Munich Reinsurance 2003 Company Annual Report

Münchener Rück
Munich Re Group

Munich Reinsurance Company

	2003 €m	2002 €m	2001 €m
Gross premiums written	**21,748**	21,857	15,464
Investments	**70,893**	57,955	48,655
Net underwriting provisions	**52,099**	46,091	39,592
Shareholders' equity	**11,375**	7,115	4,449
Profit for the year	**511**	2,606	441
Dividend	**286**	223	221
Dividend per share in €	**1.25**	1.25	1.25
Share price at 31 December in €*	**96.12**	108.43	290.04
Market capitalisation at 31 December	**22,067**	20,368	53,961

* Share price adjusted to take account of capital increase in November 2003.

Source: Datastream

More than words – in this year's Munich Re Group Annual Report, staff talk frankly with external experts and show what is important: clear decisions and measures, quality and profitability. Short versions of the interviews can be found on the internet at www.munichre.com.

Munich Reinsurance Company
Report on the 124th year of business
1 January to 31 December 2003

Note: The abbreviation T€ used in this report stands for thousand euros.

01

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 9.

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.

Information concerning the declaration of compliance and other information on corporate governance is printed on page 53 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

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

For seats held on other supervisory boards and comparable bodies see page 49 ff.

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Board of Management

Dr. jur. Hans-Jürgen Schinzler
(Chairman of the Board of Management until 31 December 2003)

Executive Offices
Press
Internal Auditing

Dr. jur. Nikolaus von Bomhard
(Chairman of the Board of Management from 1 January 2004)

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)

Clement Booth (until 30 September 2003)

Special and Financial Risks
Investor Relations
Strategic Planning

Georg Daschner (from 1 October 2003)

Europe 2 and Latin America
(until 31 December 2003 together with Dr. von Bomhard)

Dr. jur. Heiner Hasford

Finance
General Services
Organisational Design and Development

Stefan Heyd

Corporate Underwriting/Global Clients

Dr. rer. nat. Torsten Jeworrek (from 1 October 2003)

Special and Financial Risks
Information Technology

Christian Kluge

Europe 1
Corporate Communications

John Phelan

North America

Dr. phil. Detlef Schneidawind

Life and Health
Human Resources

Dr. jur. Jörg Schneider

Accounting
Controlling
Taxes
Investor Relations (from 1 October 2003)
Information Technology (until 30 September 2003)

Karl Wittmann

Asia, Australasia, Africa

Division of responsibilities as from 1 October 2003 and 1 January 2004.

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Management report

As a professional reinsurer, Munich Reinsurance Company operates worldwide in all classes of insurance. It is the parent company of the Munich Re Group, whose business encompasses reinsurance, primary insurance and asset management. There were no significant changes in the Company's international organisation in the business year 2003.

On 11 November 2003 we successfully completed a substantial rights issue, which strengthened our shareholders' equity by around €4bn and also significantly enhanced its quality. Our equity capital was also strengthened appreciably by the issue of two subordinated bonds in mid-April 2003, with a total volume of €3.4bn.

In the business year 2003, Munich Reinsurance Company wrote premium income of €21.7bn (21.9bn), representing a slight decrease of 0.5%. Adjusted to eliminate currency influences, which had the effect of reducing premium income by €1.9bn, the growth rate would have been 8.1%. Compared with the increases of the last few years, however, it clearly shows the importance we attached to our selective, strictly profit-oriented underwriting policy. Business with non-German clients again contributed 77% (77%) of our premium income.

The underwriting result improved distinctly compared with the previous year. The profitability of the business written is impressively reflected in the combined ratio: including claims costs from natural catastrophes, it fell to 93.8% (108.3%).

In the previous year, we had allocated €1,490m to our claims equalisation provisions, which are posted in accordance with German commercial law. In the year under review, the very positive business experience meant an even larger allocation of €2,878m. Given the relatively favourable claims situation for us, especially significant amounts were added to the provisions for liability (€920m) and fire insurance (€1,053m). After the allocations to claims equalisation provisions, our underwriting result showed a loss of €1,747m (2,529m).

After totalling €6.9bn in the previous year, when it was favoured by gains realised on the shareholding transactions with Allianz, our investment result amounted to €3.6bn in the year under review. In accordance with accounting regulations, €981m (1,113m) of this has been incorporated in the underwriting result.

The profit for the year came to €511m (2,606m). After allocation of €224m (1,303m) to the revenue reserves, a balance sheet profit of €287m (1,303m) remains. This is earmarked for the payment of an unchanged dividend of €1.25 per share.

Classes of business

In our **life reinsurance** business, we were able to record another significant rise in premium income. As in 2002, growth was mainly driven by new business from abroad, especially through further expansion in the UK and Canada. We managed to more than double the result compared with the previous year. The current year will be influenced by the proposed legislation in Germany to end tax exemption for investment income from cash value life insurances. Should this legislation come into force as planned for all policies effected as from 2005, we anticipate a boom in the sale of such products, like the one experienced in 1999. For reinsurance, this would mean a higher volume of new business and a greater demand for financing treaties. We therefore expect further growth in premium for 2004. It should be possible to repeat the good result.

In **health reinsurance**, we expanded our premium income further. New treaties with large volumes more than compensated for reductions in premium income sustained in the renewals, where we carried on withdrawing from unattractive business. This concentration on profitable business paid off, with a marked improvement in the result. For 2004, with a relatively stable portfolio, we expect slightly higher premium income and a good result of around the same level as last year.

In **personal accident reinsurance**, premium income rose slightly. Our remedial measures are gradually bearing fruit. The result just failed to move into the black, but showed an improvement on the previous year. In the current year, we expect a moderate decrease in premium. The result should recover appreciably.

Particularly in **liability reinsurance**, rates for renewed business rose substantially. Owing to portfolio rehabilitation measures and changes in exchange rates, the premium volume fell slightly. The combined ratio showed a notable improvement on the previous year. In view of the risk exposure, which is constantly rising, we consider further rate increases to be essential in the coming renewals as well. This applