation

In the year under review, we were able to further reduce underwriting losses from business in force in markets where we have increasingly taken remedial measures in the past few years. As social security systems are reformed and privatised, we hope to acquire substantial volumes of business with corresponding earnings capacity in the medium term. We have built up an internationally recognised centre of competence for this difficult business.

Customised portfolio solutions

In this highly specialised segment, we offer our clients tailor-made financing solutions for the run-off of loss portfolios. We continue to see attractive business opportunities in this area long term.

Research and development

In our Centre of Competence for Biosciences, doctors, agricultural scientists, biochemists and human geneticists analyse the flood of information on progress in genetic engineering and the implications of this progress for our business and for our clients. For example, our specialists seek answers to the questions of how genetically modified plants may influence loss potential in agricultural insurance or to what extent and in what areas of application genetic testing may be used in healthcare worldwide. We use statistics and risk scenarios to help health insurers, pension insurers, life insurers, liability insurers and agricultural insurers develop new products and coverage concepts.

In our Geo Risks Research Centre of Competence, more than 20 experts from all the pertinent disciplines investigate natural hazards worldwide, in particular the striking increase in catastrophe losses. They analyse the causes and effects, assess the results with respect to our underwriting policy, and offer our clients a comprehensive service regarding these topics.

We maintain close contact with scientific institutions around the world and with domestic and foreign media, in order to contribute our point of view to public debate. Our experts are highly sought-after. A special event in this context was the Climate Exhibition at the internationally renowned Deutsche Museum in Munich from November 2002 to November 2003, for which Munich Re was the exclusive partner. Last year's extremely hot summer and the floods in August 2002 confirmed the forecasts we have been giving for many years and made clear the great economic relevance of climate change, which is manifesting itself more and more strongly.

Special and Financial Risks

Responsible for:		Aviation and space, credit and bonding, enterprise and contingency risks, retrocession, Munich-American RiskPartners, New Re Geneva, Great Lakes UK, Munich American Capital Markets		
		2003	2002	2001
Premium income	€m	**2,284**	2,485	1,787
Combined ratio	%	**92.9**	116.5	140.9

Our consistent consolidation measures were clearly reflected in our figures in the year under review. Premium income fell accordingly by 8.1% to €2,284m (€2,485m), mainly owing to the strategic reorientation of our subsidiary New Re in Switzerland. Premium volume was also adversely affected by the strong euro.

The result was very pleasing. We succeeded in reducing the combined ratio to 92.9%, which was thus 23.6 percentage points lower than the previous year's figure of 116.5%; 9.0 percentage points in 2003 were attributable to costs for retrocession cover. Natural catastrophes gave rise to expenditure of around €87m. We were able to achieve a good result, even though we incurred a large tornado loss in the USA and had to strengthen reserves for past losses.

Aviation and space

With premium income of €700m, this business segment is the largest written by the division in terms of volume. The drop in premium due to currency influences was compensated for by new business production, so that the volume remained about the same.

Owing to the unabated competition and the prevailing overcapacities, especially in airline business, we witnessed a reduction in rates. Through a selective underwriting policy, we were able to keep the prices for our business at a technically adequate level. Thanks to our remedial measures and the good claims experience in the last two years, we have managed to almost completely make up for the horrendous losses of 2001, which stemmed in particular from the attack on the World Trade Center.

We enhanced our leading market position in this sector by increasing our share in Global Aerospace, and in the international insurance pool for aviation and space risks managed by that company, from 9% to 25%.

Although there was a decline in the number of satellite launches in the year under review, we recorded stable premium income and a positive result in space business, thanks to price increases. As other market players withdrew from this highly specialised line, market capacity again decreased and we were able to strengthen our leading position.

Credit and bonding

With a further steep rise in the number of insolvencies both in Germany and the rest of Europe, the general business environment was extremely problematic again in 2003. We nevertheless succeeded in returning to the profit zone with a satisfyingly positive result. There were three main reasons for this: our stringent underwriting and pricing policy, already implemented in the previous year; the remedial measures consistently pursued by nearly all specialist insurers since 2001; and the reduction in spectacular large losses. The premium growth of 31.0% to €620m was driven by rate increases in original and reinsurance business and to a smaller extent by new business, especially in export credit insurance.

Alternative markets

This business segment consists primarily of major industrial clients. We have further developed the international orientation of this segment's activities, now operating with highly qualified teams in Munich, London and Australia. We were able to extend our position in all the markets of importance for us and, with our products and services, we number among the market leaders in this segment as well. Premium income increased to €470m (437m), with growth of around 20% in original currencies. In spite of high losses caused by tornadoes in the USA, we posted a very good result.

New Re

For our subsidiary in Switzerland, New Re in Geneva, 2003 was a year of successful strategic reorientation. We have focused on the underwriting of non-proportional European business and have optimised management tools and processes. As a consequence of these important strategic measures and the planned termination of unattractive business, but also owing to currency influences, premium income decreased by 44.9% to Sfr 732m. After a series of underwriting losses, we were able to record a positive result – a further significant success in our remedial approach, which we are determined to pursue. The most important markets remain the UK, France, Germany and Switzerland.

New Reinsurance Company

		2003	Prev. year
Gross premiums written	Sfr m	732	1,328
– Life and health	Sfr m	217	301
– Property-casualty	Sfr m	515	1,027
Net earned premiums	Sfr m	678	924
– Life and health	Sfr m	146	172
– Property-casualty	Sfr m	532	752
Loss ratio non-life	%	86.3	99.2
Expense ratio non-life	%	19.5	24.0
Combined ratio non-life	%	105.8	123.2
Result for the year	Sfr m	55.0	–189.8
Investments	Sfr m	2,607	2,799

Retrocession

In this business segment, we bundle the retrocession cover for the whole reinsurance group. In order to optimise our risk situation, we purchase covers for selected underwriting risks on the international retrocession markets. We attach the greatest importance to financial solidity when selecting our retrocession partners.

The mainstay of our retrocession structure is a cover against losses from natural hazards. In the year 2003, we succeeded in substantially broadening our natural hazard retrocession programme at commercially acceptable prices. For 2004, we planned a fundamental restructuring and further extension of our retrocession programme, which was implemented on 1 January 2004.

Primary insurance

Our primary insurers, essentially comprising the ERGO Insurance Group, the Karlsruher Insurance Group and Europäische Reiseversicherung (see page 41), write nearly all lines of life, health and property-casualty insurance. Around 83% (81%) of their premium income in 2003 stemmed from Germany. The remaining 17% (19%) of their premium was earned mainly in Italy, the Netherlands, Spain and Belgium.

Overview

The development of the primary insurers in the Munich Re Group is marked by a positive performance in their underwiriting business. This is reflected in the result before amortisation of goodwill which, despite considerable burdens from writedowns on investments in associated enterprises and losses on disposals, totals €247m (–654m). The net result for the year of –€1,091m (–939m) is also heavily affected by writedowns on goodwill and the high tax expenditure.

The half-income method introduced in Germany in connection with the business tax reform in 2001, with its disregarding of gains and losses on shareholdings, produced completely system-adverse results for life and health insurers. In combination with the tax-deductible amounts for policyholders' bonuses, it led in good capital market situations to tax losses, whereas when the stock markets slumped, the result in the commercial balance sheet – already substantially reduced by writedowns and losses on disposals – was burdened by disproportionately high tax expenses. As a consequence of the new arrangements for life and health insurers adopted at short notice in December 2003, this system-adverse taxation situation has been ended as from 2004. At the same time, companies have been granted an option to apply the new rules – limited to 80% of the income and expenses concerned – uniformly for the years 2001 to 2003 (so-called "block option"). Under the new rules, the current tax to be paid is reduced. However, in our consolidated financial statements prepared in accordance with IAS, deferred taxes now have to be posted again to take account of the valuation differences between the local company financial statements and IAS. This gives rise to a high tax burden of €637m for the life and health insurers, which is out of all reasonable proportion to the result.

Aftermath losses from previous years' stock market slumps also had a significant impact on the result. Our primary affected insurance segment ultimately had to recognise writedowns and losses on disposals totalling €3,545m.

Like their domestic and foreign competitors, the life insurers in our Group have lowered policyholders' bonuses in Germany for the third time in succession. The current interest rates now lie within a range of 3.2–4.4% (4.2–5.2%). Including maturity bonuses, the overall return amounts to 3.5–4.8% (4.5–5.2%). Our life insurers have thus taken reasonable account of the lower level of market interest rates. If one regards the return in real terms, i.e. the return after consideration of the low inflation rate, our life insurers' products are still attractive.

Result

At 96.4% (99.9%), the combined ratio is distinctly better than in the previous year and once again below 100%. It is particularly gratifying that the improvement is due to both a lower loss ratio and a reduced expense ratio. There were no exceptionally large losses from natural hazard events in 2003.

Expenses for claims and benefits in the life and health segment showed a substantial rise, mainly due to an increase in expenses for policyholders' dividends. In the previous year, the high writedowns on shares had markedly reduced the provision for deferred policyholders' dividends, with impact on the income statement. Claims and benefits in health insurance rose by 4.7% and thus less strongly than premium income. This mainly reflects two factors in German business: through the introduction of a completely flat-rate payment system in hospitals, general claims costs for hospital treatment showed a marked increase; on the other hand, successes in claims management meant that in other areas expenditure fell or showed only a moderate rise.

The investment result amounted to €4,209m (–292m). It was adversely affected above all by the negative result of investments in associated enterprises amounting to €700m (514m). The operating result before tax was –€334m (–895m).

For the reasons mentioned on page 113, the relationship between the tax expenses of €789m (88m) and the pre-tax result is incomprehensible at first glance. Thus, although the overall result of the underwriting business is good, we recorded a loss for the year of –€1,091m (–939m) in primary insurance.

Altogether, the result of our primary insurance business developed as follows:

Primary insurance underwriting result

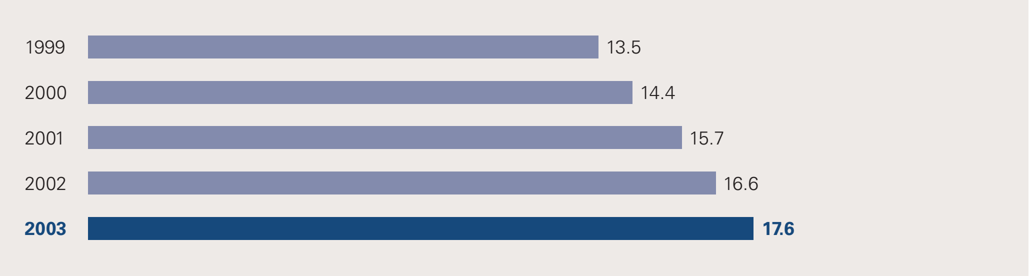
in €m	2003	2002 (adjusted)*	2001	2000	1999
Result before amortisation of goodwill	247	–654	555	1,342	948
Operating result before tax	–334	–895	463	1,335	943
Profit for the year	–1,091	–939	561	624	347

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Premium

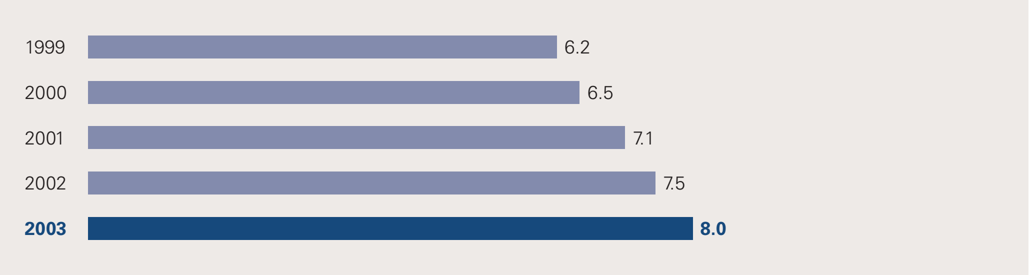
Premium income in primary insurance rose by 6.3% (5.6%) to €17.6bn (16.6bn). This represents a share of 44% (41%) of the Munich Re Group's total premium. The strong growth in new business impressively underscores our primary insurers' marketing strength, which is built on well-established brands, attractive products and a range of effective distribution channels.

Gross premiums in €bn



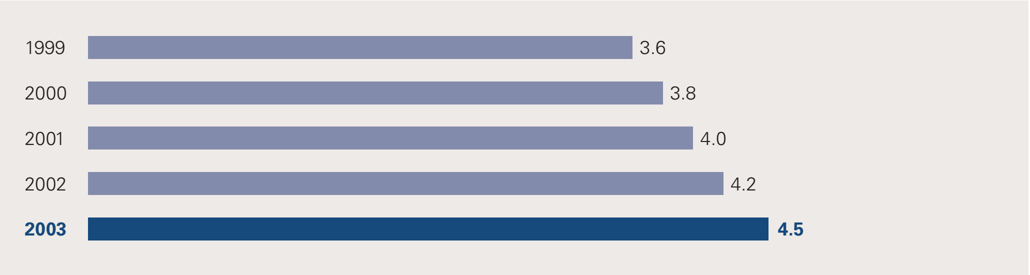
Life insurance played a major part in the good premium development, with premium income growing to €8.0bn (7.5bn) or by 6.6% (5.6%) in the year under review. This growth shows that our primary insurers are very well positioned in the private and company pensions sector, an important market for the future. Life insurance continues to be the most popular product for making private provision.

Gross premiums in life insurance in €bn



Premium income in health insurance climbed by 7.3% (5.7%) to €4.5bn (4.2bn). Growth in Germany was driven by premium adjustments for business in force. The prolonged debate about healthcare reform, which is definitely necessary in our view, engendered a climate of uncertainty, which had a curbing effect on our new business in Germany.

Gross premiums in health insurance in €bn



In property-casualty insurance, premium income grew by 5.0% (5.4%) to €5.1bn (4.8bn). Here, too, new business developed positively, not only in virtually all classes of the profitable segment of personal lines business but also in our very selectively written commercial and industrial property business.

Gross premiums in property-casualty insurance in €bn

Reporting by subgroup

In reporting on our primary insurance operations, we will follow the structure of our subgroups, in each case referring to our subsidiaries' individual or consolidated financial statements for the year.

ERGO Insurance Group

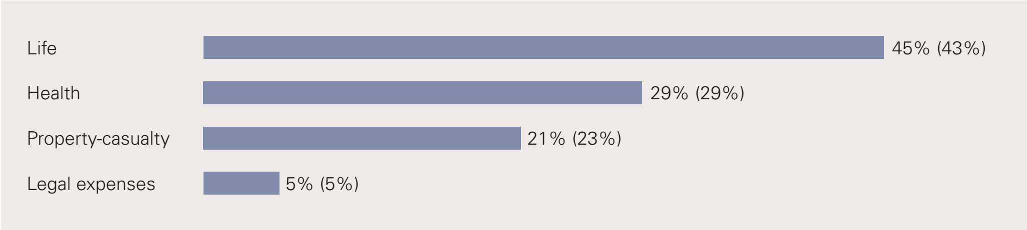
		2003	2002 (adjusted)*	2001
Premium income	€m	**15,566**	14,775	13,922
Combined ratio	%	**89.7**	97.6	98.2
Result	€m	**–1,431**	–1,212	655

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Marketing, employees

ERGO's marketing is based on its various strong sales organisations, direct sales and brokers. An important part of this strategy is its exclusive cooperation with the HVB Group, which generated a new business volume of €400m (292m) in 2003, thus again surpassing the ambitious marketing targets that had been set. The joint-venture company Karstadt-Quelle Finanz Service was also able to firmly establish itself in its first full calendar year since formation; its new business volume in 2003 totalled €89m.

Gross premiums by class of business



At the end of 2003, the ERGO Insurance Group employed 25,514 (25,815) desk staff and 5,956 (5,974) salaried field staff.

Result

As an after-effect of the capital market crisis of the last three years, the ERGO Insurance Group had to cope with heavy losses. It again recorded a large deficit of €1,431m, partly due to the exceptionally high tax burden, as well as to writedowns for impairment of goodwill.

The stabilisation of the capital markets alone should result in a significant improvement in earnings. In order to strengthen its competitive position, ERGO is concentrating on expanding its core fields of business whilst at the same time increasing its efficiency. The ERGO companies in Germany and abroad have identified potential ways of enhancing efficiency and saving costs in all units, functions and processes, and are implementing planned measures to achieve a sustained improvement in the Group's result. By the end of 2005, annual cost savings are expected to reach €300m. The measures initiated already had a positive effect in the year under review.

On 14 July 2003, the joint IT application landscape ERGO 1.0 was launched at the VICTORIA and Hamburg-Mannheimer companies and at D. A. S. After remedying the inevitable teething problems inherent in such major projects, the ERGO strategy is being consistently realised with ERGO 1.0: identical handling processes in administration can be used with separate brands, thus creating synergies. The common IT platform will make a significant contribution to further enhancing the ERGO Insurance Group's competitiveness and to saving costs.

ERGO's investment result improved markedly compared with 2002 to €4,330m (–1,011m).

The already very good combined ratio of 97.6% achieved in the previous year fell in the year under review to an excellent 89.7%. At 99.2% (101.1%), it was also below the 100% mark in the legal expenses segment in 2003.

The result before amortisation of goodwill was nevertheless unsatisfactory, totalling €7m (–908m). After tax and amortisation of goodwill, the result for the year stands at –€1,431m (–1,212m).

ERGO Insurance Group

		2003	Prev. year (adjusted)
Gross premiums written	€m	15,566	14,775
Net earned premiums	€m	13,700	12,954
Profit for the year	€m	–1,431	–1,212
Investments	€m	91,370	87,012

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Premium

ERGO's gross premium income rose by 5.4% (6.1%) in the year under review. All classes of business and distribution channels contributed to this healthy growth, but especially life insurance.

ERGO gross premiums

in €m	2003	2002	2001	2000	1999
Life	6,954	6,443	6,029	5,385	5,114
Health	4,547	4,238	4,010	3,833	3,593
Property-casualty	3,278	3,352	3,160	2756	2,560
Legal expenses	787	742	723	695	662
Total	**15,566**	**14,775**	**13,922**	**12,669**	**11,929**

Gross premium written by ERGO in life insurance increased by 7.9% (6.9%). The driving forces here were good new business production, despite the still distinctly slow take-up of "Riester" pension products, and index-linked increases for business in force.

Gross premium income in health insurance was up by 7.3% (5.7%). Growth was largely due to premium increases for business in force, which were necessary on a larger scale for the first time in years in order to take account of cost development. New business in Germany suffered from the continuous debate about healthcare reform.

In property-casualty insurance, gross premium income declined by 2.2% (–6.1%) due to the cessation of VICTORIA Re's operations. Without this factor, growth would have been 5.4%, since there was significant expansion of new business in nearly all lines. Premium in legal expenses insurance increased by 6.1% (2.7%). This was mainly attributable to foreign business, but pleasing growth of 10.5% was also achieved again in Germany.

Karlsruher Insurance Group

		2003	2002 (adjusted)*	2001
Premium income	€m	**1,328**	1,346	1,350
Combined ratio	%	**104.9**	112.3	104.3
Result	€m	**1.0**	17.9	–18.0

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Marketing, employees

The distribution structure of the Karlsruher Insurance Group is based on an exclusive nationwide sales organisation, collaboration with brokers and cooperation agreements with banks. Life insurance in particular is sold through branches of cooperative banks, mainly in the southwest of Germany. Since the year under review, self-developed consultancy software has been in use to support distribution. In order to strengthen competiveness and target-group-oriented marketing, the Group developed a modern annuity insurance product in 2003 and offered package products for cover in the lines of property, liability, personal accident and legal expenses insurance.

At the end of 2003, the Karlsruher Group employed a total of 3,724 (4,034) people. 1,659 (1,790) of these were desk staff and 2,065 (2,244) field staff.

Result

An extensive project to optimise results has been in progress at all the companies in the Karlsruher Group since 2002. The first practical measures were already implemented in 2003. Cost savings are scheduled to total approximately €35m by 2005.

The combined ratio in property-casualty and legal expenses business amounts to 104.9% (112.3%). At €1.0m (17.9m), the Karlsruher Insurance Group's overall result for the year was again positive in the year under review, notwithstanding the enormous strains from the after-effects of the depressed stock market and the excessively high tax burden.

Karlsruher

		2003	Prev. year (adjusted)*
Gross premiums written	€m	**1,328**	1,346
Net earned premiums	€m	**1,056**	1,082
Profit for the year	€m	**1.0**	17.9
Investments	€m	**11,810**	12,368

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Premium

At €1.3bn (1.3bn), gross premiums written remained at the same level as in the previous year.

For the two life insurance companies in the Karlsruher Group, the year 2003 was marked by the termination of several large contracts. Adjusted to take account of this special factor, gross premiums written grew by 1.6% compared with the previous year. The two companies together recorded growth of 6.7% in new business. Their total new business premiums were 2.0% lower than in the previous year.

Karlsruher Versicherung AG was able to record gross premiums written of €247m (251m), thus almost maintaining the previous year's level, despite extensive remedial measures involving a portion of its motor insurance plans.

Europäische Reiseversicherung

		2003	2002	2001
Premium income	€m	**305**	307	309
Combined ratio	%	**93.9**	101.5	106.5
Result	€m	**5.0**	–4.5	–16.1

Marketing, employees

Europäische Reiseversicherung is the market leader in travel insurance business in Germany, its most important market, where it works with over 17,000 partners in the tourist industry, including major groups as well as individual travel agents.

Operating with a uniform logo and market presence, the Europäische Group is represented in all the main European countries through its international network of subsidiaries and affiliated enterprises. It is keeping pace with the further internationalisation of the travel industry and, with its intelligent network of subsidiaries and cooperations, accompanies its marketing partners in the tourist industry in their European-wide expansion. Reacting to changes in travel behaviour, it overhauled its products in 2003, and in future will offer policies specially tailored to very different types of travel (low-cost, city trips, package tours, study tours and cruises). Besides this, it has established a new field of business in Germany for the insurance of business travel.

In 2003, Europäische Reiseversicherung employed a total of 703 (704) staff.

Result

Since last year, Europäische Reiseversicherung has been conducting an extensive project to save costs, which is starting to bear fruit.

The claims situation with regard to cancellations by customers and their effects on travel cancellation insurance has improved again. The combined ratio amounted to 93.9% (101.5%).

Europäische Reiseversicherung's result for the year was €5.0m (–4.5m).

Europäische Reiseversicherung

		2003	Prev. year
Gross premiums written	€m	305	307
Net earned premiums	€m	255	260
Profit for the year	€m	5.0	–4.5
Investments	€m	156	148

Premium

SARS (see page 52 f.) and the war in Iraq created a lull on the travel market in 2003. Initially, Europäische Reiseversicherung's premium fell sharply. Gross premiums amounted to €305m. New products for business travellers and special target groups will not make themselves fully felt in the figures until 2004.

In Germany, Europäische Reiseversicherung shared the fate of many tour operators who, for the second year in succession, recorded marked reductions in sales.

Asset management

In this section, we report on the performance of our Group's own investments, which derive almost entirely from our core business fields of reinsurance and insurance, and on third-party business.

Marketing, employees

Retail and special funds for private investors and for institutional investors are offered directly by MEAG. Its investment products are also becoming an increasingly established part of ERGO's insurance marketing. In view of the growing importance of private provision for old age, this trend is likely to intensify.

In the past business year, MEAG was able to win new mandates from significant corporate pension schemes in the highly competitive market for company pensions and thus establish itself further in this especially promising field of business.

At the end of the year under review, MEAG and its subsidiaries employed 605 (617) people.

Investment principles for the Group's assets

In the investment sector, we follow a number of principles: we only make investments from which we can expect an appropriate return under normal circumstances, at the same time giving due regard to a high degree of security. We reduce currency risks to a very great extent by matching our expected liabilities with assets in the same or similar currencies. Besides this, we always keep sufficient liquid funds available in order to meet our payment obligations at all times. Altogether, we endeavour in our asset-liability management to strike a good balance between earnings opportunities and acceptable risk. How we counter the various investments risks is described in depth in the risk report starting on page 135.

Performance and structure of Group investments

As at 31 December 2003, the Munich Re Group's investments amounted to €171.9bn (156.3bn), up 10.0% on the previous year.

The growth was due primarily to inflows from Munich Reinsurance Company's subordinated bonds issues and the capital increase, to capital gains on existing securities, and to the pleasing performance of our underwriting business.

We have invested the funds from the subordinated bonds issued in April (a total of €3.4bn) in accordance with our repayment obligations. The funds from the capital increase (€3.9bn) have been invested largely in line with our existing asset allocation in shares and bonds but not in participating interests.

The table below shows the composition of the portfolio by investment type:

Investment mix	31.12.2003 €m	%	Prev. year €m	%	Change in %
Real estate	10,075	5.9	9,848	6.3	2.3
Investments in affiliated and associated enterprises	4,353	2.5	9,601	6.1	–54.7
Loans	16,046	9.3	12,644	8.1	26.9
Shares and equity funds	21,633	12.6	17,687	11.3	22.3
Fixed-interest securities	99,886	58.1	87,824	56.2	13.7
Deposits retained on assumed reinsurance business, and other investments	18,879	11.0	17,971	11.5	5.1
	170,872	99.4	155,575	99.5	9.8
Investments for unit-linked life insurance	1,009	0.6	703	0.5	43.5
Total	**171,881**	**100.0**	**156,278**	**100.0**	**10.0**

The large reduction in investments in affiliated and associated enterprises is due to the fact that we sold part of our stake in Allianz (see page 17) and have reallocated our remaining Allianz shareholding to securities available for sale. These shares now have the character of a purely financial investment for us.

Real estate

Our long-term strategy is geared to successively rejuvenating the portfolio and appropriately spreading opportunities and risks. We are doing this by selling directly held property in Germany and investing in top-class real estate located primarily in major European cities but also in some cases in Asia and the USA. We adhered to this principle in 2003 in order to further improve the return and risk profile of our real estate as an asset class.

The markets in which we invested were selected according to macroeconomic and real-estate industry criteria. This included taking into account the size of the market and its liquidity in order to be flexible for possible restructurings in our investment portfolio. We are participating primarily in specialised real estate funds and taking advantage of the currently favourable relationship between returns and interest on financing with outside capital.

Additions to real estate amounted to €1,187m and disposals to €746m in 2003. The properties sold were primarily mixed residential/commercial items that had reached the end of their useful service life.

Investments in affiliated and associated enterprises

Another important measure for diversifying our overall investment portfolio has been the further global reduction of our historically based concentration of shareholdings in the banking and insurance sector.

As at 31 December 2003 we had reduced our interest in Allianz to 12.2%. We achieved this by not exercising some of our subscription rights in Allianz's capital increase in April and by selling shares with due regard to the effect on the stock market.

In October, we sold our shares in Hypo Real Estate Holding AG, prior to its flotation on the stock exchange, thus reducing our exposure in the German banking sector. We had acquired the shares through the spin-off of Hypo Real Estate from HypoVereinsbank AG. We are also not participating in the capital increase announced by HypoVereinsbank in February 2004. As at 31 December 2003, our shareholding in HypoVereinsbank AG still amounted to 25.7%, which we have significantly reduced in connection with HypoVereinsbank's capital measure in spring 2004.

Fixed-interest securities

In our asset-liability management, we generally adjust the periods to redemption in our bond portfolios to match the periods of our liabilities as far as possible. In the year under review, we therefore slightly shortened the durations in the investments that serve to cover our reinsurance business.

The primary insurance companies in the Munich Re Group are concentrating above all on continuing to achieve a risk-adequate net return on investments. In order to earn sufficient regular income for this, the companies have invested in securities with longer terms to maturity and correspondingly higher coupon rates. This means that the average period to maturity of the bond portfolio has increased. Hedging transactions have also been concluded to protect the portfolio against falling interest rates.

Equities and equity funds

Equities and investment certificates that are shown at fair value in the balance sheet appreciated by €3.9bn. We are adhering to our strategy of diversifying our equity portfolio more strongly in order to reduce its sensitivity to price fluctuations. To optimise the geographical diversification of our portfolio and exploit earnings opportunities, we cut back on our investment in European equities in favour of Japanese stocks.

As part of the fine-tuning of our equity exposure, we hedged parts of the portfolio using derivative financial instruments, thus limiting price losses due to high volatility on the stock markets.

Result

In spring 2003, prior to the Iraq conflict, the stock markets hit rock bottom. Subsequently, however, they recovered and concluded the year under review with marked gains after three years with negative returns. A detailed report on the development of the capital markets is given in the section "Business parameters" on page 87 ff. The result for the year under review was impacted in significant areas by losses resulting from the stock market slump of the previous reporting periods.

The investment result in the year under review amounted to €7.1bn (4.9bn), representing an improvement of 44.5% on 2002.

Investment result

All figures in €m	2003	2002 (adjusted)*	2001	2000	1999
Regular income	7,328	7,778	9,654	8,652	8,520
Write-ups/writedowns	–1,177	–6,004	–324	–82	–95
Net realised capital gains	2,484	5,853	1,765	4,072	1,427
Other income/expenses	–1,504	–2,692	–675	–476	–327
Total	**7,131**	**4,935**	**10,420**	**12,166**	**9,525**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

In the business year 2003, we made writedowns of €1.7bn (6.4bn), including €0.8bn (5.9bn) alone on our securities portfolio because of the exceptionally poor performance of the stock markets.

The other income/expenses include –€836m from the at-equity valuation of HypoVereinsbank AG.

The table below shows the investment result for 2003 broken down by type of investment:

Investment result by type of investment	2003 €m	Prev. year (adjusted)* €m	Change in %
Real estate	370	701	–47.2
Investments in affiliated enterprises	23	190	–87.9
Investments in associated enterprises	–853	3,669	–
Mortgage loans and other loans	886	724	22.4
Other securities	6,698	–460	–
Other investments	551	611	–9.8
Expenses for the management of investments, and other expenses	544	500	8.8
Total	**7,131**	4,935	44.5

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

MEAG MUNICH ERGO AssetManagement GmbH

The vast majority of the Munich Re Group's investments are managed by MEAG MUNICH ERGO AssetManagement GmbH, a 100% subsidiary of Munich Re and ERGO. As at 31 December 2003, MEAG had assets of €131.3bn under management for the Munich Re Group. The Group's other investments are managed by Munich Re Capital Management, Munich Re Asia Capital Management, ERGO Trust GmbH and the Munich Re Group insurance companies.

The concentration of asset management creates the basis for optimising our investment result. At the same time we also make available the resources that exist for the Munich Re Group's asset management to partners outside the Group, thus tapping additional sources of earnings. Assets managed for third parties by MEAG and ERGO Trust in the Munich Re Group totalled €11.7bn (10.5bn) as at 31 December 2003.

MEAG recorded net inflows of over €300m from retail funds in 2003, surpassing the comparative figure for the previous year (just under €200m) by more than 50%. This pleasing increase, albeit from a relatively low initial level, confirms that investment products excellently complement insurance products in ERGO's marketing programme. Altogether, MEAG had retail funds of over €2bn under management at the end of 2003.

Even higher percentage growth was achieved in institutional business. Here, too, the idea of using all the Munich Re Group's distribution channels for asset management services as well has proved to be a good one and positive for the bottom line. At the end of 2003 the assets of institutional investors managed by MEAG amounted to €1.7bn – twice as much as one year before.

MEAG received a number of awards for its impressive performance in the management of retail funds in the year under review. More details are provided on page 59.

Prospects

The current macroeconomic environment and the situation on the capital markets are more favourable than last year. The situation in the insurance industry has definitely brightened. As a whole, the marked increase in price levels achieved since 2001 has largely been maintained. Furthermore, reinsurers have succeeded in implementing better terms of trade, even where the conditions in primary insurance are not yet commensurate with the greater risks and the necessary return requirements. New opportunities may present themselves for insurers and reinsurers as a result of demographic changes, developments in social security systems and generally heightened risk awareness. We expect the business year 2004 to be a successful one for the Munich Re Group.

Economy as a whole

The global economic recovery should continue to make further progress in 2004, at least initially. In the eurozone, this recovery is being supported by planned structural and fiscal reforms in some countries, such as Germany. However, the eurozone growth rate in 2004 will still lag behind that of the USA. The UK economy is once more likely to grow more strongly than the eurozone. Germany looks set to achieve only average growth in the eurozone again in 2004, although various early indicators point in the direction of a marked revival here as well.

In the USA, the impulses of fiscal and monetary policy should further stimulate private consumption in particular, but it remains questionable whether the upswing can continue with this momentum in the second half of the year or whether existing macroeconomic imbalances, such as the high US current account deficit, will come more strongly to the fore again.

In Japan, growth should continue, even if the chances of breaking out of the deflationary cycle appear to be limited.

The emerging markets should keep on profiting from the economic growth in industrial nations, with the export-oriented emerging markets in Asia again likely to grow most strongly. In Latin America, the scene is set for an economic upswing, but the political risks in some countries remain high. Economic momentum in Central and Eastern Europe will benefit especially as growth picks up in the eurozone. The Baltic states, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Malta and Cyprus will join the European Union in May 2004.

Risk factors for the world economy in 2004 continue to be geopolitical uncertainties and, in particular, the risk of major terrorist attacks, as the bomb attacks of 11 March in Madrid made clear. There is also the risk that economic growth in the USA will slacken again in the course of the year, which could have negative economic consequences for other parts of the world. In the eurozone, and especially in Germany, further appreciation in the euro may adversely affect exports.

Capital markets

In this macroeconomic environment, we expect the mood on the international stock markets to remain buoyant for the time being, with a further increase in yields. In the course of the year, however, there is the threat that the markets will weaken, especially if growth in the real economy in the USA should turn out to be unsustainable.

Insurance industry

Increasing economic activity is accompanied by increasing risks and rising demand for insurance cover. In nearly all countries, we are currently seeing growth in the insurance industry at least equal to that of the economy as a whole. The constantly increasing need for private provision and the demographic changes continue to favour the prospects for insurances of the person in industrial nations. Gross premiums in life and health insurance should therefore carry on growing strongly in these markets. In addition, the stabilised capital market environment should have a positive effect on demand for life insurance products.

Especially in Germany, pent-up demand for private old-age provision remains high. It remains to be seen whether the planned simplification of the "Riester" pension can trigger a mood swing in favour of funded pensions. An adverse factor for life insurance in 2004 is likely to be the necessary reduction of policyholders' bonuses and the lowering of the guaranteed interest rate, whereas the change in fiscal parameters announced for 2005 should stimulate new business production in 2004.

Owing to the comparatively weak economic development in Germany, the economy as a whole will probably provide few impulses for demand in property-casualty insurance.

On the reinsurance markets, writing business at risk-commensurate prices and conditions should again be a focal issue. The ability to determine such prices and conditions and achieve them across the reinsurance cycle will be one of the central success factors in competition between market players.

Development of the Munich Re Group

Unfortunately, there is a growing tendency among some investors to sue companies in connection with statements they publish on future development. This practice inevitably leads to companies being reticent about the information they give and disclosing only what is required by law.

For this reason we, too, wish to emphasise the following: predictions about the future development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of the Munich Re Group's development merely reflects our assumptions and expectations. We do not accept any responsibility or liability for cases in which they are not realised either in part or in full.

Information on the main events after the balance sheet date is provided on page 206 under Note 43 to the consolidated financial statements.

Result

After the years 2001 to 2003, which were particularly difficult for the insurance industry and the Munich Re Group, we are now back on track. The burdens from the terrorist attack of 11 September 2001 and from the stock market slumps in the subsequent period have been absorbed. Our objective of earning an overall return of 4.5% on our investment portfolio, which has been improved in terms of risk aspects, remains unchanged.

In most sectors of liability insurance, we expect further price increases and improvements in conditions, whereas in property insurance we are proceeding on the assumption that terms of trade will stabilise at the currently high level. Given the substantially improved prices and conditions, we aim to achieve a combined ratio in property-casually reinsurance of 97%. And in primary insurance, partly because of the cost-reduction measures we have implemented to improve results, our objective is a combined ratio of the same level.

We expect our life reinsurance business to again achieve embedded value operating earnings of over 10%.

In life and health primary insurance, we must rigorously pursue the measures initiated – which we indeed intend to – before we can return to a convincing level of profitability in our results.

Altogether, we are aiming at a Group result of €2bn for the current business year 2004, which would already take us close to our objective of a return on equity of 12% after tax. The extent to which we achieve this result naturally depends on what claims burdens from natural catastrophes and other major losses affect us in insurance and reinsurance and on how the capital markets develop.

Premium

Proceeding from an already strong market position, we do not expect any premium growth for 2004 in reinsurance. A strong euro will have an additional dampening effect. We subordinate growth to consistent profit orientation and only renew business if it satisfies our return requirements.

In primary insurance, we reckon with growth of around the market average. Despite the inevitable adjustment of policyholders' bonuses and the guaranteed interest rate to take account of the lower level of market interest rates, the high demand for private provision among clients, the quality of our products and the recognised franchise strength of our insurers should ensure an appropriate increase in premium income.

All in all, without making allowance for the effects of changes in exchange rates, Group premium for the current business year is likely to total around €40.0bn (40.4bn), which would be 1.1% less than in 2003.

Risk report

Functions, organisation and tools of risk monitoring and control

The selective acceptance of financial risks from reinsurance, primary insurance and asset management is at the centre of the Munich Re Group's business model. As part of our permeating and systematic risk management, our reinsurance and primary insurance companies continually identify and analyse their risks and examine what claims burdens they are able and willing to carry, and base their acceptance policy, reinsurance and retrocessions on this. On the asset management side, we aim to optimise the investment structure by using models based on portfolio theory and by considering the requirements of asset-liability management. Our planning also takes into account events whose occurrence appears less probable through simulations of pre-defined catastrophe scenarios.

The structure and systems of our risk management are designed by our central risk controlling unit and are implemented throughout the Munich Re Group by decentralised risk controllers in the operative units, who adjust to them to current situations where required. Ultimately, the Board of Management is responsible for the conception and effectiveness of risk controlling and risk management as a whole.

Our central risk controlling unit defines standards, and develops and maintains the systems. It is also responsible for regularly informing the management about the current risk situation and for checking measures relating to risk policy, where necessary proposing new ones. This information is communicated through quarterly reports and annual reports, supplemented by ad-hoc reports where required.

Management of individual risks lies within the competence and responsibility of the executives in the Munich Re Group in their function as risk managers. They are responsible for controlling the risk situation in their respective units, and it is their job to check and continually monitor whether the risk policy measures taken are sufficient to effectively reduce the risk potential. There is clear separation of risk management and risk controlling, and the related responsibilities are well defined. The risk management system and its further development are examined independently by internal auditing units at the individual Group companies and by the external auditor as part of the annual audit of the financial statements.

We endeavour to apply our capital model to all risks from our business, i.e. to quantify and thus make them calculable using methods based on probability theory. This is designed to achieve an optimum diversification of the risk portfolio, geared to the best possible utilisation of the risk capital employed. In this way, a balanced portfolio can be built up even for large risks from the business accepted, and a high degree of security can be maintained. After all, one of the main benefits of the capital model is that the potential financial repercussions of a risk can be weighed against the costs of avoiding it. This enables us to make carefully considered economic decisions about different degrees of risk tolerance.

The Munich Re Group complies both with the German Law on Corporate Control and Transparency and with the locally applicable regulations on risk management in the different countries in which it operates. Under German Accounting Standard DRS 5–20, risks are classified as follows:
– Underwriting risks
– Risks from defaults on receivables from underwriting business
– Investment risks
– Operational risks

In addition, we closely consider geopolitical, macroeconomic, supervisory, fiscal and other significant risks resulting from our business environment (e.g. rating). We also analyse our strategic risks, such as management and controlling risks, or risks connected with our strategic shareholdings. The most important risks are dealt with in detail in the following.

Main underwriting risks

The size and internationality of the Munich Re Group make a broad diversification of underwriting risks possible. In reinsurance, for example, we achieve a geographical balance of risks over various continents. In primary insurance, we are expanding in Europe and thereby providing for an increased risk spread. We create a further diversification effect through our simultaneous involvement in reinsurance and primary insurance and through the underwriting of very different types of risk within these two fields of business. Life and health insurance business, for example, correlates to only a small extent with the more volatile classes of property-casualty insurance.

For us, closely gearing our operations to the principles of value-based management is an essential element of responsible risk prevention. In both insurance and reinsurance, capital is only to be made available at conditions that promise an appropriate return. After several years in which rates were far too low, terms of trade in the reinsurance market have largely returned to risk-commensurate levels. It is now important to maintain this situation in the longer term.

In life insurance and reinsurance the biometric risk, the lapse risk and the interest-guarantee risk are especially relevant. The calculation of underwriting provisions in primary insurance is based on “biometric” calculation tables, i.e. on assumptions with regard to mortality and disablement. These assumptions are checked by the supervisory authorities and by institutes of actuaries every few years, depending on the specific national regulations. The checking of mortality and the appropriateness of trend assumptions may lead to a need for additional reserving (e.g. if actual life expectancy has not been sufficiently taken into account) or alternatively to the reversal of reserves that have been posted. In reinsurance, we calculate the biometric risk on the basis of “best estimates”; these are derived from portfolio data and include appropriate assumptions regarding future development. In both life insurance and life reinsurance, we also consider market standards in calculating the biometric risk. Lapse risks can be restricted in insurance and reinsurance by means of suitable product and contract design. The residual lapse risk is estimated by means of product-specific portfolio analyses and taken into account in the pricing.

As far as the interest-guarantee risk in primary insurance is concerned, the guaranteed actuarial interest rate applicable at the time a policy is effected is used in calculating the actuarial reserve for that policy. The life insurers in the Munich Re Group have a substantial portfolio of policies with such guaranteed minimum interest rates, both in Germany and abroad. These include annuity and endowment policies. In order to earn the minimum interest rate, we are to a large degree dependent on investment returns. As a rule, the investments have a shorter duration than the insurance commitments. This means there is a reinvestment risk. For premiums yet to be received, the new investment of these amounts involves a certain amount of risk. Should capital market interest rates remain at a low level for a prolonged period, our life, health and personal accident insurers might not be able to earn the required guaranteed interest rate.

In reinsurance, we exclude the interest-guarantee risk in many cases by means of suitable treaty design. Furthermore, as a matter of principle, prudent assumptions regarding the expected interest rate are used when fixing the actuarial interest rate in the calculation of premiums and reserves. In particular, the minimum legal requirements are observed. In both primary insurance and reinsurance, we are permanently refining our asset-liability management to limit the interest-rate risk.

Our combined ratios, which are important to us in monitoring the premium/claims risk in property-casualty (re)insurance, have developed as follows over the last ten years:

Combined ratio	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Including natural catastrophe	96.7	122.4**	135.1*	115.3	118.9	105.7	100.0	98.3	99.6	103.5
Excluding natural catastrophe	95.1	119.1**	133.6*	113.3	108.2	101.7	99.1	98.2	98.7	101.3

* Thereof World Trade Center and reserve strengthening at American Re: 22.4%.
** Thereof World Trade Center and reserve strengthening at American Re: 15.9%.

Risk control measures

In the Munich Re Group, underwriting guidelines and limits clearly regulate responsibility and accountability for the whole process of acquiring and concluding insurance and reinsurance contracts. We regularly check compliance with these guidelines and closely observe developments in the global and local markets, reacting where necessary with appropriate measures that are translated without delay into corresponding underwriting guidelines if required. Our reinsurance agreements generally provide for clear liability limits, since unlimited covers are not calculable in either insurance or reinsurance. We support all efforts to get unlimited covers abolished where these are still market practice or even compulsory.

A further preventive risk controlling measure is the agreement of accumulation budgets in reinsurance. Particularly in property lines, our reinsurance companies assume very large liabilities for earthquake and windstorm losses, and to a lesser extent for hailstorm and flood risks. These losses often affect many clients at the same time. Owing to this accumulation character, a single loss event can have a substantial impact on the result situation. It is therefore essential that the natural hazard liabilities underwritten are controlled and limited on a Group-wide basis. This is why we introduced accumulation budgets for the hazards earthquake and windstorm many years ago. By means of these budgets, the Board of Management stipulates annually the maximum liability to be assumed by individual reinsurance companies of the Munich Re Group for such events per loss accumulation zone. The loss scenarios underlying the accumulation budgets are regularly checked.

We are currently working hard on introducing accumulation budgets for other hazards in reinsurance. In 2003, for example, we launched a monitoring system for aggregated Group receivables from investments involving our retrocessionaires and exposures in connection with credit reinsurance. This enables us to identify and avoid accumulations involving individual business partners and issuers at an early stage.

An excellent tool for risk prevention in the insurance sector, and thus for risk controlling, is careful reserving to ensure that sufficient funds are available to cover future claims. Hence we generally establish provisions for uncertain liabilities using actuarial methods. Claims provisions for all classes of business and at all companies are regularly checked by means of internal reviews and audits to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, scientists of various disciplines, underwriters and accounting experts. Whenever possible, external statistics and documents (e.g. certified biometric calculation bases in life and health insurance) are also referred to and, where necessary, appropriate adjustments are made to ssthe provisions posted.

Finally, a further important risk control measure is the cession of a portion of our risks to third parties via external reinsurance or retrocession. All our companies have appropriate intra-Group and external reinsurance cover, or retrocession cover in the case of the reinsurers. The core component of Munich Re's retrocession is an accumulation excess-of-loss cover, which provides protection against losses from natural catastrophes (earthquake, windstorm, inundation, flood, etc.). The dimensions of this accumulation excess-of-loss cover are based on analyses of our accumulation budget in the parts of the world exposed to natural catastrophes. The cover is placed on the international reinsurance market.

We only choose business partners for our externally placed reinsurance and retrocessions that have been accepted by our Security Committee, which examines the security of potential reinsurers and retrocessionaires on the basis of a range of criteria. The minimum requirement for participating in one of our reinsurance or retrocession treaties is usually a rating of A– or better from one of the two leading international rating agencies for the insurance industry. This approach has proved its worth: even in the case of the World Trade Center loss in 2001, only 0.12% of our retroceded loss was not recoverable.

Risks from defaults on receivables from underwriting business

5.7% of our receivables on underwriting business at the balance sheet date were outstanding for more than 90 days. The average default rate of the last three years amounts to 3.5%. As at 31 December 2003, accounts receivable on ceded business totalled €251m (626m), of which around 60% (75%) was from companies with an investment-grade rating (AAA to BBB).

Main investment risks

The market value of our fixed-interest securities as at 31 December 2003 totalled €99.9bn. This represents 57.5% of the market value of the Munich Re Group's investments and thus makes up the largest portion of our investments available for sale and held to maturity.

The interest-rate risk constitutes a significant risk for fixed-interest investments. Falling interest rates result in increases in the market value of fixed-interest securities, and rising interest rates to reductions in market value. In order to match investments even more closely with the liabilities to be covered, the primary insurers in the Munich Re Group gave preference in 2003 to securities with longer terms; looked at in isolation for the portfolio of fixed-interest securities, this increases the risks of losses in market value.

Credit assessment is of central importance for the management of credit risks relating to fixed-interest securities. The main factor here is the quality of the issuer or the respective issue, as primarily reflected – according to the investment principles of the Munich Re Group – in the gradings of international rating agencies: as at 31 December 2003, 93.6% of our investments in fixed-interest securities had a rating of A or better (according to Standard & Poor's rating classification). The majority of fixed-interest securities in our portfolio have been issued by governments or banks with excellent ratings or security, e.g. German government bonds, US Treasuries, and mortgage-backed bonds.

The market value of our equity investments, including participating interests, amounted to €26.4bn as at 31 December 2003. We aim to spread equity risks through systematic diversification in different sectors and regions; in the year under review, companies in the Munich Re Group also made greater use of derivative financial instruments for hedging purposes. Munich Re's portfolio continues to include historically evolved large shareholdings in Bayerische Hypo- und Vereinsbank AG and the Allianz Group. In recent transactions, we have consistently pursued our aim of reducing the resultant overweight in the banking and insurance sector by cutting back our investments in the Allianz Group and selling our Hypo Real Estate shares. These measures are geared to achieving another decrease in concentration risks and optimising our portfolio structure from the risk and earnings point of view.

Besides addressing the structure of our equity portfolio, we have also taken a close look at the share of equities in our overall portfolio, with the aim of further reducing and flexibilising the proportion of equities held. As at 31 December 2003, on a market-value basis and taking hedging transactions into account, the ratio of equities to total investments amounted to approximately 14.5% (31 December 2002: 16.5%).

The investments of Group companies that write a substantial part of their business in foreign currencies are subject to currency risks from changes in exchange rates.

The following sensitivity analyses for market price risks serve to estimate potential changes in the value of investments under hypothetically possible market scenarios. The basis for the review are the "other than trading" holdings of the Munich Re Group at 31 December 2003.

The changes in share price assumed in these scenarios, ±10% and ±20% respectively, and a corresponding shift in the interest rate curve of ±100 and ±200 basis points (BP) respectively, would produce the following changes in market value:

Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	+€5.234bn
Increase of 10%	+€2.622bn
Fall of 10%	–€2.602bn
Fall of 20%	–€5.214bn
Market values at 31.12.2003	€26.386bn

Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP	–€11.381bn
Increase of 100 BP	–€5.764bn
Fall of 100 BP	+€5.495bn
Fall of 200 BP	+€11.007bn
Market values at 31.12.2003	€115.762bn

Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	+€3.773bn
Fall of 10%	–€3.781bn
Market values at 31.12.2003	€37.955bn

If such scenarios occur, the effects on the result for the year and the Group shareholders' equity would be reduced by policyholder participation and tax consequences.

The changes in market value shown in the table can only be taken as rough indicators of the actual market value losses that might occur in the future, as they do not consider any counteractive measures.

Investment principles and risk controlling

In the investment sector, the Munich Re Group consistently follows a number of principles: it only makes investments from which it can expect an appropriate return, and it ensures that they offer a high degree of security, as reflected in high-quality ratings of the relevant issuers and counterparties, for example. Also important for the Munich Re Group is sufficient liquidity at all times to cover its obligations from underwriting business, and a targeted diversification in terms of region and type of investment.

The investment process for the Group's own investments takes place at the individual-company level, with asset-liability management forming the basis for the investment strategy, i.e. the companies consider requirements relating to underwriting, supervisory regulations, accounting, tax, liquidity and currencies. Moreover, in reinsurance for individual products involving explicit financial risks, such as interest-rate or currency risks, asset-liability management is carried out at micro level when the product is being designed. This is especially the case with long-tail business, owing to the high interest-rate risk.

The companies entrusted with our asset management, in particular MEAG, are given mandates by the insurance and reinsurance companies in the Munich Re Group, based on uniform criteria. The status of the individual mandates is continually monitored on the basis of various key risk and earnings figures as part of a Group-wide early-warning system for investments. This is designed to ensure the achievement of profit objectives, the fulfilment of solvency requirements and sufficient equity capital protection at individual-company level. Asset-liability teams have been set up at all the companies to monitor and advise on strategic investment decisions. This has enabled us to standardise risk management activities in our investment operations. In the asset management units of the Munich Re Group, a policy of clear functional separation between portfolio management, trading and risk control is pursued at all hierarchical levels, in line with the requirements of banking regulation.

Market-price risks in investments are measured and limited using the value-at-risk approach. This approach is also employed in our strategic investment planning to model the optimum investment portfolio according to our risk preference. Using stress tests, sensitivity analyses and duration analyses, we also simulate market fluctuations and devise appropriate strategies for countering them where necessary. Currency risks are only run to a very small extent in the Munich Re Group, since we practise a policy of currency matching. This means that for all important currency liabilities in our underwriting business, appropriate matching items are established in our assets.

Derivative financial instruments are only used for hedging parts of the portfolio, optimising earnings, and implementing planned purchases and sales. Our Group companies act as end-users of derivatives; in addition, they engage in limited trading in these instruments with a view to profit-making. Particular care is paid to restricting risks, choosing top-quality business partners and strictly monitoring adherence to specifications in mandates and investment guidelines. The volumes involved are shown on page 177 f.

Credit risks in the investment portfolio are measured and limited using the credit-value-at-risk approach. The main factors for measuring the credit risk are the investment volume, the term of the investment, the collateralisation, and the default probability of the individual issuers. Our Group-wide system for limiting credit risks, with which we restrict default risks in respect of individual issuers, considers the issuer's individual rating, its capitalisation as a basis for covering the liability, the quality of the collaterisation, the sector concerned, and our internally defined risk tolerance. Credit derivates are only employed in our investment portfolio for hedging purposes. The notional principal amounts of open positions had a volume of €16m at 31 December 2003, with a fair value of €1m. Regular watch-lists with critical cases are prepared in order to monitor individual issuers. Thus, as in previous years, Munich Re's investments were only affected to a very slight extent by defaults in connection with accounting scandals.

Appropriate liquidity planning is extremely important to counter the liquidity risk – the risk of not being able to make necessary payments. This applies particularly to the reinsurance companies, which may be confronted with large claims as a result of major losses.

The liquidity risks of Group companies are managed by the individual insurers and reinsurers themselves. Detailed liquidity planning ensures that the Munich Re Group companies are able to make the necessary payments at all times. This planning concept, which has been in place for many years, has proved its worth after large natural catastrophes and also in connection with the losses resulting from the attack on the World Trade Center.

Main operational risks

Operational risks are hazards posed by technical or human failure, by natural impairments of the Group's operations or by other adverse developments in its external environment which may lead to unexpected losses. These include criminal acts, inadequate controls, organisational deficiencies or events (for example, inadequate reporting due to deficient data quality, data transparency or data security) which result in claims for damages from third parties.

We minimise such risks, which may be connected with any corporate activity, our staff or the use of technical systems, through a wide range of specific risk management measures (e.g. the GLORIA project aims at creating a comprehensive and consistent data basis). Beyond this, it is our declared corporate aim to sensitise employees to possible risks and thereby to establish an appropriate risk culture. This includes the chance and the willingness to learn from mistakes and to recognise and grasp opportunities for change and improvement. We organise seminars and information events geared to promoting this attitude, support open communication on risk management and give thorough consideration to constructive criticism and feedback.

Risks in the area of information technology and project risks

Munich Re's global business and Group-wide risk management require a networking of our business units and systems worldwide. The consequence of this is a growing dependency on electronic communications technology, whose complexity is continually increasing. The value of the processed information is also growing. Thus, the organisational and technical measures needed to protect the confidentiality, availability and integrity of these data and systems are acquiring ever-greater importance. In addition, we are exposed to the generally known IT risks such as breakdowns and outages, disruptions due to viruses, attacks by hackers and theft of data, including possible misuse by our own staff.

In asset management, insurance and reinsurance business, these risks are identified and limited by decentralised security organisations that liaise closely. We are working constantly on improving these measures and adjusting them to take account of the latest knowledge and state of the art. Our security regulations embrace not only the technical design of hardware and software systems but also functional security structures and organisational measures, including training staff in the proper handling of systems and data. We organise appropriate training programmes for this purpose, as well as issuing directives on information security and data protection which have to be complied with by all staff.

The dependence of our global business operations on central IT systems also requires that, in the event of failure or outage of computer centres, the most important systems can be quickly restored. At the Munich Reinsurance Company, an enhanced contingency and disaster recovery concept has come into effect since the end of January 2004, when the IT Division moved into its new premises at "Münchner Tor". This concept makes it possible to limit the restart time for all relevant core systems to a maximum of 48 hours across all locations. We have distributed all the relevant electronically stored business data and the requisite IT infrastructure between two locations.

Major projects aimed at standardising different IT systems are currently being realised in our primary insurance and reinsurance business. The aim of our GLORIA project is to unify the reinsurance group's IT and process landscape on the basis of an SAP standard product. The launch of this software platform is scheduled for 2005. The convergence of the IT systems used by the individual ERGO companies is being enhanced by an ongoing project named ESPRIT. In the year under review, the successful technical software migration took place at one of ERGO's subsidiaries. This involved temporary disruptions in client-related processes, but measures were immediately implemented to remedy the problem, which stabilised the situation. Once the project has been completed, we expect a significant increase in productivity.

Risks in the human resources sector

The companies in the Munich Re Group have binding standards of corporate integrity governing conduct within the companies themselves, their business transactions and other relationships with external parties. These standards, tailored to the special features of each company, also serve to prevent conflicts of interest for staff, in order to ensure that we use only fair and legal means of competition. The clear separation of management and control functions limits the risk of criminal acts. Risks that may arise from insufficiently qualified personnel and "head monopolies" are tackled by means of suitable personnel development measures and management tools, including succession planning.

Staff who have to deal with confidential data or insider information undertake to comply with the relevant regulations and to handle the information responsibly.

Legal risks

Risks arising from changes in legal parameters as a result of legislation or court decisions may affect the whole Munich Re Group. We counter these risks mainly by monitoring current developments and by actively participating in relevant bodies and associations in order to contribute our views both as a Group and as a representative of the insurance industry.

Besides this, on account of our activities as a Group with global operations, there is a risk of our being involved in legal disputes and arbitration proceedings, especially in the context of claims settlement.

The following are examples of currently relevant legal risks:
- In primary insurance, there are the discussions in Germany about possibly taxing endowment policies at the benefits stage and about an amendment of the insurance supervision law that would involve a change in requirements relating to asset coverage. In health insurance, a reform of the German state health insurance system is being debated. The possible implementation of a proposal for compulsory health insurance for all citizens would reduce private comprehensive health insurance business significantly or even fully eliminate it. Private health insurance companies would be restricted to the area of extended insurance coverage. This would wipe out a substantial share of current new business volume. We are keeping a close eye on all these developments and actively participating in the debates through work in associations and similar bodies.
- In the USA, Congress is considering the Fairness in Asbestos Injury Resolution Act 2003. The bill, which envisages the formation of a privately financed fund to compensate asbestos victims, is currently awaiting approval by the Senate. If the current draft became law, the insurance industry in the USA would – according to information provided by the Reinsurance Association of America – have to contribute an estimated nominal amount of US$ 46bn (discounted: US$ 30.4bn) towards setting up and maintaining this fund. At the same time, the US Court of Asbestos Claims, a court entirely dedicated to hearing asbestos-related claims for damages, would be established. What individual financial consequences this proposed legislation will have for the Munich Re Group is not precisely quantifiable at present. We take it that our existing provisions for asbestos-related claims will be the yardstick for the Munich Re Group's involvement.
- Various legal proceedings are still going on in connection with the attack on the World Trade Center of 11 September 2001. These include the "Silverstein" case pending in New York regarding the question of whether the attack qualified as one or two loss events under insurance policies and reinsurance agreements. It is probable that the judgement will be appealed against, which makes a final court decision in 2004 unlikely. In addition, there are still various unsettled disputes concerning business interruption losses from this claims complex, and a certain loss potential continues to exist for liability as well. The latter should, however, be reduced by the relatively widespread acceptance of payments from the federal Victim Compensation Fund. The above-mentioned risks are already taken into account in the provisions posted so far by the Munich Re Group.

Supervisory risks

As a result of our business worldwide, we are subject to a large number of supervisory regulations in the different countries.

In Germany, the Federal Financial Supervisory Authority (BaFin) monitors the asset coverage and reserve situation of life insurers. Owing to the highly volatile capital market situation in 2003, the degree of coverage of our life and health insurers' committed assets at market values fluctuated significantly. However, the policy reserve fund was covered at all times, both at book values and at market values.

In December 2002, the EU adopted a directive regarding solvency requirements. Once this directive is implemented in Germany, the Munich Re Group may face more stringent requirements regarding its capitalisation. But on the basis of current knowledge, even such requirements would be fulfilled by the Munich Re Group.

As we have two branches in the United Kingdom – the UK Life Branch and the UK General Branch – we are also subject to supervision by the British Financial Services Authority (FSA). Supervision relates not only to business written by these two branches, but also to Munich Reinsurance Company's global business activities. Since the FSA uses different criteria to BaFin in evaluating capitalisation, there was a need for clarification between the FSA and Munich Reinsurance Company last year. On the basis of the present state of the talks, we are convinced that we also meet the FSA's requirements.

Macroeconomic and geopolitical risks

As internationally operating insurers and reinsurers, we are dependent on economic and political parameters in the individual markets as well as on the macroeconomic and geopolitical situation. The development of the economy not only affects our actual insurance business but also influences capital market trends. Thus, for example, a continuation of the general economic downturn can lead to payment defaults and credit-rating downgradings among our debtors, which may require writedowns.

In developing new markets, such as those in Asia and Eastern Europe, the Munich Re Group is largely dependent on the prevailing economic, political and regulatory conditions, the accessibility of the respective market segments, and the local sales channels. But even in developed markets, major social or political changes may result in a deterioration in the legal, fiscal or economic conditions, and this may ultimately affect the assets, liabilities, financial position and results of individual companies or the Munich Re Group as a whole.

For this reason, Munich Re's Strategic Planning Division systematically examines and monitors the economic and political situation of our main markets, and informs the Board of Management without delay about relevant developments so that, if necessary, suitable risk minimisation measures can be taken. Possible scenarios are also discussed and coordinated with MEAG to enable us to react appropriately on the investment side as well.

The virus infection SARS, which manifested itself particularly in East Asian countries, not only influenced the stock markets but also had a concrete effect on our business operations (see page 52). At present we are keeping a very close eye on the development of avian flu and its possible repercussions for the insurance industry.

Outlook

Of particular significance for the outlook are strategic risks. These result chiefly from management decisions on the further development of the Group and its business units. One of the potential hazards is that opportunities may not be recognised or exploited in time. As part of our risk management, we therefore attach special importance to this aspect, including it in our quarterly risk assessments, for example. Risk managers identify and evaluate the specific strategic risks in their areas using a standardised questionnaire. The central risk controlling unit analyses the completed forms, informs the Board of Management about the results, and proposes suitable measures for risk limitation. Furthermore, we compare the results from the risk assessment process with the contents of our strategic planning tools (e.g. balanced scorecards or SWOT analysis). In so doing, we ensure that each risk identified as significant is matched by an adequate risk-reducing initiative in the balanced scorecard. It is up to decentralised and central risk controlling to check whether this measure is then implemented in the course of the following year and whether it is effective.

The terrorist attack of 11 September 2001 further sharpened risk perception and revived the debate on how to cover loss or damage caused by terrorism. For the majority of the perils involved, we have either excluded terrorism risks as a whole in our conditions of insurance or have limited the scope of cover and raised prices very substantially for their coverage. This has made the terrorism risk transparent but has not eliminated it. We quite consciously support the newly formed pools and specialist insurers covering terrorism risks in some countries, such as France, Germany and the Netherlands. This could give rise to substantial, but clearly limited claims burdens in the event of attacks.

We will continue to refine our risk management and risk controlling in future and develop even more effective and efficient management instruments in order to identify, assess and control risks even better and more quickly. Particular consideration will be given to the dynamic development of our business environment and the need to react to this flexibly.

Summary of the risk position

On account of our global operations as a financial services provider, we are confronted daily with many risks that might affect our financial position and results. In our assessment, there are no risks that could seriously jeopardise our Group; we see the Munich Re Group's situation with regard to risks as controlled and viable.

Consolidated financial statements
Consolidated balance sheet as at 31 December 2003

ASSETS	**Notes**	€m	€m	€m	**Prev. year** €m	**Change** €m	%
A. Intangible assets							
I. Goodwill	(1)		3,568		4,441	–873	–19.7
II. Other intangible assets	(2)		1,372		1,336	36	2.7
				4,940	5,777	–837	–14.5
B. Investments							
I. Real estate	(3)		10,075		9,848	227	2.3
II. Investments in affiliated enterprises and associated enterprises	(4)		4,353		9,601	–5,248	–54.7
III. Loans	(5)		16,046		12,644	3,402	26.9
IV. Other securities							
1. Held to maturity	(6)	747			852	–105	–12.3
2. Available for sale	(7)	122,367			106,175	16,192	15.3
3. Held for trading	(8)	548			452	96	21.2
			123,662		107,479	16,183	15.1
V. Other investments							
1. Deposits retained on assumed reinsurance	(11)	14,480			12,911	1,569	12.2
2. Miscellaneous	(9)	2,256			3,092	–836	–27.0
			16,736		16,003	733	4.6
				170,872	155,575	15,297	9.8
C. Investments for the benefit of life insurance policyholders who bear the investment risk				1,009	703	306	43.5
D. Ceded share of underwriting provisions	(18–21)			8,038	10,230	–2,192	–21.4
E. Receivables	(10, 11)			8,175	8,871	–696	–7.8
F. Cash with banks, cheques and cash in hand				1,884	2,735	–851	–31.1
G. Deferred acquisition costs	(12)			7,997	7,451	546	7.3
H. Deferred tax assets	(13)			5,140	4,067	1,073	26.4
I. Other assets	(14)			1,329	1,032	297	28.8
Total assets				209,384	196,441	12,943	6.6

EQUITY AND LIABILITIES	Notes	€m	€m	Prev. year (adjusted)* €m	Change €m	Change %
A. Shareholders' equity	(15)					
I. Issued capital and capital reserve		7,388		3,447	3,941	114.3
II. Revenue reserves		7,823		8,953	–1,130	–12.6
III. Other reserves		4,122		1,260	2,862	227.1
IV. Consolidated profit		–434		288	–722	–
			18,899	13,948	4,951	35.5
B. Minority interests	(16)		483	532	–49	–9.2
C. Subordinated liabilities	(17)		3,390	–	3,390	–
D. Gross underwriting provisions						
I. Unearned premiums	(18)	6,315		6,158	157	2.5
II. Provision for future policy benefits	(19)	98,134		96,088	2,046	2.1
III. Provision for outstanding claims	(20)	42,619		42,792	–173	–0.4
IV. Other underwriting provisions	(21)	7,488		7,460	28	0.4
			154,556	152,498	2,058	1.3
E. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders			958	698	260	37.2
F. Other accrued liabilities	(22)		3,577	3,197	380	11.9
G. Liabilities						
I. Notes and debentures	(23)	2,209		2,205	4	0.2
II. Other liabilities	(11, 24)	18,098		18,467	–369	–2.0
			20,307	20,672	–365	–1.8
H. Deferred tax liabilities	(13)		7,159	4,738	2,421	51.1
I. Other deferred items	(25)		55	158	–103	–65.2
Total equity and liabilities			209,384	196,441	12,943	6.6

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Consolidated income statement for the business year 2003

ITEMS	Notes	€m	Prev. year (adjusted)* €m	Change €m	Change %
1. Gross premiums written	(26)	**40,431**	40,014	417	1.0
2. Net earned premiums	(26)	**37,617**	36,306	1,311	3.6
3. Investment result	(27)	**7,131**	4,935	2,196	44.5
4. Other income	(28)	**1,211**	1,351	–140	–10.4
Total income (2–4)		**45,959**	42,592	3,367	7.9
5. Net expenses for claims and benefits	(29)	**32,487**	31,265	1,222	3.9
6. Net operating expenses	(30)	**8,997**	8,933	64	0.7
7. Other expenses	(31)	**2,463**	2,383	80	3.4
Total expenses (5–7)		**43,947**	42,581	1,366	3.2
8. Result before amortisation of goodwill		**2,012**	11	2,001	>1,000.0
9. Amortisation of goodwill	(1)	**687**	371	316	85.2
10. Operating result before tax		**1,325**	–360	1,685	–
11. Tax	(32)	**1,793**	–574	2,367	–
12. Minority interests in earnings	(16)	**–34**	–74	40	54.1
13. Profit for the year		**–434**	288	–722	–
	Notes	**€**	**€ (adjusted)***	**€**	**%**
Earnings per share	(44)	**–2.25**	1.54**	–3.79	–

* Adjusted owing to first-time application of IAS 39 (rev. 2003).
** After taking into account the capital increase in November 2003.

Consolidated cash flow statement for the business year 2003

	€m	Prev. year (adjusted)* €m
Profit for the year, including minority interests in earnings	–468	**214**
Net change in underwriting provisions	5,042	4,670
Change in deferred acquisition costs	–489	–172
Change in deposits retained and accounts receivable and payable	–1,921	–650
Change in other receivables and liabilities	1,189	–2,822
Gains and losses on the disposal of investments	–2,484	–5,853
Change in securities held for trading	632	–51
Change in other balance sheet items	482	590
Other income/expenses without impact on cash flow	1,162	7,334
I. Cash flows from operating activities	3,145	**3 260**
Change from the acquisition and sale of consolidated enterprises	–88	–531
Change from the acquisition, sale and maturities of other investments	–9,677	–1,329
Change from the acquisition and sale of investments for unit-linked life insurance	–248	–45
Other	–1,198	–702
II. Cash flows from investing activities	–11,211	**–2,607**
Inflows from increases in capital	3,941	280
Dividend payments	–230	–230
Change from other financing activities	3,532	181
III. Cash flows from financing activities	7,243	**231**
Cash flows for the business year (I + II + III)	–823	**884**
Effect of exchange rate changes on cash	–28	–15
Cash at the beginning of the business year	2,735	1,866
Cash at the end of the business year	1,884	2,735
Additional information		
Tax on earnings (net)	683	205
Interest paid	385	302

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Our reporting on the Group cash flow is based on IAS 7 and the principles of German Accounting Standard No. 2 (DRS 2) issued by the German Standards Board (DSR) for the presentation of cash flow statements. This has been supplemented by the requirements of DRS 2-20, which applies specifically to insurance companies.

In accordance with the recommendations of the DSR for insurance companies, we have applied the indirect presentation method.

The "cash fund" within the meaning of the German Accounting Standard is limited to cash and cash equivalents shown under balance sheet item F "cash with banks, cheques and cash in hand".

Segment reporting

ASSETS	Reinsurance			
	Life and health		Property-casualty	
	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m
A. Intangible assets	243	235	1,370	1,710
B. Investments				
I. Real estate	1,066	968	1,430	1,428
II. Investments in affiliated enterprises and associated enterprises	3,247	4,643	4,011	6,216
III. Loans	63	70	63	70
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	17,926	10,980	31,054	24,007
3. Held for trading	65	27	133	119
	17,991	11,007	31,187	24,126
V. Other investments	9,362	8,220	12,010	11,811
	31,729	24,908	48,701	43,651
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of underwriting provisions	1,457	2,020	4,359	5,655
E. Other segment assets	4,330	4,421	9,157	8,907
Total segment assets	37,759	31,584	63,587	59,923

The Munich Re Group's segment reporting is based on IAS 14 and the principles of German Accounting Standard No. 3 (DRS 3) issued by the German Standards Board (DSR). This has been supplemented by the requirements of DRS 3-20, which applies specifically to insurance companies.

In accordance with the recommendations of the DSR, we have made the primary segmentation between the fields of reinsurance, primary insurance (each broken down into life and health and property-casualty) and asset management.

The individual fields of business are shown after consolidation of internal transactions within the individual field but before consolidation across segments. These are shown separately in the "consolidation column".

Goodwill has been allocated to the segment of the respective subsidiary.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m
2,171	2,495	1,139	1,314	17	25	–	–2	4,940	5,777
6,866	6,677	714	748	7	–	–8	27	10,075	9,848
3,327	4,606	2,800	3,267	112	78	–9,144	–9,209	4,353	9,601
16,921	13,512	751	557	202	415	–1,954	–1,980	16,046	12,644
700	814	47	38	–	–	–	–	747	852
67,258	65,345	6,076	5,736	53	107	–	–	122,367	106,175
128	193	221	112	1	1	–	–	548	452
68,086	66,352	6,344	5,886	54	108	–	–	123,662	107,479
1,181	1,610	251	478	302	222	–6,370	–6,338	16,736	16,003
96,381	92,757	10,860	10,936	677	823	–17,476	–17,500	170,872	155,575
1,009	703	–	–	–	–	–	–	1,009	703
8,233	7,929	1,548	1,637	–	–	–7,559	–7,011	8,038	10,230
10,157	9,395	2,931	2,817	186	208	–2,236	–1,592	24,525	24,156
117,951	113,279	16,478	16,704	880	1,056	–27,271	–26,105	209,384	196,441

Segment reporting

EQUITY AND LIABILITIES	Reinsurance			
	Life and health		Property-casualty	
	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m
A. Subordinated liabilities	1,539	–	1,851	–
B. Gross underwriting provisions				
I. Unearned premiums	281	180	5,064	5,076
II. Provision for future policy benefits	18,598	18,641	636	632
III. Provision for outstanding claims	4,675	2,803	32,664	35,281
IV. Other underwriting provisions	371	161	236	165
	23,925	21,785	38,600	41,154
C. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	–	–	–	–
D. Other accrued liabilities	394	410	1,040	1,063
E. Other segment liabilities	3,197	3,196	10,145	9,779
Total segment liabilities	29,055	25,391	51,636	51,996

	Primary insurance				Asset management		Consolidation		Total	
	Life and health		Property-casualty							
	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m
		–		–	–	–	–	–	3,390	–
	79	82	1,134	1,062	–	–	–243	–242	6,315	6,158
	85,169	82,389	123	90	–	–	–6,392	–5,664	98,134	96,088
	1,905	1,380	4,438	4,393	–	–	–1,063	–1,065	42,619	42,792
	6,821	7,731	109	104	–	–	–49	–701	7,488	7,460
	93,974	91,582	5,804	5,649	–	–	–7,747	–7,672	154,556	152,498
	945	690	–	–	–	–	13	8	958	698
	880	680	1,234	1,003	76	55	–47	–14	3,577	3,197
	18,017	16,424	5,475	5,250	656	736	–9,969	–9,817	27,521	25,568
	113,816	109,376	12,513	11,902	732	791	–17,750	–17,495	190,002	181,961
							Shareholders' equity*		19,382	14,480
							Total equity and liabilities		209,384	196,441

* Group shareholders' equity and minority interests.

Segment reporting

INCOME STATEMENT	Reinsurance			
	Life and health		Property-casualty	
	2003 €m	Prev. year (adjusted)* €m	2003 €m	Prev. year (adjusted)* €m
1. Gross premiums written	6,876	6,561	17,919	18,884
Thereof:				
– From insurance transactions with other segments	969	1,020	1,010	987
– From insurance transactions with external third parties	5,907	5,541	16,909	17,897
2. Net earned premiums	6,362	6,117	16,289	16,254
3. Investment result	1,361	1,998	2,223	4,617
Thereof:				
– Income from associated enterprises	–35	913	–130	3,241
4. Other income	112	165	400	466
Total income (2–4)	7,835	8,280	18,912	21,337
5. Net expenses for claims and benefits	5,277	4,933	11,308	15,822
6. Net operating expenses	1,819	1,608	4,390	4,315
7. Other expenses	300	254	936	907
Total expenses (5–7)	7,396	6,795	16,634	21,044
8. Result before amortisation of goodwill	439	1,485	2,278	293
9. Amortisation of goodwill	1	2	104	127
10. Operating result before tax	438	1,483	2,174	166
11. Tax	176	–65	814	–623
12. Minority interests in earnings	–	–	–10	1
13. Profit for the year	262	1,548	1,370	788

The ERGO Insurance Group has concluded profit-transfer agreements with nearly all of its German insurance companies. In our segment reporting, expenditure incurred as a result of profit transfer is deemed appropriation of net income. The segments are thus adjusted to eliminate these expenses, the elimination being carried out in the consolidation column.

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
2003 €m	Prev. year (adjusted)* €m	2003 €m	Prev. year (adjusted)* €m	2003 €m	Prev. year (adjusted)* €m	2003 €m	Prev. year (adjusted)* €m	2003 €m	Prev. year (adjusted)* €m
12,558	11,752	5,082	4,841	–	–	–2,004	–2,024	40,431	40,014
17	14	8	3	–	–	–2,004	–2,024	–	–
12,541	11,738	5,074	4,838	–	–	–	–	40,431	40,014
11,318	10,532	3,648	3,416	–	–	–	–13	37,617	36,306
3,703	–427	506	135	31	53	–693	–1,441	7,131	4,935
–541	–476	–159	–38	12	29	–	–	–853	3,669
710	663	803	818	292	247	–1,106	–1,008	1,211	1,351
15,731	10,768	4,957	4,369	323	300	–1,799	–2,462	45,959	42,592
13,712	8,368	2,176	2,157	–	–	14	–15	32,487	31,265
1,387	1,728	1,392	1,282	–	–	9	–	8,997	8,933
725	1,141	1,049	1,115	284	217	–831	–1,251	2,463	2,383
15,824	11,237	4,617	4,554	284	217	–808	–1,266	43,947	42,581
–93	–469	340	–185	39	83	–991	–1,196	2,012	11
275	106	306	135	1	1	–	–	687	371
–368	–575	34	–320	38	82	–991	–1,196	1,325	–360
637	54	152	34	14	27	–	–1	1,793	–574
–45	–38	13	–6	4	6	4	–37	–34	–74
–960	–591	–131	–348	20	49	–995	–1,158	–434	288

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Segment reporting

INVESTMENTS*	Reinsurers		Primary insurers		Asset management		Total	
	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m	31.12.2003 €m	Prev. year €m
Europe	43,188	33,203	100,764	97,412	395	351	144,347	130,966
North America	21,609	20,679	1,593	1,302	49	50	23,251	22,031
Asia and Australasia	2,560	1,818	476	343	21	22	3,057	2,183
Africa, Near and Middle East	507	553	88	64	–	–	595	617
Latin America	462	403	161	70	8	8	631	481
Total	68,326	56,656	103,082	99,191	473	431	171,881	156,278

* After elimination of intra-Group transactions across segments.

Secondary segmentation is based on the geographical origin of our investments and gross premiums written.

GROSS PREMIUMS WRITTEN*	Reinsurers		Primary insurers		Total	
	2003 €m	Prev. year €m	2003 €m	Prev. year €m	2003 €m	Prev. year €m
Europe						
Germany	3,704	3,806	14,553	13,438	18,257	17,244
France	432	400	36	35	468	435
UK	4,970	4,525	209	226	5,179	4,751
Italy	794	748	656	580	1,450	1,328
Netherlands	413	391	490	497	903	888
Others	2,406	2,226	1,386	1,560	3,792	3,786
	12,719	12,096	17,330	16,336	30,049	28,432
North America						
USA	5,749	7,311	91	99	5,840	7,410
Canada	1,596	1,152	3	3	1,599	1,155
	7,345	8,463	94	102	7,439	8,565
Asia and Australasia						
Japan	305	357	4	4	309	361
Australia	452	460	4	3	456	463
Taiwan	197	215	–	–	197	215
Others	610	600	78	55	688	655
	1,564	1,632	86	62	1,650	1,694
Africa, Near and Middle East						
South Africa	258	172	75	49	333	221
Israel	181	204	–	–	181	204
Others	243	258	21	14	264	272
	682	634	96	63	778	697
Latin America						
Mexico	147	225	4	5	151	230
Colombia	51	66	–	–	51	66
Others	308	322	5	8	313	330
	506	613	9	13	515	626
Total	22,816	23,438	17,615	16,576	40,431	40,014

* After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 93).

Notes to the consolidated financial statements

Application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

Munich Re's consolidated financial statements have been prepared in euros (€) in accordance with the standards of the International Accounting Standards Board (IASB) as "exempting" consolidated financial statements in line with Section 292 a of the German Commercial Code. The financial statements comply with the EU directives to which we are subject.

Since 2002, the standards adopted by the IASB have been referred to as "International Financial Reporting Standards (IFRS)"; the standards from previous years continue to bear the name "International Accounting Standards (IAS)". Insofar as we do not explicitly refer to a particular standard, we use the two terms synonymously.

IAS/IFRS currently do not contain any standards governing the accounting and valuation of transactions specific to the insurance industry; the relevant items are therefore accounted for 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 whose application was obligatory for the business years, as well as with all the interpretations of IAS (SIC 1-33) by the International Financial Reporting Interpretations Committee (IFRIC). In addition, we have applied the new provisions for the accounting of financial instruments adopted in December 2003 (IAS 32 and 39) already as at 31 December 2003. We have also observed the German accounting standards (DRS) adopted by the DRSC (German Accounting Standards Committee) provided they do not contradict the applicable IAS.

Earlier application of IAS 32 and IAS 39 (rev. 2003)

In its consolidated financial statements as at 31 December 2003, Munich Re is for the first time applying the new standards adopted by the IASB on 17 December 2003, i.e. IAS 32 (rev. 2003), Financial Instruments: Disclosure and Presentation, and IAS 39 (rev. 2003), Financial Instruments: Recognition and Measurement. The Company is thus availing itself of the option provided for in IAS 32.96/IAS 39.103 (rev. 2003) to apply the revised standards for periods before 1 January 2005, after which their application becomes compulsory. The earlier application of the new accounting policies of IAS 39 (rev. 2003) accords with the earlier first-time application of IAS 39 (rev. 2000), implemented in Munich Re's consolidated financial statements as at 31 December 2000, also before it became compulsory – in that case for periods beginning on or after 1 January 2001. Our decision thus ultimately stems from the principle of accounting consistency.

In accordance with IAS 32.97/IAS 39.104 (rev. 2003), both standards are being applied retrospectively, i.e. the consolidated financial statements for 2003 and the comparative consolidated figures for 2002 are presented as if the new accounting policies of IAS 32 and IAS 39 (rev. 2003) had always been in use. The resultant cumulative restatements required as a result of the first-time application of IAS 39 (rev. 2003) for the business years prior to 1 January 2002 are recognised in equity without impact on the income statement; the restatements needed for the business years 2002 and 2003 are recognised in the respective income statement figures.

The new provisions of IAS 39.58 ff. (rev. 2003) on impairment and uncollectibility of financial assets require the following adjustments to previously applied valuation methods:

– In contrast to IAS 39 (rev. 2000), the revised standard in IAS 39.61 (rev. 2003) now contains explicit rules on impairment for equity investments available for sale. These state that impairment of an equity investment exists if there is a significant or prolonged decline in the fair value of the investment below its acquisition cost. This deviates from the impairment rule hitherto applied in Munich Re's consolidated financial statements, whereby there had to have been a significant and prolonged decline in the fair value of the investment below its acquisition cost.
– The revised IAS 36.69 (rev. 2003) states that impairment losses recognised in profit or loss for an equity investment available for sale may not be reversed through profit or loss, but must be recognised in equity without impact on the income statement. This provision replaces IAS 39.119 (rev. 2000), which expressly stipulates a reversal through profit and loss if an event occurs that increases the fair value of the investment again; in the business year 2002, this gave rise to income of €49m for Munich Re from write-ups; for 2003, considerably larger write-ups would have been made.

As a result of the provisions of IAS 28.20 (rev. 2000) to apply uniform accounting policies for like transactions and events in the case of shareholder and associated enterprises, appropriate adjustments have been made to the consolidated financial statements of Bayerische Hypo- und Vereinsbank AG for the purposes of Munich Re's consolidated financial statements, in application of IAS 39.58 ff (rev. 2003).

The restatement required for the business years prior to January 2002, adjusted to eliminate tax effects and the provision for deferred premium refunds, amounts to €1,055m and is recognised in the opening balance of revenue reserves and other reserves in Munich Re's consolidated financial statements as at 31 December 2002. The first-time application of IAS 39 (rev. 2003) then leads to a deterioration in the consolidated result for the business year 2002 of €793m and to an improvement in the consolidated result for the business year 2003 of €453m. The development of shareholders' equity is affected as follows:

Changes in shareholders' equity

All figures in €m	Issued capital	Capital reserve	Revenue reserve: Revenue reserve before deduction of own shares	Revenue reserve: Own shares held	Other reserves: Unrealised gains and losses	Other reserves: Reserve from currency translation	Other reserves: Valuation result from cash flow hedges	Consolidated profit	Total shareholders' equity
Status at 1.1.2002	453	2,714	11,575	–53	4,418	0	0	250	19,357
Adjustments									
– Associated enterprises									
– Non-fixed-interest securities			–1,055		1,055				
Status at 1.1.2002 (adjusted)	453	2,714	10,520	–53	5,473	0	0	250	19,357
Reconciliation	4	276	–1,474	–40	–5,006	0	0	831	–5,409
Adjustments									
– Associated enterprises					794			–794	
– Non-fixed-interest securities					–1			1	
Status at 31.12.2002 (adjusted)	457	2,990	9,046	–93	1,260	0	0	288	13,948
Reconciliation	131	3,810	–1,116	–14	3,704	–399	10	–1,175	4,951
Adjustments									
– Associated enterprises					101			–101	
– Non-fixed-interest securities					–554			554	
Status at 31.12.2003	**588**	**6,800**	**7,930**	**–107**	**4,511**	**–399**	**10**	**–434**	**18,899**

The new provision of IAS 32.74 (rev. 2003) also requires additional disclosures in the notes to the financial statements insofar as the book values of financial instruments that are exposed to an interest-rate risk must now also be broken down per year for the period between one and five years.

Declaration of compliance with the German Code of Corporate Governance in accordance with Section 161 of the German Stock Companies Act

On 5 December 2003, the Board of Management and the Supervisory Board published an updated declaration of compliance as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the Company's website.

Main differences between IAS and German Commercial Code

Exemption from consolidated accounting pursuant to commercial law, in accordance with Section 292 a of the German Commercial Code, requires a description of the main differences between IAS and German Commercial Code accounting, valuation and consolidation methods.

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 equalisation 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 amortised 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.

– 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 IAS financial statements, because it is no longer relevant whether a significant influence is actually exercised or not. The consolidated profit includes a corresponding portion of the net profit of the enterprises concerned rather than just 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 tend to be higher because, unlike in German Commercial Code accounting, there is no zillmerisation, but capitalisation of the acquisition costs. Besides this, under IAS, reserves for terminal bonuses in life insurance are shown as part of the provisions for future policy benefits, whereas under the German Commercial Code the terminal bonus fund is part of the provision for premium refunds. A mitigating effect, however, results from cases in which the provisions for future policy benefits have to be discounted with a higher actuarial interest rate than under the German Commercial Code.
– 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 unrealised 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 equalisation 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.
– Provisions for terrorism risks do not constitute liabilities to third parties under IAS either and are therefore not admissible. They are also reversed.
– 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 IAS financial statements there are no “premiums from the provision for policyholders’ dividends”.
– In accordance with the revised IAS 39 (rev. 2003), impairments losses are recognised for financial instruments with an equity character if there is a significant or prolonged decline in the fair value of the investment below its cost. By contrast, under the German Commercial Code investments which have suffered an impairment in value must be measured at the value to be attributed at the balance sheet date.

Figures for previous years

The previous-year figures published to date were calculated on the basis of IAS 39 (rev. 2000) and IAS 32 (rev. 1998). In accordance with IAS 32.97/39.104 (rev. 2003), the revised standards must be applied retrospectively, i.e. the figures for the business year 2002 have been restated as if the new accounting policies had always been in use. In accordance with IAS 8.53 (rev. 1993), the resultant amounts of the adjustments are given for the business year 2002 and additionally for the business years prior to 2002.

Consolidation

Consolidated group

In accordance with IAS 27, the consolidated financial statements include Munich Reinsurance Company (the parent company) and all the enterprises in which Munich Re owns, directly or indirectly, the majority of the voting shares or over which it has the factual ability to exercise control (subsidiaries). This applies analogously to the special funds held by Munich Re and its subsidiaries. The only exceptions are subsidiaries and special funds 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 on page 208 ff.

Consolidated subsidiaries*	Germany	Other countries	Total
31.12.2002	83	165	248
Additions	11	13	24
Reductions	19	18	37
31.12.2003	75	160	235

* In addition, 89 German and 14 non-German investment funds were included in the consolidated group.

In the business year, the Munich Re Group acquired a further 0.8% of the ERGO Insurance Group at a price of €119m. Apart from this, there were no significant changes in the group of consolidated companies.

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

Non-consolidated subsidiaries	Germany	Other countries	Total
31.12.2002	160	87	247
Additions	48	15	63
Reductions	28	23	51
31.12.2003	180	79	259

These subsidiaries were not consolidated owing to their overall subordinate importance for the Group's assets, liabilities, financial position and results. The aggregate annual result of these companies as a proportion of the Group result for the year is insignificant. Insurance companies have been consolidated regardless of their size.

Consolidation principles

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

We generally consolidate subsidiaries and special funds as soon as the Group holds the majority of the voting shares or has the factual ability to exercise control. In order to determine the equity capital at the time of acquisition, we recognised the assets and liabilities of the subsidiary or special fund at fair value. The equity capital apportionable to the Group is netted against the acquisition costs of the shares (purchase accounting). Any residual amount is capitalised as goodwill and amortised on a straight-line basis.

The profits earned by the subsidiaries or special funds after their first consolidation are included in the Group shareholders' equity 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 shareholders' equity and profits for the year of the subsidiaries and special funds 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. This also applies to gains and losses on intra-Group sales of investments.

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
31.12.2002	28	39	67
Additions	3	3	6
Reductions	4	3	7
31.12.2003	27	39	66

Other associated enterprises	Germany	Other countries	Total
31.12.2002	31	15	46
Additions	10	8	18
Reductions	5	4	9
31.12.2003	36	19	55

Further details of selected associated enterprises are shown on page 208 ff.

Recognition and measurement

The annual financial statements of the consolidated subsidiaries and special funds are subject to uniform accounting and valuation principles. For the annual financial statements of significant associated enterprises we have, in accordance with IAS 28.20 (rev. 2000), made appropriate adjustments for the purposes of the consolidated financial statements, in particular in respect of the earlier application of IAS 39 (rev. 2003). Valuations used in the financial statements of associated enterprises not classified as significant are maintained.

The application of the recognition, measurement and disclosure methods follows the principle that a method once chosen should be applied consistently. In accordance with IAS 39.104 (rev. 2003), we recognise the effects of changes in accounting policies on earlier periods not included in the consolidated financial statements in the opening balance of revenue reserves and other reserves for the earliest prior period presented. All other adjustment amounts are generally recognised in the income statement.

Assets

A Intangible assets

Goodwill resulting from the first-time consolidation of subsidiaries is amortised on a straight-line basis over its useful life – up to 20 years.

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 (PVFP: present value of future profits). These are amortised in accordance with the realisation of the profits underlying the PVFP calculation.

The unamortised balance of intangible assets is reviewed at each balance sheet date and writedowns made for impairments if required.

B Investments

Real estate is carried at cost. Maintenance expenses and repairs are recognised as an expense. Subsequent expenditure that increases the value of real estate is capitalised if it extends the useful life. The capitalised costs of buildings are amortised 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 recognised 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. The associated enterprise's earnings apportionable to the Group are included in the investment result. As a rule, the most recent individual or consolidated financial statements of the associated enterprise are used; exceptional transactions of material importance for a true and fair picture of the associated enterprise's financial position are taken into account in the same business year. 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 amortised cost, i.e. any premiums or discounts are deducted or added to the acquisition costs according to the effective interest method, with impact on the income statement, until the redemption amount becomes payable. 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 amortised cost. The main investments shown here are registered bonds and promissory notes.

Securities available for sale are stated at fair value, with interest deferrals being made as with loans. Unrealised 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 realisation, they are reflected in shareholders' equity (provision for deferred premium refunds). This item also includes registered bonds and promissory notes.

With all fixed-interest and non-fixed-interest securities, impairments in value – in contrast to temporary diminutions – are recognised as an expense in the income statement. IAS 39.59 (rev. 2003) contains a list of factors providing objective evidence that such investments are impaired in value. In addition, IAS 39.61 (rev. 2003) states that for equity investments a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. In the case of an impairment, a writedown is made to the fair value at the balance sheet date, i.e. the publicly listed market price if available.

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 fair value at the balance sheet date. If there are no stock market prices available, these values (particularly with derivatives) are based on recognised valuation methods. All unrealised gains or losses from such valuation are included in the investment result.

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. Appropriate allowance is made for credit risks.

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; unrealised gains and losses are matched by corresponding changes in the underwriting provisions (equity and liabilities item E).

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. Appropriate allowance is made for credit risks.

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 capitalised and amortised 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 amortised on a straight-line basis over the average term of the policies, from one to five years.

In life primary insurance, the deferred acquisition costs are also capitalised and amortised over the terms of the policies; the amount of amortisation 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 amortised proportionally to the premium income over the total average policy term. The amortisation amount is determined on the basis of the assumptions used for calculating the provision for future policy benefits.

Deferred acquisition costs are regularly reviewed for impairment.

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 will even themselves out again with effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. 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 unrealised losses on securities available for sale are recognised in shareholders’ equity (see securities available for sale), the resulting deferred tax assets are recorded but excluded from earnings.

Deferred tax assets are adjusted in value if a realisation of the corresponding receivable is no longer probable.

I Other assets

Other assets are stated at amortised cost.

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. The capital reserve is reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects. Under revenue reserves, we show the profits which consolidated companies and special funds have earned and retained since becoming part of the Munich Re Group, and income and expenses resulting from consolidation measures. In addition, the adjustment amount resulting from changes in accounting policies for earlier periods not included in the consolidated financial statements is included in the opening balance of the revenue reserves and other reserves for the earliest prior period presented. Unrealised gains and losses resulting from the valuation of securities available for sale at fair value are included in the other reserves; the differences resulting from the currency translation of foreign subsidiaries' figures are also shown in the other reserves. Besides this, write-ups on equity investments available for sale are also recognised in this balance sheet item.

In accordance with SIC 16, own shares held by Munich Re at the balance sheet date have been deducted directly from shareholders' equity.

B Minority interests

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

C Subordinated liabilities

Subordinated liabilities are liabilities which, in the event of liquidation or insolvency, are only satisfied after the claims of other creditors. They are valued at amortised cost, i.e. any premiums or discounts are deducted from or added to the acquisition costs according to the effective interest method, with impact on the income statement, until the redemption amount becomes payable.

D 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 assets 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 comprises the underwriting reserves for guaranteed entitlements of policyholders in life 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 less 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 capitalised and amortised 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 capitalised and amortised 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 in the amount of the expected future participation quota (provision for deferred premium refunds). If in this context unrealised gains and losses are recognised directly in equity (see securities available for sale), the resultant provision for deferred premium refunds is also posted without impact on profit or loss.

Provisions for anticipated underwriting 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.

E 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.

F Other accrued liabilities

These primarily include provisions for post-employment benefits. The companies in the Munich Re Group generally give commitments to their staff 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.

Under defined contribution plans the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations.

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

If pension obligations are covered by assets held by a legally separate entity (fund) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets.

Pension obligations are valued in accordance with IAS 19 (Employee Benefits) using the projected unit credit method and based on actuarial studies. The valuation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development. The interest rate at which the pension obligations are discounted is based on the yields for long-term high-quality bonds (e.g. government bonds).

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

All figures in %	31.12.2003	Prev. year
Discount rate	5.5	6.1
Expected rate of return on fund assets	5.8	6.3
Expected rate of return on reimbursements	4.0	–
Future increases in entitlement/salary	3.7	3.9
Future pension increases	2.1	2.1

Actuarial gains or losses from pension obligations and plan assets result from the deviation of actual risk experience from estimated risk experience. They are recognised by means of the corridor method laid down in IAS 19. According to this, actuarial gains or losses are recognised in the income statement if they exceed 10% of the present value of the vested benefits at the beginning of the business year.

Tax provisions for current 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 if insignificant.

G 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.

H 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 these differences will even themselves out again with impact on taxable income (temporary differences); cf. the remarks on deferred tax assets.

Foreign currency translation

Munich Re's reporting currency is the euro (€). The balance sheets of foreign subsidiaries whose national currency is not the euro are translated in accordance with the functional currency principle using the year-end exchange rates, and their income statements using the annual average exchange rates; any translation differences arising in the process are recognised in shareholders' equity (other reserves) 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 foreign-currency transactions into the local currencies of the consolidated companies, they are generally 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	
	31.12.2003	Prev. year	**2003**	Prev. year
Australian dollar	**1.67410**	1.86360	**1.73874**	1.73884
Canadian dollar	**1.62995**	1.65790	**1.58280**	1.48469
Pound sterling	**0.70460**	0.65180	**0.69222**	0.62891
Rand	**8.41950**	9.00440	**8.52223**	9.90010
Swiss franc	**1.56000**	1.45100	**1.52091**	1.46683
US dollar	**1.26135**	1.04940	**1.13231**	0.94583
Yen	**135.1790**	124.5320	**131.0400**	118.1280

Notes to the consolidated balance sheet – Assets

(1) Goodwill

All figures in €m	**2003**	2002
Gross amount capitalised at 31.12. previous year	**5,584**	5,129
Accumulated amortisation at 31.12. previous year	**1,143**	710
Carrying amount at 31.12. previous year	**4,441**	4,419
Translation differences	**–264**	–313
Carrying amount at 1.1. business year	**4,177**	4,106
Additions	**78**	706
Disposals	**–**	–
Amortisation	**687**	371
Carrying amount at 31.12. business year	**3,568**	4,441
Accumulated amortisation at 31.12. business year	**1,830**	1,143
Gross amount capitalised at 31.12. business year	**5,398**	5,584

The goodwill results mainly from the acquisition of American Re in November 1996 and from the acquisition of the additional shares in the ERGO Insurance Group in 2001 and 2002.

The amortisation of €687m includes impairments of €317m resulting mainly from write-downs on goodwill from the acquisition of primary insurance companies in Italy.

(2) Other intangible assets

All figures in €m	Software	Purchased insurance portfolios	Other	**2003**	2002
Gross amount capitalised at 31.12. previous year	610	1,059	271	**1,940**	1,509
Accumulated depreciation at 31.12. previous year	298	146	160	**604**	406
Carrying amount at 31.12. previous year	312	913	111	**1,336**	1,103
Translation differences	1	–17	–	**–16**	–23
Carrying amount at 1.1. business year	313	896	111	**1,320**	1,080
Change in the consolidated group	–1	–	–	**–1**	44
Additions	262	12	25	**299**	433
Disposals	14	15	2	**31**	13
Depreciation – Amortisation	100	62	52	**214**	209
– Writedowns for impairments	1	–	–	**1**	1
Write-ups	–	–	–	**–**	2
Carrying amount at 31.12. business year	459	831	82	**1,372**	1,336
Accumulated depreciation at 31.12. business year	388	205	212	**805**	604
Gross amount capitalised at 31.12. business year	847	1,036	294	**2,177**	1,940

The figures shown under "purchased insurance portfolios" include year-end amortised carrying amounts of €692m resulting from the acquisition of Bayerische Vita and CNA Financial Corporation's life reinsurance business and from the acquisition of additional shares in the Karlsruher Insurance Group and the ERGO Insurance Group.

The remaining "other intangible assets" include rights equivalent to real property amounting to €4m (4m).

Depreciation of software is apportioned in the income statement between the investment result, expenses for claims and benefits, and operating expenses. Amortisation of purchased insurance portfolios is shown under "other expenses".

(3) Real estate

All figures in €m	2003	2002
Gross amount capitalised at 31.12. previous year	11,371	10,405
Accumulated depreciation at 31.12. previous year	1,523	1,361
Carrying amount at 31.12. previous year	9,848	9,044
Translation differences	–21	–39
Carrying amount at 1.1. business year	9,827	9,005
Change in consolidated group	84	91
Additions	1,187	1,223
Disposals	746	299
Write-ups	–	5
Depreciation		
– Amortisation	99	114
– Writedowns for impairments	178	63
Carrying amount at 31.12. business year	10,075	9,848
Accumulated depreciation at 31.12. business year	1,125	1,523
Gross amount capitalised at 31.12. business year	11,200	11,371

Land and buildings used by Group companies for their own activities are valued at €2,292m (1,877m).

Real estate pledged as security and other restrictions on title amount to €1,152m (505m). The expenses for investments under construction total €68m (184m) at the balance sheet date. Commitments to acquire real estate amount to €221m (288m).

The fair value of real estate at the balance sheet date totals €11,630m (11,468m). The fair value is generally the capitalised 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	31.12.2003	Prev. year
Affiliated enterprises	157	250
Associated enterprises	4,196	9,351
Total	**4,353**	**9,601**

The fair value of investments in associated enterprises, which are mostly valued at equity, amounts to €4,596m (8,758m) at the balance sheet date.

An overview of our most important shareholdings can be found starting on page 208.

(5) Loans

	Carrying amounts	
All figures in €m	31.12.2003	Prev. year
Mortgage loans	6,644	6,663
Loans and advance payments on insurance policies	721	703
Other loans	8,681	5,278
Total	**16,046**	**12,644**

The fair values of the loans at the balance sheet date amounted to €15,876m. The "other loans" include loans to affiliated enterprises totalling €41m (34m) and loans to associated enterprises totalling €688m (531m).

Contractual period to maturity	Carrying amounts	
All figures in €m	31.12.2003	Prev. year
Up to one year	1,361	1,341
Over one year and up to two years	1,273	1,038
Over two years and up to three years	1,082	970
Over three years and up to four years	1,097	1,122
Over four years and up to five years	1,021	1,143
Over five years and up to ten years	6,563	6,259
Over ten years	3,649	771
Total	**16,046**	**12,644**

(6) Other securities, held to maturity

Issuers	Carrying amounts		Fair values	
All figures in €m	31.12.2003	Prev. year	31.12.2003	Prev. year
Government bonds – Germany	8	7	8	7
– Rest of EU	14	14	14	14
– Others	–	–	–	–
Corporate bonds	634	736	662	782
Others	91	95	91	95
Total	**747**	**852**	**775**	**898**

Contractual period to maturity	Carrying amounts		Fair values	
All figures in €m	31.12.2003	Prev. year	31.12.2003	Prev. year
Up to one year	125	110	126	111
Over one year and up to two years	109	112	115	120
Over two years and up to three years	93	105	98	112
Over three years and up to four years	94	122	99	130
Over four years and up to five years	87	124	92	133
Over five years and up to ten years	227	259	233	271
Over ten years	12	20	12	21
Total	**747**	**852**	**775**	**898**

Rating on fair-value basis

All figures in €m	31.12.2003	Prev. year
AAA	26	56
AA	99	102
A	251	286
BBB and lower	78	87
No rating	321	367
Total	**775**	**898**

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

(7) Other securities, available for sale

	Carrying amounts		Unrealised gains/losses		Amortised cost	
All figures in €m	31.12.2003	Prev. year	31.12.2003	Prev. year (adjusted)*	31.12.2003	Prev. years (adjusted)*
Fixed-interest securities – Government bonds – Germany	19,545	7,358	176	269	19,369	7,089
– Rest of EU	14,632	10,667	182	380	14,450	10,287
– USA	3,378	4,189	–29	103	3,407	4,086
– Others	4,282	4,119	168	205	4,114	3,914
– Corporate bonds	35,575	34,805	1,143	1,647	34,432	33,158
– Others	21,421	25,538	320	1,159	21,101	24,379
	98,833	86,676	1,960	3,763	96,873	82,913
Non-fixed-interest securities – Shares	20,569	16,788	4,627	–571	15,942	17,359
– Investment funds – Equity funds	802	856	54	–46	748	902
– Bond funds	794	726	23	–131	771	857
– Real estate funds	391	357	29	11	362	346
– Others	978	772	196	223	782	549
	23,534	19,499	4,929	–514	18,605	20,013
Total	**122,367**	**106,175**	**6,889**	**3,249**	**115,478**	**102,926**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The corporate bonds mainly comprise mortgage bonds with a high credit rating.

The first-time application of IAS 39 (rev. 2003) has no effect on the valuation of fixed-interest securities, since the revised provisions on impairments and write-ups only concern equity investments available for sale.

By contrast, the application of the revised standards to non-fixed-interest securities available for sale leads to a reduction in net unrealised gains of €3,016m for business years prior to 1 January 2002, to an increase of €2,203m in the business year 2002, and to an increase of €1,431m in the business year 2003. The carrying amounts do not change with the application of the new accounting policies of IAS 39 (rev. 2003), since the fair values determined at the balance sheet date continue to be used. Accordingly, there are adjustments in the amortised costs corresponding to the amount for unrealised gains and losses.

Measurement at fair value results in valuation reserves of €6,889m (3,249m) in comparison with amortised costs. After deduction of provisions for deferred premium refunds, deferred taxes, minority interests and consolidation effects, we have allocated unrealised gains and losses of €4,431m (1,223m) to shareholders' equity (other reserves).

Disposal proceeds in the business year were as follows:

All figures in €m	2003	Prev. year
Fixed-interest securities	53,606	45,770
Non-fixed-interest securities		
– Listed	11,188	20,344
– Non-listed	264	4,147
Total	**65,058**	**70,261**

Realised gains and losses

All figures in €m	2003	Prev. year (adjusted)*
Gains on disposal	4,893	3,381
– Fixed-interest securities	1,738	690
– Non-fixed-interest securities	3,155	2,691
Losses on disposal	1,624	2,703
– Fixed-interest securities	337	410
– Non-fixed-interest securities	1,287	2,293
Total	**3,269**	**678**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The first-time application of IAS 39 (rev. 2003) does not affect the realised gains and losses on the disposal of fixed-interest securities.

By contrast, the application of the revised standards leads to an increase of €425m for realised gains on the disposal of fixed-interest securities available for sale and a reduction of €413m for realised losses in the business year 2002, and to adjustments of €346m for realised gains and €688m for realised losses in the business year 2003.

Contractual period to maturity of fixed-interest securities	Carrying amounts		Amortised cost	
All figures in m	31.12.2003	Prev. year	31.12.2003	Prev. year
Up to one year	9,761	7,734	9,696	7,689
Over one year and up to two years	10,817	9,970	10,576	9,734
Over two years and up to three years	9,194	9,314	8,989	9,093
Over three years and up to four years	9,320	10,775	9,112	10,519
Over four years and up to five years	8,677	10,972	8,483	10,711
Over five years and up to ten years	30,968	26,396	30,298	24,482
Over ten years	20,096	11,515	19,530	10,685
Total	**98,833**	**86,676**	**96,694**	**82,927**

Rating of fixed-interest securities on fair-value basis

All figures in m	31.12.2003	Prev. year
aaa	58,767	54,279
aa	24,364	20,362
a	10,043	7,023
bbb	3,847	3,183
Lower	274	254
No rating	1,538	1,575
Total	**98,833**	**86,676**

(8) Other securities, held for trading

The securities held for trading include fixed-interest securities totalling €307m (296m) and non-fixed-interest securities and derivatives totalling €241m (156m).

Derivative financial instruments

Derivative financial instruments (derivatives) are financial instruments whose fair value is derived from one or more underlying assets.

A distinction is made between “over-the-counter” (otc) products and standardised transactions concluded on the stock exchange.

Derivatives are used at the individual Group companies within the framework of individual supervisory regulations and additional company directives. They are used to optimise investment earnings, with the main focus being on hedging investment portfolios against unfavourable market developments.

The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, in the Munich Re Group, only top-quality counterparties are selected for such transactions.

Altogether, the volume of the transactions concluded in the period under review and of the open positions at the balance sheet date was negligible in relation to the balance sheet total. The fair value of open positions at 31 December 2003 totalled €113m (506m), i.e. less than 1% (1%) of the balance sheet total. The fair value of items used for hedging purposes amounted to €16m and the fair value of pure trading items to €97m.

The fair values shown in the following table are either listed prices or values at the balance sheet date determined using recognised calculation models.

	Open positions								
	Period to maturity								
All figures in €m	Up to 3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	**Total**
OTC products	Fair values								
Cross-currency transactions									
– Forwards	–2	–	—	–	–	–	–	–	**–2**
– Swaps	3	–	–	–	–	–	–	–	**3**
Interest-rate transactions									
– Forward transactions	3	–	–	–	7	3	–	40	**53**
– Swaps	–1	–1	1	–	6	3	–	2	**10**
Credit transactions									
– Swaps	–	–	–	–	–	–	–	1	**1**
Equity/index transactions									
– Options	–	–	–	–	2	1	–	–	**3**
– Other	–	–	–	–	1	–	–	–	**1**
	3	–1	1	–	16	7	–	43	**69**
Exchange traded									
Cross-currency transactions									
– Futures	–2	–	–	–	–2	–	–	–	**–4**
Equity/index transactions									
– Futures	–6	–	–	–	–	–	–	–	**–6**
– Options	19	19	16	–	1	–	–	–	**55**
– Other	–1	–	–	–	–	–	–	–	**–1**
	10	19	16	–	–1	–	–	–	**44**
Total	**13**	**18**	**17**	**–**	**15**	**7**	**–**	**43**	**113**

The corresponding notional principal amounts, which show the scope of the underlying assets, had a volume of €7,457m. The following table shows the notional principal amounts, broken down by product type and period to maturity:

	Open positions								
	Period to maturity								
All figures in €m	Up to 3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	**Total**
OTC products	Nominal values								
Cross-currency transactions									
– Forwards	230	–	—	–	–	–	–	–	**230**
– Swaps	83	–	–	–	–	–	–	–	**83**
Interest-rate transactions									
– Forward transactions	45	350	–	326	398	939	5	1,352	**3,415**
– Swaps	110	95	40	27	32	76	–	587	**967**
Credit transactions									
– Swaps	–	3	–	–	–	–	–	13	**16**
Equity/index transactions									
– Options	574	–	–	151	183	431	2	–	**1,341**
– Other	–	–	4	1	1	2	–	13	**21**
	1,042	448	44	505	614	1,448	7	1,965	**6,073**
Exchange traded									
Cross-currency transactions									
– Futures	806	–	–	8	10	23	–	–	**847**
Equity/index transactions									
– Futures	108	–	–	–	–	–	–	–	**108**
– Options	270	19	89	4	5	11	–	–	**398**
– Other	31	–	–	–	–	–	–	–	**31**
	1,215	19	89	12	15	34	–	–	**1,384**
Total	**2,257**	**467**	**133**	**517**	**629**	**1,482**	**7**	**1,965**	**7,457**

The products used for hedging can be divided into cash flow hedges and fair value hedges.

Cash flow hedges are used to reduce the risk of fluctuations in future payments, e.g. those expected from planned transactions. The use of cash flow hedges within the Group is mainly concentrated on the management of interest-rate and currency risks. The fair value of these derivatives at the balance sheet date amounted to €14m.

The following table gives the periods to maturity of **cash flow hedges** at the balance sheet date:

All figures in €m	Up to 3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	**Total**
Notional principal amounts	40		24	27	33	79	1	502	**706**

Fair value hedges are used to reduce the market-price risk of current investments. Such fair value hedges are employed within the Group for the selected and efficient hedging of parts of the portfolio against interest-rate risks. The fair value of the derivatives used here amounted to €2m at the balance sheet date.

(9) Miscellaneous other investments
This item includes deposits with banks totalling €1,887m (2,734m).

(10) Receivables

All figures in €m	31.12.2003	Prev. year
Amounts receivable on primary insurance business	1,002	954
– From policyholders	650	580
– From intermediaries	352	374
Accounts receivable on reinsurance business	3,654	4,083
Interest and rent	2,014	2,126
Other receivables	1,505	1,708
Total	**8,175**	**8,871**

Contractual period to maturity of receivables	Carrying amounts	
All figures in €m	31.12.2003	Prev. year
Up to one year	8,050	8,745
Over one year and up to two years	94	95
Over two years and up to three years	19	19
Over three years and up to four years	–	–
Over four years and up to five years	–	–
Over five years and up to ten years	2	2
Over ten years	10	10
Total	**8,175**	**8,871**

(11) Receivables and liabilities in respect of affiliated and associated enterprises

	Affiliated enterprises		Associated enterprises	
All figures in €m	31.12.2003	Prev. year	31.12.2003	Prev. year
Deposits retained on assumed reinsurance	–	–	123	905
Accounts receivable	–	–	3	5
Other receivables	14	51	17	29
Deposits retained on ceded business	–	–	–	270
Accounts payable	1	–	2	157
Other liabilities	15	42	275	358

(12) Deferred acquisition costs
We have used interest rates of between 3% and 8% for calculating the deferred acquisition costs, in the same way as in the previous year.

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

All figures in €m*	Reinsurance Life and health	Reinsurance Property-casualty	Primary insurance Life and health	Primary insurance Property-casualty	Total	Prev. year
Carrying amount at 31.12. previous year	1,707	1,134	4,203	407	7,451	7,286
Translation differences	–29	–21	–	–	–50	–217
Carrying amount at 1.1. business year	1,678	1,113	4,203	407	7,401	7,069
Newly deferred acquisition costs	340	618	844	144	1,946	1,438
Amortised acquisition costs	367	648	198	137	1,350	1,056
Carrying amount at 31.12. business year	**1,651**	**1,083**	**4,849**	**414**	**7,997**	**7,451**

* After elimination of intra-Group transactions across segments.

(13) Deferred tax

This involves the following items:

All figures in €m	31.12.2003 Assets	31.12.2003 Liabilities	Prev. year Assets	Prev. year Liabilities
Losses carried forward	1,791	–	1,629	–
Investments	406	1,909	471	1,270
Underwriting provisions	2,174	4,135	1,489	565
Pension provisions	101	3	113	2
Others	668	1,112	365	2,901
Total	**5,140**	**7,159**	**4,067**	**4,738**

(14) Other assets

These mainly comprise property, plant and equipment and inventories totalling €331m (376m) and deferred items of €409m (170m).

Notes to the consolidated balance sheet – Equity and liabilities

(15) Shareholders' equity

In November 2003, in partial utilisation of the capital approved for such measures under Article 4 paragraph 1 of the Articles of Association (Authorised Capital Increase 2002), the share capital was increased by €130,337,141.76 from €457,388,254.72 to €587,725,396.48 through the issue of 50,912,946 registered non-transferable no-par-value shares.

The total share capital as at 31 December 2003 is thus divided into 229,580,233 registered shares, each fully paid up and entitled to one vote.

By resolution of the Annual General Meeting on 17 July 2002, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 17 January 2004. This authorisation was cancelled by the Annual General Meeting on 11 June 2003 and replaced by a new one, authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 11 December 2004.

On 31 December 2003 a total of 479,209 Munich Re shares with a calculated nominal value of €1,226,775.04 were held by Group companies. This represents 0.21% of the share capital.

The 1,559 shares remaining from Munich Reinsurance Company's employee share programme set up in 2002 stayed in the portfolio in the business year 2003. In addition, one subsidiary holds 286,592 shares to safeguard the stock appreciation rights granted to the Board of Management and top Munich Re executives.

2,739 shares remained in the portfolio of ERGO AG from the ERGO Insurance Group's employee share programme in the business year 2002. In the business year 2003, companies of the ERGO Group bought back 127,249 shares at an average price of €97.13 each and 15,897 shares at €94.45 each to cover future commitments from the long-term incentive plan launched at 1 July 2003. Together with the remaining Munich Re shares acquired to safeguard the stock appreciation rights granted in 2002, the ERGO Group had a total portfolio of 190,058 shares.

Europäische Reiseversicherung AG also acquired 1,000 Munich Re shares at a price of €99.25 per share in 2003 to safeguard future obligations from the long-term incentive plan it set up at 1 July 2003.

The acquisition value of all Munich Re shares in the possession of Group companies at the end of the business year totalled €106,794,589.68.

The Annual General Meeting on 11 June 2003 cancelled the remaining Contingent Capital Increase 1993 for the issue of warrants, amounting to €6,945.28 and the other contingent capital created for this purpose (Contingent Capital Increase 1998), amounting to €15,360,000.00, and replaced these with a new contingent capital of €35m (Contingent Capital Increase 2003 I).

Furthermore, the Annual General Meeting on 11 June 2003 cancelled the authorisation for a contingent increase in the share capital of €30m to safeguard conversion or subscription rights resulting from convertible bonds or bonds with warrants and replaced this with a new contingent capital of €100m (Contingent Capital Increase 2003 II).

The contingent capital is as follows:

All figures in €m	31.12.2003
To safeguard subscription rights from exercise of warrants (Contingent Capital Increase 2003 I)	35
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2003 II)	100
Total	**135**

After its partial utilisation in November 2003, Authorised Capital Increase 2002 amounting to €220m, adopted by resolution of the Annual General Meeting on 17 July 2002, now totals €89,662,858.24.

The capital authorised for capital increases in thus as follows:

All figures in €m	31.12.2003
Authorised Capital Increase 2002 (until 17 July 2007)	89.7
Authorised Capital Increase 2001 (until 18 July 2006)	3.8
Total	**93.5**

Changes in shareholders' equity

	Issued capital	Capital reserve	Revenue reserve		Other reserves			Consolidated profit	Total shareholders' equity
All figures in €m			Revenue reserve before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges		
Status at 1.1.2002	453	2,714	11,575	–53	4,418	–	–	250	19,357
Adjustments*									
– Associated enterprises	–	–	–	–	–	–	–	–	–
– Non-fixed-interest securities	–	–	–1,055	–	1,055	–	–	–	–
Status at 1.1.2002 (adjusted)*	453	2,714	10,520	–53	5,473	–	–	250	19,357
Translation differences	–	–	–975	–	–6	–	–	51	–930
Capital increases	4	276	–	–	–	–	–	–	280
Allocation to revenue reserves	–	–	80	–	–	–	–	–80	–
Change in the consolidated group	–	–	–95	–	–9	–	–	–	–104
Unrealised gains and losses on other securities	–	–	–539	–	–3,103	–	–	–	–3,642
Change resulting from valuation at equity	–	–	–	–	–1,888	–	–	–	–1,888
Profit for the year	–	–	–	–	–	–	–	1,081	1,081
Acquisition of own shares	–	–	–	–	–	–	–	–221	–221
Other changes	–	–	55	–40	–	–	–	–	15
Adjustments*									
– Associated enterprises	–	–	–	–	794	–	–	–794	–
– Non-fixed-interest securities	–	–	–	–	–1	–	–	1	–
Status at 31.12.2002 (adjusted)*	457	2,990	9,046	–93	1,260	0	0	288	13,948
Restatement of currency translation reserve	–	–	–337	–	–	337	–	–	–
Translation differences	–	–	–	–	–	–736	–	–	–736
Capital increases	131	3,810	–	–	–	–	–	–	3,941
Allocation to revenue reserves	–	–	65	–	–	–	–	–65	–
Change in the consolidated group	–	–	–58	–	–294	–	–	–	–352
Change resulting from valuation at equity	–	–	–778	–	–54	–	–	–	–832
Unrealised gains and losses on other investments	–	–	–	–	4,052	–	–	–	4,052
Profit for the year	–	–	–	–	–	–	–	–887	–887
Acquisition of own shares	–	–	–	–	–	–	–	–223	–223
Other changes	–	–	–8	–14	–	–	10	–	–12
Adjustments*									
– Associated enterprises	–	–	–	–	101	–	–	–101	–
– Non-fixed-interest securities	–	–	–	–	–554	–	–	554	–
Status at 31.12.2003	**588**	**6,800**	**7,930**	**–107**	**4,511**	**–399**	**10**	**–434**	**18,899**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The "other reserves" include €48m (1m) unrealised gains and losses resulting from valuation of associated enterprises at equity and €4,463m (1,259m) unrealised gains and losses on investments in non-consolidated affiliated enterprises and other securities. The unrealised gains and losses apportionable to non-consolidated affiliated enterprises and other securities are distributed between the different items as follows:

Unrealised gains and losses

All figures in €m	31.12.2003	Prev. year (adjusted)*
Unconsolidated affiliated enterprises	35	40
Securities available for sale – Fixed-interest	1,960	3,763
– Non-fixed-interest	4,929	–514
Less: – Provision for deferred premium refunds	1,924	1,556
– Deferred taxes	482	442
– Minority interests	61	48
– Consolidation effects	–6	–16
Total	**4,463**	**1,259**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The first-time application of IAS 39 (rev. 2003) results in the following adjustment amounts for unrealised gains and losses on associated enterprises and non-fixed-interest securities available for sale:

Unrealised gains and losses

All figures in €m	Adjustment amount 2003	Adjustment amount 2002	Adjustment amount prior to 2002
Associated enterprises	101	794	–
Securities available for sale	–554	–1	1,055
Total	**–453**	**793**	**1,055**

(16) Minority interests

These are mainly minority interests in the ERGO Insurance Group and the Karlsruher Insurance Group.

All figures in €m	31.12.2003	Prev. year (adjusted)*
Unrealised gains and losses	62	45
Consolidated profit	–34	–74
Other equity components	455	561
Total	**483**	**532**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

(17) Subordinated liabilities

All figures in €m	31.12.2003	Prev. year
Munich Re Finance B.V., Amsterdam 6.75%, €3,000m, Bonds 2003/2023	2,969	–
Munich Re Finance B.V., Amsterdam 7.625%, £300m, Bonds 2003/2028	421	–
Total	**3,390**	**–**

(18) Unearned premiums

All figures in €m	31.12.2003	Prev. year
Gross	6,315	6,158
Ceded share	334	381
Net	5,981	5,777

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

All figures in €m*	31.12.2003	Prev. year
Reinsurers	4,823	4,680
– Life and health	275	138
– Property-casualty	4,548	4,542
Primary insurers	1,158	1,097
– Life and health	75	60
– Property-casualty	1,083	1,037
Total	**5,981**	**5,777**

* After elimination of intra-Group transactions across segments.

(19) Provision for future policy benefits

All figures in €m*	31.12.2003	Prev. year
Gross	98,134	96,088
Ceded share	3,016	3,769
Net	95,118	92,319

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

All figures in €m*	31.12.2003	Prev. year
Reinsurers	11,667	11,873
– Life and health	11,041	11,257
– Property-casualty	626	616
Primary insurers	83,451	80,446
– Life and health	83,330	80,355
– Property-casualty	121	91
Total	**95,118**	**92,319**

* 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, in the same way as in the previous year.

(20) Provision for outstanding claims

All figures in €m	31.12.2003	Prev. year
Gross	42,619	42,792
Ceded	4,576	5,962
Net	38,043	36,830

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

All figures in €m*	31.12.2003	Prev. year
Reinsurers	32,179	31,463
– Life and health	4,407	2,460
– Property-casualty	27,772	29,003
Primary insurers	5,864	5,367
– Life and health	1,837	1,361
– Property-casualty	4,027	4,006
Total	**38,043**	**36,830**

* After elimination of intra-Group transactions across segments.

The table on the following page shows the provisions for outstanding claims in property-casualty business for the primary insurers and reinsurers for the last ten years. This covers virtually 100% 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 1997 and earlier 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 outstanding payments. The net run-off result reflects the difference between the current and original estimate. It is often materially affected by changes in exchange rates. The fluctuations in the value of important foreign currencies for us (mainly the US dollar and the pound sterling) against the euro led to significant changes in the provisions. On the other hand, there have been corresponding changes in the value of investments as a consequence of our consistent currency matching policy. In particular, the strengthening of reserves in our US business at American Re has had a negative impact on the results.

Net claims provisions and their run-off in €m	31.12. 1993	31.12. 1994	31.12. 1995	31.12. 1996	31.12. 1997	31.12. 1998	31.12. 1999	31.12. 2000	31.12. 2001	31.12. 2002	31.12. 2003
Net provision for outstanding claims	15,335	15,780	16,855	18,031	19,615	19,485	23,125	24,230	29,556	32,992	31,739
Aggregate payments for the year concerned and previous years One year later	3,602	3,475	3,882	4,725	4,292	5,412	7,359	7,356	8,626	7,227	
Two years later	5,284	5,536	6,706	6,812	7,148	9,216	11,605	12,181	12,439		
Three years later	6,674	7,624	8,064	8,667	9,672	11,639	14,889	14,068			
Four years later	8,371	8,573	9,428	10,268	11,174	13,687	15,953				
Five years later	9,072	9,626	10,763	11,556	12,576	14,413					
Six years later	9,878	10,753	11,654	12,653	13,328						
Seven years later	10,854	11,523	12,574	13,298							
Eight years later	11,517	12,337	13,090								
Nine years later	12,257	12,759									
Ten years later	12,631										
Net provision for the year concerned and previous years, plus payments already made from the original provision	15,335	15,780	16,855	18,031	19,615	19,485	23,125	24,230	29,556	32,992	31,739
One year later	14,556	15,180	16,999	18,573	17,840	20,415	24,409	26,428	32,074	31,827	
Two years later	14,356	15,425	17,410	17,384	18,213	20,867	25,492	28,469	32,144		
Three years later	14,968	16,007	16,190	17,700	18,253	21,192	27,062	28,395			
Four years later	15,642	15,234	16,617	17,611	18,405	22,409	26,608				
Five years later	14,938	15,644	16,377	17,730	19,279	21,685					
Six years later	15,297	15,550	16,488	18,380	18,470						
Seven years later	15,308	15,737	16,951	17,698							
Eight years later	15,517	16,063	16,276								
Nine years later	15,832	15,405									
Ten years later	15,170										
Net run-off result of claims provisions	165	375	579	333	1,145	–2,200	–3,483	–4,165	–2,588	1,165	–
Thereof: Currency translation differences	585	–22	–1,187	–1,305	222	–1,356	–647	–122	1,786	1,829	–
Net run-off result excluding currency translation differences	–420	397	1,766	1,638	923	–844	–2,836	–4,043	–4,374	–664	–

Provisions for asbestos and environmental claims

Since the mid-eighties industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. In particular, these include claims under product liability policies in the USA involving asbestos-related injuries which manifest themselves after a long latency period.

There are also potential claims burdens under employers' liability policies, especially in some European countries. In addition, we have posted provisions for claims under old general liability policies which provided cover against environmental liability claims under US law.

We have made timely provision for our share of these losses, continually adjusting our reserves in line with the latest knowledge of the loss potential. The reduction in the provision for environmental liability is based on the adjustment of our exposures as a consequence of commutation negotiations in 2003.

Altogether, at the present time we believe our provisions for these claims complexes to be adequate.

Nevertheless, further loss burdens – particularly from asbestos-related claims – cannot be ruled out. In view of the unpredictable nature of court decisions in the markets concerned, it continues to be difficult to make reliable estimates of future development.

Provisions for asbestos and environmental claims:*

	2003		2002		2001	
in €m	Gross	Net	Gross	Net	Gross	Net
Asbestos	1,164	908	1,246	965	929	780
Environmental	432	361	619	544	559	536

* The previous years' figures have been adjusted to take account of currency translation differences.

(21) Other underwriting provisions

All figures in €m	31.12.2003 Gross	31.12.2003 Ceded	31.12.2003 Net	Prev. year Gross	Prev. year Ceded	Prev. year Net
Provision for premium refunds	6,794	67	6,727	7,088	69	7,019
Miscellaneous	694	42	652	372	49	323
Total	**7,488**	**109**	**7,379**	**7,460**	**118**	**7,342**

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

All figures in €m	31.12.2003	Prev. year
Primary insurers		
– Life and health	6,725	6,974
– Property-casualty	2	45
Total	**6,727**	**7,019**

The provision for premium refunds showed the following development:

All figures in €m	31.12.2003	Prev. year (adjusted)*
a) Amounts allocated on the basis of national regulations (gross)		
Status at 1.1. business year	3,798	5,241
Allocations/withdrawals	–794	–1,443
Status at 31.12. business year	3,004	3,798
b) Provision for deferred premium refunds (gross)		
Status at 1.1. business year	3,290	8,577
Change in consolidated group	0	–37
Change resulting from unrealised gains and losses on investments	–797	–2,863
Change resulting from revaluations	1,297	–2,387
Status at 31.12. business year	3,790	3,290
Total (gross)	6,794	7,088
Ceded share	67	69
Total (net)	**6,727**	**7,019**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The application of the revised accounting policies of IAS 39 (rev. 2003) produces the following adjustments of the changes resulting from unrealised gains and losses on investments in the provision for deferred premium refunds: –€136m for the business year 2002 and –€997m for the business year 2003. In addition, the following adjustments have to be made to the changes resulting from revaluation: €136m for the business year 2002 and €997m for the business year 2003. The aforementioned two effects cancel each other out, so that neither the amount of the provision for deferred premium refunds (gross) nor the amount of the net provision for premium refunds needs to be adjusted.

A total of €313m (880m) 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*	31.12.2003	Prev. year
Reinsurers	525	220
– Life and health	369	92
– Property-casualty	156	128
Primary insurers	127	103
– Life and health	64	49
– Property-casualty	63	54
Total	**652**	**323**

* After elimination of intra-Group transactions across segments.

(22) Other accrued liabilities

All figures in €m	2003	Prev. year
Provisions for post-employment benefits	879	1,138
Tax provisions	1,319	885
Other provisions	1,379	1,174
Total	**3,577**	**3,197**

Provisions for post-employment benefits

The companies in the Munich Re Group generally give pension 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.

Defined contribution plans

Expenses for defined contribution plans in the year under review totalled €27m (30m).

Defined benefit plans

The financing status of the defined benefit plans is as follows:

All figures in €m	31.12.2003	Prev. year
– Present value of unfunded obligations	874	1,015
– Present value of funded obligations	712	388
Fair value of plan assets	–553	–156
Actuarial gains/losses not recognised	–211	–106
Past service cost not yet recognised	–1	–3
Other receivables	58	–
Net balance sheet liability	**879**	**1,138**

There are reinsurances for pension entitlements amounting to €58m (repayment claims).

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

All figures in €m	2003	Prev. year
Status at 1 January	1,138	1,059
Translation differences	–20	–22
Changes in consolidated group	–	51
Expenses (see below)	129	130
Payments	–92	–78
Capital transfer of Munich Reinsurance Company to CTA model	–334	–
Transfer to other receivables	58	–
Other	–	–2
Status at 31 December	**879**	**1,138**

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

All figures in €m	2003	Prev. year
Current service cost	57	53
Interest cost	80	78
Expected return on plan assets	–19	–13
Expected return on reimbursements	–1	–
Net actuarial gains/losses recognised in year	4	3
Past service cost	12	11
Other	–4	–2
Total	**129**	**130**

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

With effect from 28 July 2003 Munich Re set up a contractual trust agreement in the form of a two-way trust for its pension obligations for employees. In this connection a one-off amount of €334m was irrevocably transferred to the pension trustee, who manages the assets for Munich Re in accordance with its instructions within the framework of a mandate agreement with MEAG. These assets may not be used for any other purpose than covering the pension obligations, and access of creditors to the assets is excluded. The consequences of this transaction are a reduction in the balance sheet amount and in the future pension expenses. To finance the commitments, it was necessary to transfer assets in the amount of the present value of the pension commitments. In this process, however, account had to be taken of the difference between the actuarial interest rate relevant for the valuation of the obligations and the rate of return achievable with the assets. Therefore the present value of the pension obligations was calculated with an actuarial interest rate equivalent to the expected rate of return on the investments at the time the assets were transferred.

As at 31 December 2003 the fair value of the transferred assets exceeded the outsourced pension obligations by a total of €58m. The repayment claim arising from this overallocation has been shown under "other receivables".

Tax provisions

Tax provisions comprise the provisions for current 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	Allocations	Withdrawals	Reversal	Other changes	31.12.2003
Outstanding invoices	166	116	144	12	0	**126**
Earned commission	155	144	114	5	3	**183**
Early-retirement benefits/semi-retirement	105	56	15	14	3	**135**
Holiday and overtime pay	36	30	23	4	1	**40**
Anniversary benefits	28	27	2	2	1	**52**
Bonuses	62	17	22	4	2	**55**
Miscellaneous	622	505	256	81	–2	**788**
Total	**1,174**	**895**	**576**	**122**	**8**	**1,379**

The miscellaneous other provisions comprise a large number of different items, including salary obligations (€37.6m), competitions for sales staff (€19.8m), other remuneration for desk and field staff (€12.8m), severance pay (€19.9m) and social insurance against occupational accidents (€11.5m).

(23) Notes and debentures

All figures in €m	31.12.2003	Prev. year
American Re Corporation, Princeton 7.45%, US$ 500m, Senior Notes 1996/2026	396	475
ERGO International AG, Düsseldorf 2.25%, €345m, Bonds Exchangeable into E.ON AG Shares 2001/2006 0.75%, €345m, Bonds Exchangeable into Aventis AG Shares 2001/2006	647	609
Munich Reinsurance Company, Munich 1.0%, €1,150m, Bonds Exchangeable into Allianz AG Shares 2000/2005	1,166	1,111
Hestia Investment Organiczona, Sopot 7.3%, PLN 42.1m, Zero Coupon Bonds 2002/2003	–	10
Total	**2,209**	**2,205**

The bonds issued by Hestia Investment were redeemed in November 2003.

The bonds' ratings are given on page 71.

(24) Other liabilities

All figures in €m	31.12.2003	Prev. year
Deposits retained on ceded business	4,186	4,296
Accounts payable on primary insurance business	6,111	6,012
Accounts payable on reinsurance business	2,164	3,339
Amounts owed to banks	3,035	2,783
Miscellaneous liabilities	2,602	2,037
Total	**18,098**	**18,467**

€185m (158m) of the other liabilities is apportionable to tax liabilities, €41m (40m) to liabilities for social security, and €212m (29m) to liabilities for interest and rent.

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

All figures in €m	31.12.2003	Prev. year
Up to one year	15,601	14,911
Over one year and up to two years	245	281
Over two years and up to three years	1,416	1,626
Over three years and up to four years	120	138
Over four years and up to five years	–	–
Over five years and up to ten years	402	584
Over ten years	314	927
Total	**18,098**	**18,467**

(25) Other deferred items

This comprises miscellaneous deferred amounts.

Notes to the consolidated income statement

(26) Premiums

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	2003	Prev. year	2003	Prev. year	2003	Prev. year	2003	Prev. year	2003	Prev. year
Gross premiums written	5,907	5,541	16,909	17,897	12,541	11,738	5,074	4,838	40,431	40,014
Ceded premiums	310	419	1,212	1,233	303	229	307	386	2,132	2,267
Net premiums written	5,597	5,122	15,697	16,664	12,238	11,509	4,767	4,452	38,299	37,747
Change in unearned premiums – Gross amount	–195	–10	–373	–682	–2	–	–45	–76	–615	–768
– Ceded share	3	–20	–6	–650	–1	28	–63	–31	–67	–673
– Net amount	–192	–30	–379	–1,332	–3	28	–108	–107	–682	–1,441
Net earned premiums	5,405	5,092	15,318	15,332	12,235	11,537	4,659	4,345	37,617	36,306

* 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.

Furthermore, in IAS financial statements there are no "premiums from the provision for premium refunds". Instead, there is a reallocation of the premiums used, without impact on the income statement, from the provision for premium refunds to the provision for future policy benefits.

(27) Investment result

All figures in €m	31.12.2003	Prev. year (adjusted)*
Real estate	370	701
Investments in affiliated enterprises	23	190
Investments in associated enterprises	–853	3,669
Mortgage loans and other loans	886	724
Other securities held to maturity	47	37
Other securities available for sale – Fixed-interest	5,497	4,522
– Non-fixed-interest	1,806	–4,985
Other securities held for trading – Fixed-interest	67	71
– Non-fixed-interest	–719	–105
Other investments	551	611
Expenses for the management of investments, other expenses	544	500
Total	**7,131**	**4,935**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The decrease in the result of investments in associated enterprises is due mainly to the fact that the previous year's figure includes the gain of €4.7bn realised on the sale of shares in companies of the Allianz Group.

Owing to the first-time application of IAS 39 (rev. 2003), the result of investments in associated enterprises had to be reduced by €1,484m for the business year 2002 and by €77m for the business year 2003. For the same reason, the result of non-fixed-interest other securities available for sale had to be increased by €814m for the business year 2002 and by €1,488m for the business year 2003. The sum of these two effects led to a reduction of €670m in the investment result for 2002 and to an improvement of €1,411m in the investment result for 2003.

	Reinsurance				Primary insurance				Asset management		Total	
	Life and health		Property-casualty		Life and health		Property-casualty					
All figures in €m*	**2003**	Pr. year (adjusted)**	**2003**	Pr. year (adjusted)**	**2003**	Pr. year (adjusted)**	**2003**	Pr. year (adjusted)**	**2003**	Pr. year (adjusted)**	**2003**	Pr. year (adjusted)**
Investment income Regular income	**1,291**	792	**1,308**	2,199	**4,392**	4,427	**311**	340	**26**	20	**7,328**	7,778
Income from write-ups	**73**	73	**301**	179	**156**	95	**17**	7	**0**	–	**547**	354
Gains on the disposal of investments	**335**	1,950	**1,520**	4,594	**3,395**	2,612	**141**	165	**4**	18	**5,395**	9,339
Other income	**0**	–	**1**	–	**87**	10	**13**	2	**5**	6	**106**	18
	1,699	2,815	**3,130**	6,972	**8,030**	7,144	**482**	514	**35**	44	**13,376**	17,489
Investment expenses Writedowns on investments	**70**	559	**331**	1,434	**1,150**	3,928	**173**	437	**0**	–	**1,724**	6,358
Losses on the disposal of investments	**147**	281	**704**	707	**1,915**	2,279	**144**	219	**1**	–	**2,911**	3,486
Management expenses, interest charges and other expenses	**80**	351	**316**	856	**1,018**	1,419	**184**	73	**12**	11	**1,610**	2,710
	297	1,191	**1,351**	2,997	**4,083**	7,626	**501**	729	**13**	11	**6,245**	12,554
Total	**1,402**	**1,624**	**1,779**	**3,975**	**3,947**	**–482**	**–19**	**–215**	**22**	**33**	**7,131**	**4,935**

* After elimination of intra-Group transactions across segments.

** Adjusted owing to first-time application of IAS 39 (rev. 2003).

The adjustment amounts resulting from the first-time application of IAS 39 (rev. 2003) are summarised in the following table:

	Reinsurance				Primary insurance				Asset management		Total	
	Life and health		Property-casualty		Life and health		Property-casualty					
	Adjustment amount		Adjustment amount		Adjustment amount		Adjustment amount		Adjustment amount		Adjustment amount	
All figures in €m*	**2003**	Pr. year	**2003**	Pr. year	**2003**	Pr. year	**2003**	Pr. year	**2003**	Pr. year	**2003**	Pr. year
Investment income Income from write-ups	**–20**	–	**–81**	–	**–275**	–	**–14**	–	**–**	–	**–390**	–
Gains on the disposal of investments	**9**	16	**34**	37	**607**	351	**–304**	21	**–**	–	**346**	425
	–11	16	**–47**	37	**332**	351	**–318**	21	**–**	–	**–44**	425
Investment expenses Writedowns on investments	**–57**	39	**–230**	92	**–511**	–111	**–46**	4	**–**	–	**–844**	24
Losses on the disposal of investments	**–8**	19	**–38**	44	**–289**	–471	**–353**	–5	**–**	–	**–688**	–413
	–65	58	**–268**	136	**–800**	–582	**–399**	–1	**–**	–	**–1,532**	–389
Total	**54**	**–42**	**221**	**–99**	**1,132**	**933**	**81**	**22**	**–**	**–**	**1,488**	**814**

* After elimination of intra-Group transactions across segments.

(28) Other income

In addition to foreign currency exchange gains of €440m (453m), the other income mainly includes income from services rendered of €306m (358m), interest and similar income of €145m (131m), and income from the reversal/reduction of miscellaneous provisions and adjustments of values for receivables.

(29) Net expenses for claims and benefits

All figures in €m*	Reinsurance Life and health 2003	Reinsurance Life and health Prev. year	Reinsurance Property-casualty 2003	Reinsurance Property-casualty Prev. year	Primary insurance Life and health 2003	Primary insurance Life and health Prev. year (adjusted)**	Primary insurance Property-casualty 2003	Primary insurance Property-casualty Prev. year	Total 2003	Total Prev. year (adjusted)**
Gross Claims expenses – Claims and benefits paid	1,871	3,670	10,334	11,776	10,675	9,395	2,802	2,924	25,682	27,765
– Change in provision for outstanding claims	2,195	377	944	4,938	447	143	169	284	3,755	5,742
Change in other underwriting provisions – Provisions for future policy benefits	748	241	4	39	1,443	3,260	27	25	2,222	3,565
– Other	4	–1	27	27	57	–34	6	–6	94	–14
Expenses for premium refunds	–2	–	4	2	2,155	–3,065	19	25	2,176	–3,038
Total expenses for claims and benefits	4,816	4,287	11,313	16,782	14,777	9,699	3,023	3,252	33,929	34,020
Ceded share Claims expenses – Claims and benefits paid	155	322	1,230	1,557	162	119	285	275	1,832	2,273
– Change in provisions for outstanding claims	64	120	–691	56	–11	–87	41	126	–597	215
Change in other underwriting provisions – Provisions for future policy benefits	75	26	–8	5	115	226	–	–2	182	255
– Other	–	–	–3	2	29	–3	1	19	27	18
Expenses for premium refunds	–	6	–4	2	1	–16	1	2	–2	–6
Total expenses for claims and benefits	294	474	524	1,622	296	239	328	420	1,442	2,755
Net Claims expenses – Claims and benefits paid	1,716	3,348	9,104	10,219	10,513	9,276	2,517	2,649	23,850	25,492
– Change in provisions for outstanding claims	2,131	257	1,635	4,882	458	230	128	158	4,352	5,527
Change in other underwriting provisions – Provision for future policy benefits	673	215	12	34	1,328	3,034	27	27	2,040	3,310
– Other	4	–1	30	25	28	–31	5	–25	67	–32
Expenses for premium refunds	–2	–6	8	–	2,154	–3,049	18	23	2,178	–3,032
Total expenses for claims and benefits	**4,522**	**3,813**	**10,789**	**15,160**	**14,481**	**9,460**	**2,695**	**2,832**	**32,487**	**31,265**

* After elimination of intra-Group transactions across segments.

** Adjusted owing to first-time application of IAS 39 (rev. 2003).

The earlier application of the revised IAS 39 (rev. 2003) as at 31 December 2003 meant that the expenses for premium refunds in the primary insurance segment life and health had to be adjusted as follows:

All figures in €m	Adjustment amount 31.12.2003 Gross	Adjustment amount 31.12.2003 Ceded	Adjustment amount 31.12.2003 Net	Adjustment amount Prev. year Gross	Adjustment amount Prev. year Ceded	Adjustment amount Prev. year Net
Provision for premium refunds	997	–	997	136	–	136

(30) Net operating expenses

	Reinsurance				Primary insurance				Total	
	Life and health		Property casualty		Life and health		Property casualty			
All figures in €m*	2003	Prev. year	2003	Prev. year	2003	Prev. year	2003	Prev. year	2003	Prev. year
Acquisition costs – Amounts paid	1,562	1,673	3,749	3,995	1,697	1,579	974	977	7,982	8,224
– Change in deferred acquisition costs (gross)	–110	–267	–18	–151	–549	–74	–12	–46	–689	–538
	1,452	1,406	3,731	3,844	1,148	1,505	962	931	7,293	7,686
Management expenses	202	213	660	679	524	507	705	689	2,091	2,088
Amortisation of PVFP	3	4	–	–	40	47	–	–	43	51
Gross operating expenses	1,657	1,623	4,391	4,523	1,712	2,059	1,667	1,620	9,427	9,825
Ceded share	53	191	198	499	106	157	73	45	430	892
Net operating expenses	1,604	1,432	4,193	4,024	1,606	1,902	1,594	1,575	8,997	8,933

* After elimination of intra-Group transactions across segments.

(31) Other expenses

In addition to foreign currency exchange losses of €727m (669m), the other expenses mainly include expenses for services rendered of €238m (380m), interest and similar expenses of €562m (485m), and writedowns of €84m (124m).

(32) Tax

This item shows the corporation tax and municipal 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 "other tax" amounts to €41m (31m).

Tax on earnings is made up as follows:

All figures in €m	2003	Prev. year
Current tax	683	499
Germany	530	437
Other countries	153	62
Deferred tax	1,069	–1,104
Germany	992	–330
Other countries	77	–774
Tax on earnings	1,752	–605

The first-time application of IAS 39 (rev. 2003) leads to no adjustment of deferred taxes in the business year 2002; in the business year 2003 it leads to adjustments of deferred taxes amounting to €23m for Germany.

The current and deferred tax on earnings mainly result from the following:

All figures in €m	2003	Prev. year
Current tax for business year	595	475
Current tax for other periods	88	16
Deferred tax resulting from the occurrence or reversal of temporary differences	993	126
Deferred tax resulting from the occurrence or reversal of loss carry-forwards	–316	–1,210
Effects of changes in tax rates on deferred tax	392	–5
Other	–	–7
Tax on earnings	**1,752**	**–605**

The first-time application of IAS 39 (rev. 2003) results in the following changes in the amount of deferred taxes:

All figures in €m	Adjustment amount 2003
Deferred tax resulting from the occurrence or reversal of temporary differences	101
Deferred tax resulting from the occurrence or reversal of loss carry-forwards	–
Effects of changes in tax rates	–124
Total	**–23**

The current tax is derived from the tax results of the business year, to which the local tax rates of the respective subsidiaries are applied. Deferred tax is also calculated using the respective local tax rates. Sometimes for simplicity's sake we use uniform tax rates for individual circumstances or subsidiaries. Changes in tax rates and tax legislation that have already been adopted by the government at the balance sheet date are generally taken into account. "Other" refers to both current and deferred tax.

The so-called "Korb II" law has revised the taxation of life and health insurance companies. This change removes the system-adverse effects of the business taxation reform on life and health insurance companies. Under the new legislation, income and expenses of such companies in connection with shareholdings are subject to tax again as from the business year 2004. In addition, the companies are granted an option to apply the new rules – limited to 80% of the income and expenses concerned – for the years 2001 to 2003 (so-called "block option"). Some of the companies in our Group have availed themselves of this option and some have not.

Individual Group units generated tax losses in the current period and the previous period. On the basis of future tax result planning, a utilisation of the tax loss carry-forwards before their expiry is to be reckoned with, so that deferred tax assets have been posted for these.

The following table shows the reconciliation between the expected tax on earnings and the tax on earnings actually shown. The expected tax expenses are calculated by multiplying the operating result before tax on earnings (but after "other tax") by the Group tax rate. The Group tax rate amounts to 40%. This takes into account corporation tax including solidarity surcharge, and a mixed trade-tax rate. In the previous year, the expected average Group tax rate was 35%.

All figures in €m	2003	Prev. year (adjusted)*
Result before tax on earnings (after "other tax")	1,284	–391
Group tax rate in %	40.0	35.0
Derived tax on earnings	514	–137
Tax effect of		
Tax rate differences between Group companies	–30	42
Tax-free income	–696	– 4,373
Non-deductible expenses	1,332	3,294
Changes in tax rates and tax legislation	392	–5
Municipal trade earnings tax	16	443
Corporation tax reduction/increase from dividends	–	–38
Miscellaneous	224	169
Tax on earnings shown	**1,752**	**–605**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

The first-time application of the revised IAS 39 (rev. 2003) produces changes in the tax effect of non-deductible business expenses amounting to €290m for the business year 2002 and to –€73m for the business year 2003.

The effective tax burden is the ratio between the tax on earnings shown and the result before earnings tax (but after "other tax"). In the previous year there was tax relief of 155%. In the current business year the ratio shows a tax burden of 136%.

"Tax-free income" is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividend income and other tax-free income. The non-deductible expenses mainly include writedowns on non-fixed-interest securities available for sale. In addition, they contain non-deductible amortisation of goodwill and other non-deductible expenses.

"Changes in tax rates" contains expenses from deferred taxes as a result of the necessary revaluation of various deferred tax items in connection with changes in tax regulations for life and health insurers.

The item "municipal trade earnings tax" includes the differences between the trade-tax rate applied by the respective Group companies and the Group mixed trade- tax rate.

No deferred taxes were calculated on retained earnings of affiliated enterprises, as there is no intention of distributing these earnings in the foreseeable future. Calculation of these disregarded tax liabilities would have involved a disproportionate amount of work.

Other information

(33) 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.

(34) Related parties

In accordance with the reduction of reciprocal shareholdings of Munich Reinsurance Company and Allianz AG, announced in the previous year, Munich Reinsurance Company still held only approx. 12.2% of Allianz's share capital as at 31 December 2003 (previous year: around 19.3%). The Allianz Group, for its part, held a share of around 12.5% of Munich Reinsurance Company's voting capital at the balance sheet date (previous year: approx. 23.5%). As a consequence of this, together with the termination on 23 October 2003 of the Principles of Cooperation Agreement with effect from the end of the year, Allianz AG no longer qualifies as a related party of Munich Reinsurance Company.

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 31 December:

All figures in €m	2003	Prev. year
Gross premiums assumed	2,280	2,438
Gross premiums ceded	670	640

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

By contrast, HypoVereinsbank AG, one of the largest German private banks, continues to be an associated and related party of Munich Reinsurance Company. As at 31 December 2003, the Munich Re Group held 25.7% of the bank's share capital, representing 26.3% of the voting rights. For its part, the HypoVereinsbank Group held around 13.2% of Munich Reinsurance Company's voting capital.

Dr. Lothar Meyer, Chairman of ERGO's Board of Management, has been a member of HypoVereinsbank AG's Supervisory Board since 23 May 2002. Dr. Hans-Jürgen Schinzler, Chairman of Munich Re's Board of Management and since 2 January 2004 member of its Supervisory Board, has been a member of HypoVereinsbank's Supervisory Board since 3 March 2003. Dr. Albrecht Schmidt, Chairman of HypoVereinsbank AG's Supervisory Board since 7 January 2003, was a member of Munich Re's Supervisory Board in the business year 2003. Members of Munich Re and HypoVereinsbank hold seats on the boards of further companies in each other's Groups in a few instances.

Bayerische Hypo- und Vereinsbank AG

Relations between Munich Re and HypoVereinsbank are also given documented form in a general agreement. This agreement deals in particular with cooperation activities. On the basis of individual cooperation agreements, companies of the Munich Re Group sell selected HypoVereinsbank products. Similarly, staff of various of companies of the HVB Group market insurance products of VICTORIA, in which the other ERGO companies participate via reinsurance or coinsurance. The cooperation agreements between companies of the Munich Re Group and the companies of the HVB Group are concluded at market conditions.

There are further contractual relations between companies of the Munich Re Group and HypoVereinsbank in connection with the normal running of business, such as the conclusion of insurance policies for own risks (e.g. buildings insurance policies).

On 2 October 2003, the Munich Re Group sold its 25.7% stake in Hypo Real Estate Holding AG, which it had obtained as a result of the spin-off of HypoVereinsbank AG's commercial real estate financing business. The sale of these shares resulted in a loss on disposal in the fourth quarter 2003; at the same time, however, it reduced the hidden negative valuation differences on our remaining interest in HypoVereinsbank AG.

Further details on the changes arising from the announcements of HypoVereinsbank AG on 26 February 2004 can be found on page 206.

(35) 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	2003	Prev. year
Wages and salaries	2,160	2,161
Social security contributions and employee assistance	387	393
Expenses for employees' pensions	197	189
Total	**2,744**	**2,743**

(36) Long-term incentive plans

As at 1 July in the years 1999 to 2003, 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 organisation 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 the initial share price.

As a result of Munich Re's capital increase in the business year 2003, the initial share prices for the stock appreciation rights issued and the number of stock appreciation rights already granted were adjusted in accordance with the conditions.

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 the initial price. In addition, Munich Re shares must have outperformed the DAX 30 (Plan 1999) or the EURO STOXX 50 (from 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 459,398 (132,736) stock appreciation rights were granted, 139,698 (39,631) 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 Munich Re's share price.

In the year under review, provisions of €1.4m had to be posted for stock appreciation rights.

Munich Re's Incentive Plans 1999–2003

	Incentive Plan 1999	Incentive Plan 2000	Incentive Plan 2001	Incentive Plan 2002	Incentive Plan 2003
Plan commencement	1.7.1999	1.7.2000	1.7.2001	1.7.2002	1.7.2003
Old initial share price	€182.60	€319.34	€320.47	€260.37	€86.24
New initial share price after 2003 capital increase	€173.67	€303.72	€304.80	€247.64	€82.02
Number of rights on 31 December 1999	110,840	–	–	–	–
Additions	9,045	74,636	–	–	–
Number of rights on 31 December 2000	119,885	74,636	–	–	–
Additions	–	5,946	109,474	–	–
Exercised	34,240	–	–	–	–
Number of rights on 31 December 2001	85,645	80,582	109,474	–	–
Additions	–	–	270	132,466	–
Exercised	6,977	–	–	–	–
Expired	–	321	443	–	–
Number of rights on 31 December 2002	78,668	80,261	109,301	132,466	–
Additions	4,009	3,793	5,319	6,696	439,581
Exercised	–	–	–	–	–
Expired	3,696	6,199	7,192	3,962	–
Number of rights on 31 December 2003	78,981	77,855	107,428	135,200	439,581
Exercisable at year-end	78,981	77,855	107,428	–	–

As at 1 July 2002, the ERGO Insurance Group and some of its subsidiaries, as well as Europäische Reiseversicherung AG, Karlsruher Lebensversicherung Aktiengesellschaft and Karlsruher Versicherung Aktiengesellschaft, first launched long-term incentive plans. These plans, also with a term of seven years, provide for Board of Management members and in individual cases also top executives to be granted a defined number of stock appreciation rights in respect of Munich Re shares. The design of the plans is identical to that of Munich Re's long-term incentive plans.

In the year under review a total of 181,579 (45,476) stock appreciation rights were granted, 156,656 (37,732) of these to Board of Management members. To cover future obligations arising from these rights, the companies participating in the long-term incentive plan purchased Munich Re shares to some extent.

Incentive Plans 2002–2003 of the Munich Re Group's primary insurers

	Incentive Plan 2002	Incentive Plan 2003
Plan commencement	1.7.2002	1.7.2003
Old initial share price	€260.37	€86.24
New initial share price after 2003 capital increase	€247.64	€82.02
Number of rights on 31 December 2002	45,476	–
Additions	12,898	168,681
Exercised	–	–
Expired	529	–
Number of rights on 31 December 2003	57,845	168,681
Exercisable at year-end	–	–

(37) Employee share-ownership programmes

The employee share-ownership programmes of Munich Re and the ERGO Insurance Group were not continued in 2003. The remaining portfolio of own shares from the previous years' programmes was not sold.

(38) Compensation and loans for Board members

The emoluments of the Board of Management of Munich Reinsurance Company for fulfilment of its duties in respect of the parent company and the subsidiaries totalled €12.1m (11.5m). Of this, €7.4m (6.2m) is apportionable to fixed components, €4.7m (5.1m) to variable components, and €0 (0.2m) to the exercise of stock appreciation rights under the Long-Term Incentive Plan 1999. Payments to retired members of the Board of Management or their surviving dependants amounted to €3.3m (3.5m).

Remuneration of Supervisory Board members in the business year 2003 as per Article 15 of the Articles of Association[1)]

Name	Fixed remuneration	Dividend-related remuneration[2)]	Remuneration for committee work	Total
Hartmann,Chairman	50,000.00	55,000.00	71,625.00	157,500.00 [3)]
Bach, Deputy Chairman	37,500.00	41,250.00	26,250.00	105,000.00
Dr. Schmidt	25,000.00	27,500.00	47,375.00	99,875.00
Dr. Pischetsrieder	25,000.00	27,500.00	26,250.00	78,750.00
Biebrach	25,000.00	27,500.00	21,125.00	73,625.00
Dr. Schumann	25,000.00	27,500.00	21,125.00	73,625.00
Prof. Dr. Kagermann	25,000.00	27,500.00	19,125.00	71,625.00
Süßl	25,000.00	27,500.00	13,125.00	65,625.00

All other members of the Supervisory Board (Appel, Burgmayr, Ficker, Köppen, Prof. Dr. Markl, Mayrhuber, Prof. Van Miert, Dr. v. Pierer, Dr. Sommer, Stögbauer, Võ, Wegmann) each received total remuneration of €52,500.00 (fixed remuneration of €25,000.00 and dividend-related remuneration[2)] of €27,500.00).

1) Plus turnover tax in each case, in accordance with Article 15 para. 5 of the Articles of Association.
2) Payment after adoption of the dividend proposed by the Supervisory Board and Board of Management (€1.25) at the 2004 Annual General Meeting.
3) After capping in accordance with Article 15 para. 4 of the Articles of Association.

A total of €49m (38m) 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.

(39) Board of Management compensation structure

The members of the Board of Management receive compensation comprising
- a fixed annual basic remuneration;
- a variable annual bonus, in which the annual result and the achievement of personal objectives are each weighted 50%; a dividend bonus was paid for the business year 2002 for the last time;
- a variable three-year bonus, based on the performance over a three-year period, in which the annual results and the achievement of personal objectives are again each weighted 50%. Payment is made in the fourth year and presupposes that the degree to which objectives have been achieved, which is the yardstick for measuring the annual bonus in respect of the annual result and the personal objectives, has been assessed as above average in each of the three preceding years. Payments under this three-year bonus can be made to the Board members for the first time in 2006.

In addition, at annual intervals starting on 1 July 1999, Munich has set up a series of long-term incentive plans that provide for the members of the Board of Management and senior management in Munich and for the top executives in Munich Re's international organisation to be granted a defined number of stock appreciation rights. Details are provided under Note 36. Up to now it has only been possible to exercise stock appreciation rights under the plan set up as at 1 July 1999.

Compensation for board memberships with affiliated or associated enterprises of the Munich Re Group must be paid over to the Company or is offset against other remuneration components, unless the memberships are classified as personal memberships.

In accordance with the recommendations of the German Code of Corporate Governance, the total compensation of the Board members thus comprises fixed and variable components, all of which are appropriate in themselves and as a whole. Criteria for the appropriateness of compensation are in particular the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re, taking into account the relevant benchmarks for Board remuneration.

A different arrangement applies to the compensation structure for Mr. Phelan, who is not only a member of the Board of Management but also the President, Chief Executive Officer and Chairman of the Board of American Re Corporation and therefore has special compensation agreements, with the major portion of his income in the USA.

(40) Share trading and shares held by members of the Board of Management and the Supervisory Board

No acquisition or sales transactions notifiable under Section 15 a of the German Securities Trading Act had occurred up to the end of the business year 2003. The total number of Munich Re shares held by all members of the Board of Management and Supervisory Board amount to less than 1% of the shares issued by the Company.

(41) Number of staff

The number of staff employed by the Group at year-end totalled 30,233 (31,063) in Germany and 11,208 (10,333) in other countries.

	31.12.2003	Prev. year
Reinsurance companies	6,445	5,836
Primary insurance companies	34,360	34,924
Asset management	626	636
Total	**41,431**	**41,396**

(42) Contingent liabilities, other financial commitments

Commitments under rental, work and service contracts amounted to €154m. Leasing obligations from rental leasing arrangements totalled €590m. Investment obligations amounted to €488m. These figures represent undiscounted nominal amounts.

The remaining periods for leasing obligations from rental leasing arrangements are as follows:

All figures in €m	31.12.2003	Prev. year
Up to one year	124	118
Over one year and up to two years	115	106
Over two years and up to three years	95	100
Over three years and up to four years	43	43
Over four years and up to five years	37	39
Over five years	176	209
Total	**590**	**615**

Beyond this, there were other financial commitments of €12m and obligations from guarantees totalling €162m. There were contingent liabilities of €125m from a leasing transaction with real estate.

As the German life insurers in our Group participate in Protektor Lebensversicherungs-AG, they are committed to assuming its payment obligations to the extent of their market share totalling 12.9%.

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.

(43) Events after the balance sheet date

As at 20 February, the outstanding 50% of the Allianz Group's MILES bond (Market Index-Linked Equity Securities) issued via its Dutch subsidiary on 12 January 2001 was redeemed in Munich Re shares. This reduced the Allianz Group's stake in Munich Reinsurance Company's voting capital by 3.1 percentage points to 9.4%.

When publishing its provisional figures on 26 February 2004, HypoVereinsbank AG announced a reduction of its shareholding in Munich Reinsurance Company to below 10%.

Besides this, HypoVereinsbank AG announced that it would be carrying out a capital increase with a nominal volume of €643m, in which the shareholders would be offered 214,410,440 new shares at a price of at least €14. HypoVereinsbank AG will raise at least €3bn from this 2 for 5 rights issue. By resolution of their Boards of Management, the Munich Re Group companies will not participate in HypoVereinsbank AG's capital increase in order to cut back its investment in the German financial services sector further. The Munich Re Group's stake in HypoVereinsbank AG's share capital will thus be diluted by approx. 7.4 percentage points to around 18.3%.

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.

(44) Earnings per share

		2003	Prev. year (adjusted)*
Profit for the year	€m	–434	288
Result before amortisation of goodwill	€m	2,012	11
Number of shares at 1.1. business year		178,330,916	176,783,401
Increase in shares owing to exercise of warrants		–	1,717,294
Addition of own shares		142,838	169,779
Weighted average number of shares		193,304,228	186,826,895**
Earnings per share	€	–2.25	1.54**
Earnings per share before amortisation of goodwill	€	10.41	0.06**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

** Taking into account the capital increase in November 2003.

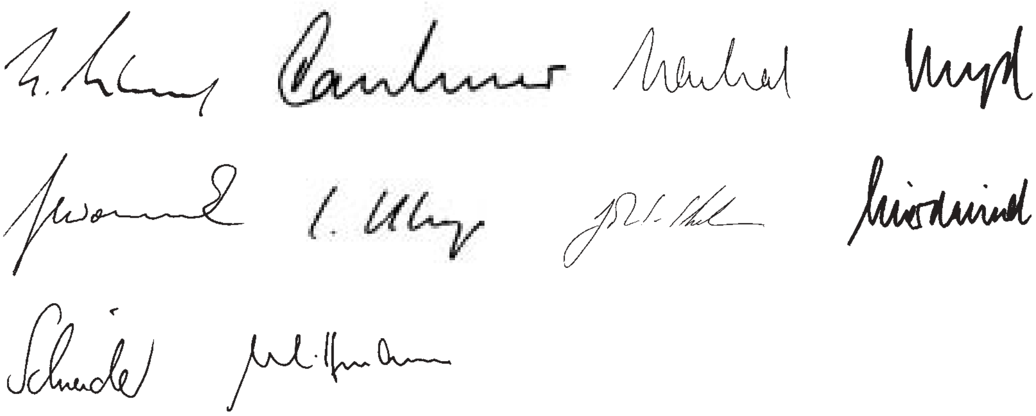
The adjustment amounts resulting from the first-time application of IAS 39 (rev. 2003) for the business years 2002 and 2003 are summarised in the following table:

		Adjustment amount 2003	Adjustment amount Previous year
Profit for the year	€m	**453**	–793
Result before amortisation of goodwill	€m	**437**	–798
Earnings per share	€	**2.34**	–4.24
Earnings per share before amortisation of goodwill	€	**2.26**	–4.27

Calculation of diluted earnings per share is not necessary.

Munich, 26 March 2004

The Board of Management



Affiliated enterprises, participating interests and other shareholdings*

Company	% share of capital	Shareholders' equity €'000**	Result for the year €'000**
Reinsurance, consolidated subsidiaries			
American Re Corporation, Princeton	100.00%	3,176,953	232,336
Great Lakes Reinsurance (UK) PLC, London	100.00%	140,542	12,721
Münchener Rück Italia S.p.A., Milan	100.00%	225,113	–8,950
Munich American Reassurance Company, Atlanta	100.00%	867,495	31,537
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.00%	11,094	7,101
Munich Reinsurance Company of Africa Ltd., Johannesburg	100.00%	90,964	2,006
Munich Reinsurance Company of Australasia Ltd., Sydney	100.00%	189,931	11,947
Munich Reinsurance Company of Canada, Toronto	100.00%	176,021	5,873
New Reinsurance Company, Geneva	100.00%	201,984	36,144
Temple Insurance Company, Toronto	100.00%	61,429	4,120
Reinsurance, associated enterprises			
De Amersfoortse Reinsurance Limited, Dublin	25.00%	35,160	4,210
Golden Gate Reinsurance N. V., Amsterdam	33.33%	18,625	2,668
Prévoyance Ré, S. A., Paris	34.00%	27,690	–9,602
Primary insurance, consolidated subsidiaries			
ERGO Versicherungsgruppe AG, Düsseldorf	92.74%	1,934,516	247,521
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf ***	92.74%	59,647	0
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf ***	92.74%	238,642	0
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S. A., Madrid	92.74%	15,700	–2,365
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf ***	92.74%	528,413	0
VICTORIA-Seguros de Vida, S. A., Lisbon	92.74%	13,993	–809
VICTORIA-Seguros S. A., Lisbon	92.74%	7,434	–66
VICTORIA General Insurance Company S. A., Thessaloniki	92.26%	16,227	–3,038
VICTORIA Life Insurance Company S. A., Thessaloniki	92.26%	6,203	–127
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	69.21%	40,528	919
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	92.74%	19,605	790
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg ***	92.74%	12,062	0
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg ***	92.74%	262,413	0
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg ***	92.74%	363,081	0
Hamburg-Mannheimer N. V./S. A., Brussels	92.74%	10,577	–623
DKV BELGIUM S. A., Brussels	92.74%	17,864	–4,834
DKV Deutsche Krankenversicherung Aktiengesellschaft, Berlin/Cologne ***	92.74%	529,639	0
DKV Luxembourg S. A., Luxembourg	69.55%	12,960	889
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	92.74%	45,497	–15,795
D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	92.74%	208,647	550
D. A. S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich	92.74%	38,783	–3
DAS Legal Expenses Insurance Company Limited, Bristol	92.74%	53,324	5,702
D. A. S. Nederlandse Rechtsbijstand Verzekeringmaatschappij N. V., Amsterdam	49.36%	18,969	3,567
D. A. S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	92.72%	23,265	2,131
KarstadtQuelle Lebensversicherung AG, Fürth	51.01%	12,645	1,000
KarstadtQuelle Krankenversicherung AG, Fürth	51.01%	5,550	1,851
KarstadtQuelle Versicherung AG, Fürth	51.01%	24,621	10,233
Neckermann Lebensversicherung AG, Fürth	38.25%	8,745	–1,600
ERGO International Aktiengesellschaft, Düsseldorf	92.74%	853,676	–542,101
ERGO Kindlustuse AS, Tallinn	92.15%	9,107	887
ERGO Lietuva draudimo UAB, Vilnius	92.73%	8,827	87
ERGO Latvija Versicherung AG, Riga	91.43%	5,567	–482

Company	% share of capital	Share-holders' equity €'000**	Result for the year €'000**
ERGO Assicurazioni S.p.A., Milan	92.74%	46,622	3,665
ERGO Previdenza S.p.A., Milan	65.24%	225,816	3,687
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	92.74%	11,145	–16,119
Bayerische Vida España S.A., Barcelona	47.30%	11,366	–101
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N.V., Woerden	92.74%	23,837	–2,960
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N.V., Woerden	92.74%	21,065	–2,181
STU ERGO HESTIA S.A., Sopot	92.73%	155,667	6,874
STUNZ ERGO HESTIA S.A., Sopot	92.74%	10,599	–2,701
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	100.00%	82,148	–2,292
Europæiske Rejseforsikring A/S, Copenhagen	100.00%	19,592	2,156
Europeiska Försäkringsaktiebolaget, Stockholm	100.00%	4,610	0
Compagnie Européenne d'Assurances S.A., Neuilly	100.00%	5,071	–750
Karlsruher Lebensversicherung AG, Karlsruhe	90.08%	168,792	9,957
Karlsruher Beamten-Versicherung AG, Karlsruhe	90.08%	6,426	7
Karlsruher Rechtsschutzversicherung AG, Karlsruhe	90.08%	8,126	482
Karlsruher Versicherung-Aktiengesellschaft, Karlsruhe	90.08%	52,655	831
Mercur Assistance Aktiengesellschaft Holding, Munich	90.00%	–16,037	–655
Primary insurance, associated enterprises			
Bloemers Holding B.V., Rotterdam	22.73%	8,938	–4,484
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	46.36%	6,507	1,395
Orel-G-Holding AD, Sofia	29.67%	13,898	92
Storebrand Helseforsikring AS, Oslo	45.97%	5,751	-2,108
UNION VERSICHERUNGS-AKTIENGESELLSCHAFT, Vienna	41.73%	46,171	6,042
VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, Munich	27.82%	67,718	1,207
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna	38.46%	7,640	–27
Financial services and asset management, consolidated subsidiaries			
ERGO Trust GmbH, Düsseldorf ***	92.74%	22,234	0
MEAG MUNICH ERGO AssetManagement GmbH, Munich	97.09%	60,371	16,888
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich ***	97.09%	14,165	0
Associated enterprises			
Bayerische Hypo- und Vereinsbank AG, Munich	25.67%	14,230,000	–858,000
FSB FondsServiceBank GmbH, Unterföhring	48.55%	7,180	0
Other participations in insurance companies			
Allianz AG, Munich	12.19%	20,316,197	2,329,993
Credit Guarantee Insurance Corporation, Johannesburg	6.90%	33,560	–5,714
Jordan Insurance Co. p.l.c., Amman	8.86%	15,335	1,103
Mannheimer AG Holding, Mannheim	10.00%	204,781	15,007
Mecklenburgische Lebensversicherungs-AG, Hanover	12.50%	10,600	327
Middle Sea Valetta Life Assurance Co. Ltd., Floriana	10.00%	40,897	1,150
Nürnberger Beteiligungs AG, Nuremberg	19.84%	392,986	15,863

Company	% share of capital	Share-holders' equity €'000**	Result for the year €'000**
Other shareholdings in listed companies			
BHS tabletop AG, Selb	28.91%	19,076	–4,130
BHW Holding AG, Hamelin****	9.24%	1,282,589	–238,894
Commerzbank AG, Frankfurt****	9.48%	8,808,000	–298,000
Forst Ebnath AG, Ebnath	96.73%	2,252	194
Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg	6.06%	2,469,985	200,545
Jenoptik AG, Jena****	9.98%	430,604	40,275
MAN Aktiengesellschaft, Munich	7.61%	2,691,000	147,000
Mediclin AG, Frankfurt	23.75%	204,439	–41,992
Österreichische Volksbanken-AG, Vienna	10.00%	723,307	38,957
RWE AG, Essen****	5.36%	8,924,000	1,050,000
WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige	11.33%	191,462	10,780

* 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 December 2003.

*** Result for the year after profit transfer.

**** Including special funds.

Auditor's report

The following is a translation of the auditor's opinion in respect of the original German consolidated financial statements and Group management report:

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, Munich, for the business year from 1 January 2003 to 31 December 2003. The preparation and the content of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the financial statements 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 1 January 2003 to 31 December 2003, 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 1 January 2002 to 31 December 2002 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.

Munich, 31 March 2004

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Herbert Loy	Peter Ott
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Other seats held by Board members[1]

SUPERVISORY BOARD	SEATS HELD on supervisory boards of other German companies	MEMBERSHIP of comparable bodies of German and foreign business enterprises
Ulrich Hartmann	Deutsche Bank AG Deutsche Lufthansa AG E.ON AG (Chairman) Hochtief AG IKB Deutsche Industriebank AG (Chairman)	Henkel KGaG Arcelor S.A., Luxembourg
Prof. Dr. rer. nat. Henning Kagermann	DaimlerChrysler Services AG Deutsche Bank AG	–
Prof. Dr. rer. nat. Hubert Markl	Bayerische Motoren Werke AG	Aventis S.A., Schiltigheim Royal Dutch Petroleum Company/Shell, The Hague
Wolfgang Mayrhuber	Eurowings Luftverkehrs AG Thomas Cook AG LSG Lufthansa Service Holding AG* Lufthansa Cargo AG* Lufthansa CityLine GmbH* (Chairman) Lufthansa Technik AG*	Heico Corporation, Miami
Prof. Karel Van Miert	RWE AG Fraport AG	Agfa-Gevaert NV, Mortsel Anglo American plc, London De Persgroep, Asse DHV Holding BV, Amersfoort Royal Philips Electronics NV, Amsterdam Solvay S.A., Brussels Wolters Kluwer NV, Amsterdam
Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer	Bayer AG Hochtief AG Volkswagen AG	Siemens AG Österreich, Vienna* (Chairman)
Dr. Ing. e. h. Dipl.-Ing. Bernd Pischetsrieder	Dresdner Bank AG METRO AG Audi AG* (Chairman)	Tetra Laval Group, Pully Scania AB, Södertälje* (Chairman) SEAT, S.A., Barcelona*
Dr. jur. Hans-Jürgen Schinzler (from 2 January 2004)	Bayerische Hypo- und Vereinsbank AG Deutsche Telekom AG METRO AG	Aventis S.A., Schiltigheim
Dr. jur. Dr. h. c. Albrecht Schmidt	Bayerische Hypo- und Vereinsbank AG (Chairman) Siemens AG	Thyssen'sche Handelsgesellschaft m. b. H.

[1] Status: 26 March 2004
(in the case of members who have left the Supervisory Board, the information shows the status at the date of their departure).
* Own group company within the meaning of Section 18 of the German Stock Companies Act.

BOARD OF MANAGEMENT	SEATS HELD on supervisory boards of other German companies	MEMBERSHIP of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler Chairman (until 31 December 2003)	Bayerische Hypo- und Vereinsbank AG Deutsche Telekom AG ERGO Versicherungsgruppe AG (Chairman) METRO AG	Aventis S. A., Schiltigheim
Dr. jur. Nikolaus von Bomhard Chairman (from 1 January 2004)	ERGO Versicherungsgruppe AG (Chairman)	–
Clement Booth (until 30 September 2003)	Allgemeine Kredit Coface	ACORD, Pearl River, New York INREON Ltd., London Munich American Capital Markets Inc., Delaware* New Reinsurance Company, Geneva* (Chairman) Nova Risk Partners Ltd., Johannesburg
Georg Daschner (from 1 October 2003)	–	Münchener Rück Italia S.p.A., Milan* (Chairman)
Dr. jur. Heiner Hasford	Commerzbank AG D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG ERGO Versicherungsgruppe AG Europäische Reiseversicherung AG (Chairman) MAN AG Nürnberger Beteiligungs-AG VICTORIA Lebensversicherung AG VICTORIA Versicherung AG WMF Württembergische Metallwarenfabrik AG	American Re Corporation, Wilmington, Delaware*
Stefan Heyd	EXTREMUS Versicherungs-AG Münchener und Magdeburger Agrarversicherung AG	–

* Own group company within the meaning of Section 18 of the German Stock Companies Act.

BOARD OF MANAGEMENT	SEATS HELD on supervisory boards of other German companies	MEMBERSHIP of comparable bodies of German and foreign business enterprises
Dr. rer. nat. Torsten Jeworrek (from 1 October 2003)	–	Great Lakes Reinsurance (UK) PLC, London* (Chairman) Munich American Capital Markets Inc., Delaware* (Chairman) New Reinsurance Company, Geneva* (Chairman)
Christian Kluge	Karlsruher Lebensversicherung AG Karlsruher Versicherung AG (Chairman) Mercur Assistance AG Holding (Chairman)	–
John Phelan	–	American Re Corporation, Wilmington, Delaware* (Chairman) American Re-Insurance Company, Princeton* (Chairman) Munich Reinsurance Company of Canada, Toronto*
Dr. phil. Detlef Schneidawind	DKV Deutsche Krankenversicherung AG Hamburg-Mannheimer Sachversicherungs-AG Hamburg-Mannheimer Versicherungs-AG Karlsruher Lebensversicherung AG (Chairman) Mecklenburgische Kranken Versicherungs-AG Mecklenburgische Leben Versicherungs-AG	Munich American Reassurance Company, Atlanta*
Dr. jur. Jörg Schneider	MEAG MUNICH ERGO Kapitalanlage-gesellschaft mbH	American Re Corporation, Wilmington, Delaware*
Karl Wittmann	–	Jordan Ins. Co. p.l.c., Amman Saudi National Insurance Company E. C., Jeddah

* Own group company within the meaning of Section 18 of the German Stock Companies Act.

Glossary A–C

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

Alternative risk financing
Utilising the capacity of the capital markets to cover insurance risks. An example is the securitisation of natural catastrophes risks that can no longer be borne in full by the insurance and reinsurance industry.

Asset allocation
The distribution of investments between various asset classes, e.g. equities, participating interests, fixed-interest, real estate and money market. The investments are subsequently distributed between various regions and currencies as appropriate. A distinction is generally made between strategic (medium- to long-term) and tactical (short-term) allocation.

Asset-liability management
Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

Asset management
Management of an investment portfolio on the basis of risk and return considerations. It covers both the preparation and implementation of investment decisions regarding assets and the management of → special funds.

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 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%. Investments in associated enterprises are valued according to the → equity method.

At amortised 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 uncollectibility.

Balanced scorecard
Strategy-implementation tool in which strategic objectives and initiatives (financial and non-financial) are set out in a table and linked with one another. Short-term milestones help in monitoring the achievement of objectives.

Biometrics
Use of statistical methods to capture and process data in the fields of biology, medicine, agriculture, etc.

Captive
A captive is an insurance company established as a subsidiary of one or more industrial/trading companies or groups mainly for purpose of insuring the risks of these companies and their affiliates.

Cash flow statement
Statement showing the origin and utilisation 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 and cash flows from financing activities.

Cedant
Client of a reinsurance company (see also → primary insurers).

Combined ratio
Ratio, in per cent, of the sum of net claims expenses plus net operating expenses to net earned premiums. The sum of the loss ratio and the expense ratio.

Compliance guidelines
Rules for handling insider information. As a general rule, insider information may not be used for own investment transactions, for transactions conducted by a bank or for recommendation to others. Therefore, as part of the compliance procedure, business transactions are checked to make sure they are not based on insider information.

Composite insurer
Insurer that writes both life and non-life business.

C–F

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).

Corporate governance
Corporate governance refers to the legal and factual framework for managing and monitoring companies. Corporate governance rules serve to provide transparency and thus strengthen confidence in responsible management and control geared to the creation of value.

Deferred acquisition costs
Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised 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 and national tax law. If in the consolidated financial statements 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 recognised as a deferred tax asset. Deferred tax assets are also posted for tax loss carry-forwards. If the accounting differences between the consolidated financial statements and tax balance sheet will lead to future tax burdens, these must be recognised as deferred tax liabilities. Deferred tax assets are reversed if a realisation of the corresponding receivable is not probable.

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 instruments
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.

Directors' and officers' liability insurance
Insurance of liabilities arising from the performance of professional or official company duties.

Duration
Duration refers to the average term of an interest-sensitive investment (or → portfolio) and is a measure of the risk of its sensitivity to changes in interest rates.

Earnings per share
A ratio calculated by dividing the consolidated profit by the average number of shares issued. "Diluted earnings per share" includes exercised and still to be exercised subscription rights in the Group result for the year and the number of shares. Such subscription rights arise from the issue of bonds with conversion rights and from warrants for the acquisition of shares.

Embedded value
The concept of embedded value is used in valuing life and health insurance business. Embedded value mainly comprises the present value of earnings calculated according to actuarial principles less the value of equity capital, including valuation reserves, and less capital commitment costs.

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.

Exchangeable bonds
Exchangeable bonds are a special form of corporate bond which, besides entitling holders to repayment of the face amount and regular interest, give them the option to convert the bond into shares. The conversion right is for shares in a company which is not the bond issuer.

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

Exposure
The measurable extent of a risk or portfolio of risks. Basis for calculating premiums in reinsurance.

Factor-based risk approach
Simplified capital model based on applying a series of "factors" (or capital charges) to volumes such as premiums, reserves or asset values. The model provides only a crude proxy for the risk-based capital requirements.

Facultative reinsurance
The reinsurer assumes a share of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. → obligatory reinsurance).

F–I

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. Alternatively, the fair value may be determined on the basis of recognised valuation methods.

Fast close
The sum of organisational and technical improvements in business processes that serve to accelerate publication of a company's quarterly and annual financial statements.

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.

Financial reinsurance
Forms of reinsurance in which the transfer of underwriting risk from the insurer to the reinsurer is significantly restricted, being replaced by financing mechanisms. In view of the accounting regulations in many markets, it is no longer a customary form of reinsurance. → Finite risk reinsurance

Finite risk reinsurance
Form of reinsurance in which the risk transfer from insurer to reinsurer is combined with a risk financing function. The focus here is on business-management and accounting aspects. The desired objectives are achieved by, among other things, the assumption of a limited amount of risk by the reinsurer, result-sharing with the insurer, multi-year contracts and the consideration of the time value of money.

Forwards
Contracts to trade at a specified price on a specified future date. In contrast to → futures, forwards tend to be individually designed derivative financial instruments.

Futures
Standardised 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 amortised 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.

Half-income method
With this method, only half of the dividend income received by a shareholder (disregarding prior corporation tax charged to the distributing company) forms part of the shareholder's taxable income. This also applies to taxable income from the sale of capital shares.

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.

IAS 32/39
Accounting standards on financial instruments published by the → International Accounting Standards Board (IASB). IAS 32 governs disclosure whilst IAS 39 is concerned with recognition and measurement of financial instruments. Both standards were revised by the IASB in December 2003 and are already being applied by Munich Re.

International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS)
Standards formulated by the → IASB with the intention of achieving internationally comparable preparation and presentation of financial statements. Since 2002 the standards adopted by the IASB have been referred to as "International Financial Reporting Standards (IFRS)". Until existing standards are renamed, they continue to be referred to as "International Accounting Standards (IAS)".

International Accounting Standards Board (IASB)
An international body of 14 accounting experts responsible for issuing → IAS/IFRS. The IASB's objective is to achieve uniformity in the accounting principles that are used by businesses and other organisations 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. Obligations arising from this type of contract are mainly shown under the balance sheet item "underwriting provisions for life insurance policies where the investment risk is borne by the policyholders".

L–P

Layer
Term used in excess-of-loss reinsurance to denote a stratum of cover. Its point of attachment and extent is defined in terms of the sum insured. Example: €5,000 in excess of €1,000 refers to the layer €1,000 to €6,000.

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

Marine
The insurance of ships and their cargoes.

Market value
The publicly listed market price obtainable for an asset in an active market (especially stock market price).

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

Net
→ Gross/net

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.

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.

Net 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, plus expenses from amortisation of → PVFP.

Non-proportional reinsurance
Here the reinsurer assumes payment of the primary insurer's losses above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Obligatory reinsurance
Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. (cf. → facultative reinsurance).

Operating result
Pre-tax operating profit/loss on the enterprise's ordinary activities, before minority interests in earnings and any extraordinary income or expenses.

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 standardised and are traded not on an exchange but directly between two counterparties via over-the-counter (OTC) transactions.

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.

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 fair value at the balance sheet date. Changes in value are recognised in the income statement.

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

Policyholders' bonuses
In life and health insurance, policyholders are entitled by law and contractually to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are allocated by way of premium refunds.

Portfolio
Collection of investments belonging to an investor or held by a financial organisation. They primarily comprise securities, but may also include real estate. In the case of investment funds, portfolio refers to the composition of investment instruments in the fund (equities, bonds, derivatives, etc.). In the case of insurers and reinsurers, portfolio usually means all the risks assumed in insurance and reinsurance respectively.

P–R

Premium
The amount that has to be paid for the insurance cover provided by an insurer. It may be paid as a regular or single premium. In the case of products that are largely of an investment nature (e.g. financing treaties and unit-linked life insurance) it only includes – under IAS – the amount serving to cover the risk and the costs. In IAS financial statements there are no "premiums from the provision for premium refunds" either. 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 organisation).

Property-casualty
Umbrella term for all insurance business that is not life or health insurance, e.g. liability, motor and fire insurance.

Proportional reinsurance
In proportional reinsurance, the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

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. It amounts to the balance of the present value of future obligations less the present value of future premiums.

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 policyholders' share of accumulated valuation differences between IAS/IFRS and German Commercial Code (provision for deferred premium refunds).

PVFP (Present Value of Future Profits)
When insurance companies or individual insurance portfolios are acquired, the present value of the expected earnings from the business acquired is capitalised as "PVFP". This intangible asset arises in particular when life or health insurance companies are acquired.

Rating
Standardised assessment of the credit standing of debt instruments and companies by specialised independent rating agencies.

Recoverable amount
The recoverable amount of an asset is the higher of net sales price (i.e. sales price less sales costs) and the utility value (i.e. present value of the future cash flows). The recoverable amount plays a part especially in connection with impairments in the value of real estate, where a writedown has to be made if the recoverable amount is lower than the carrying amount.

Registered share
Share registered in the owner's name. Registered shares are entered in the company's share register with the shareholder's personal data and the number of shares held.

Reinsurance capacity
Amount of cover that a reinsurance company or the market as a whole can make available.

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

Renewals
Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

Retention
That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retains net for own account.

Retrocessionaire
Reinsurer that provides retrocession cover for other reinsurers (a reinsurer of reinsurers). Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Rights issue
Capital increase in which shareholders obtain a subscription right – proportionate to their stake in the existing share capital – for newly issued shares. The subscription right serves to protect the interests of the existing shareholders and may be sold separately if it is not used to subscribe for new shares. Subscription rights are traded and listed separately on the stock exchange.

R–U

Risk capital
Risk capital is the amount of capital hypothetically assigned for the conducting of insurance of reinsurance business to ensure that the probability of default in respect of the portion of the business exposed to risk is kept to a minimum. The capital required for this purpose is calculated using mathematical risk and financing models.

Risk controlling
Ongoing monitoring and control of risks and measures, including methodological development and risk analysis/ reporting, by a neutral, independent unit that also proposes and initiates additional measures.

Risk management
Ongoing, systematic and continual identification, analysis, evaluation and control of potential risks that may jeopardise the assets, liabilities, financial position and results of a company in the medium- to long-term. The aim is to safeguard the existence of the company and its objectives against disruptive influences by means of suitable measures, and to increase corporate value.

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.

Scenario analysis
Used to investigate how certain key figures (market values or book values) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

Security
Ability (and willingness) of a reinsurer to meet its financial obligations from reinsurance agreements in full and at all times. Security depends on such factors as earnings capacity, quality of investments, capitalisation and liquidity.

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.

Solvency
An insurance company's capitalisation.

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.

Statutory Plus
Surplus recorded in the balance sheet of US insurance companies on the basis of the statutory accounting regulations used by US state supervisory authorities and rating agencies.

Stress test
A special form of → scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations.

Structured products
In the case of structured products, a → derivative financial instrument (e.g. an → option) is combined with a non-derivative instrument (e.g. a bond). Structure products are also referred to as hybrid products.

Subordinated bonds
In the event of liquidation, dissolution or insolvency of the loan debtor or in the event of debt composition proceedings or other processes to avoid insolvency being taken against the loan debtor, the claims of holders of subordinated bonds are satisfied after the claims of all other non-subordinated creditors. In other words, payments on subordinated bonds are not made until claims of third parties against the bond debtor arising from non-subordinated liabilities have been fully satisfied.

Sustainable development
A type of development that satisfies the needs of the present without jeopardising the needs of future generations.

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.

Underwriters
Member of an insurance or reinsurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a (re)insurance contract.

Underwriting provisions
Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Underwriting result
Balance of income and expenses apportionable to the (re)insurance business and shown in the technical income statement.

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.

U–V

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. The individual accounting standards are referred to as → Financial Accounting Standards (FAS).

Value at risk
Method of quantifying risk which measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

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.

Voting right
Every shareholder has a legal right to vote at the Annual General Meeting. The number of votes that a shareholder has depends on the number of shares with voting rights held. Shareholders can arrange for their voting rights to be exercised by a third party, e.g. a bank or a shareholders' association (proxy).

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www.ergo-trust.de

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 at http://www.munichre.com.

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Classes of business

Reinsurance	2003	2002	2001	2000	1999
Gross premiums written in €m					
Life	**5,461**	5,277	4,769	3,865	3,164
Health	**1,415**	1,284	1,131	836	578
Liability	**3,444**	3,514	2,402	1,934	1,650
Personal accident	**1,293**	1,302	1,213	1,043	1,140
Motor	**3,186**	3,337	3,448	3,335	2,570
Marine, aviation, space	**1,742**	1,896	1,398	1,158	846
Fire	**4,874**	5,294	4,481	3,363	2,890
Engineering	**1,393**	1,443	1,449	929	786
Other classes of business	**1,987**	2,098	1,905	1,862	1,744
Loss ratio in %					
Health	**69.9**	77.5	82.5	70.8	80.0
Liability	**84.1**	144.4	114.4	89.2	105.7
Personal accident	**72.8**	128.6	80.6	68.1	75.2
Motor	**79.1**	84.6	85.9	90.7	83.5
Marine, aviation, space	**60.0**	72.7	134.3	92.7	81.9
Fire	**60.3**	80.9	136.1	95.2	101.8
Engineering	**64.4**	75.8	103.3	74.5	72.0
Other classes of business	**60.3**	98.2	70.2	70.8	78.9
Expense ratio in %					
Health	**29.1**	26.9	31.4	31.1	24.9
Liability	**27.9**	26.8	33.1	31.8	30.7
Personal accident	**31.0**	29.6	32.1	30.8	29.9
Motor	**23.6**	23.2	25.2	24.5	24.4
Marine, aviation, space	**24.8**	22.3	30.0	27.4	27.4
Fire	**26.2**	26.4	29.4	31.4	34.0
Engineering	**30.1**	29.4	34.9	39.8	38.5
Other classes of business	**29.3**	32.4	36.2	33.7	35.1
Combined ratio in %					
Health	**99.0**	104.4	113.9	101.9	104.9
Liability	**112.0**	171.2	147.5	121.0	136.4
Personal accident	**103.8**	158.2	112.7	98.9	105.1
Motor	**102.7**	107.8	111.1	115.2	107.9
Marine, aviation, space	**84.8**	95.0	164.3	120.1	109.3
Fire	**86.5**	107.3	165.5	126.6	135.8
Engineering	**94.5**	105.2	138.2	114.3	110.5
Other classes of business	**89.6**	130.6	106.4	104.5	114.0

Primary insurance	2003	2002	2001	2000	1999
Gross premiums written in €m					
Life	**8,011**	7,514	7,112	6,471	6,217
Health	**4,547**	4,238	4,010	3,834	3,593
Property-casualty	**5,082**	4,841	4,593	4,110	3,690
Combined ratio in %					
Property-casualty (incl. legal expenses)	**96.4**	99.9	101.4	97.2	96.4

Multi-year overview

		31.12.2003	31.12.2002	31.12.2001	31.12.2000	31.12.1999
Balance sheet						
Investments	€m	**171,881**	156,278	161,994	159,408	150,927
Shareholders' equity	€m	**18,899**	13,948	19,357	23,602	18,454
Net underwriting provisions	€m	**147,476**	142,966	138,642	131,526	123,473
Balance sheet total	€m	**209,384**	196,441	202,054	193,567	179,880
Shares						
Dividend per share	€	**1.25**	1.25	1.25	1.25	0.95
Amount distributed	€m	**286**	223	221	221	168
Share price	€	**96.12**	114.0	305.00	380.00	251.80
Munich Re's market capitalisation	€bn	**22.1**	20.4	54.0	67.2	44.5
Other						
Combined ratio non-life reinsurance	%	**96.7**	122.4	135.1	115.3	118.9
Number of staff		**41,431**	41,396	38,317	36,481	33,245

in €m	2003	2002 (adjusted)*	2001	2000	1999
Gross premiums written	**40,431**	40,014	36,123	31,113	27,413
Net earned premiums	**37,617**	36,306	31,680	28,129	24,945
Investment result	**7,131**	4,935	10,420	12,166	9,525
Other income	**1,211**	1,351	892	501	747
Total income	**45,959**	**42,592**	**42,992**	**40,796**	**35,217**
Net expenses for claims and benefits	**32,487**	31,265	34,162	29,770	25,241
Net operating expenses	**8,997**	8,933	7,758	7,340	6,500
Other expenses	**2,463**	2,383	1,487	1,071	1,655
Total expenses	**43,947**	42,581	43,407	38,181	33,396
Result before amortisation of goodwill	**2,012**	**11**	**–415**	**2,615**	**1,821**
Amortisation of goodwill	**687**	371	230	145	120
Operating result before tax	**1,325**	**–360**	**–645**	**2,470**	**1,701**
Tax	**1,793**	–574	–1,040	399	383
Minority interests in earnings	**–34**	–74	145	321	185
Profit for the year	**–434**	288	250	1,750	1,133

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

in €	2003	2002 (adjusted)*	2001	2000	1999
Earnings per share	**–2.25**	1.54	1.34**	9.41**	6.13**
Earnings per share, diluted	**–**	–	1.34**	9.36**	6.12**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

** After taking account of capital increase in November 2003.

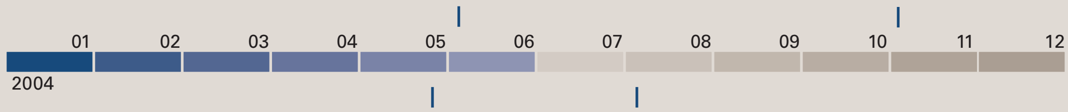
Quarterly figures

		31.12.2003	30.9.2003	30.6.2003	31.3.2003
Balance sheet					
Investments	€m	**171,881**	165,851	163,086	153,356
Shareholders' equity	€m	**18,899**	14,898	15,145	12,525
Net underwriting provisions	€m	**147,476**	147,446	145,153	142,933
Balance sheet total	€m	**209,384**	207,198	204,830	194,588
Shares					
Share price	€	**96.12**	85.31	88.78	52.50
Munich Re's market capitalisation	€bn	**22.1**	15.2	15.9	9.4
Other					
Combined ratio non-life reinsurance	%	**96.7**	97.0	95.9	96.8
Number of staff		**41,431**	41,344	41,393	41,687

Important dates 2004/2005

3 June 2004
Interim report
1st quarter 2004

8 November 2004
Interim report
3rd quarter 2004



26 May 2004
Annual General Meeting

6 August 2004
Interim report
2nd quarter 2004

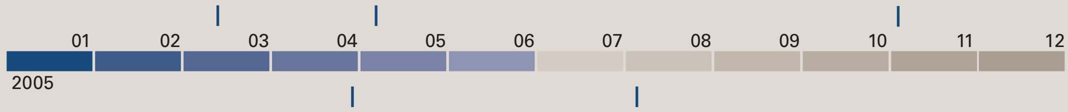
27 May 2004
Dividend payment

6 August 2004
Half-year press conference

15 March 2005
Balance sheet press
conference for 2004
financial statements

9 May 2005
Interim report
1st quarter 2005

7 November 2005
Interim report
3rd quarter 2005



28 April 2005
Annual General Meeting

4 August 2005
Interim report
2nd quarter 2005

29 April 2005
Dividend payment

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Responsible for content
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Corporate Communications

Editorial deadline: 26 March 2004

Concept and design
Claus Koch Corporate Communications,
Düsseldorf

Printed by
Druckerei Fritz Kriechbaumer
Wettersteinstr. 12
82024 Taufkirchen/München, Germany

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Order number 302–04011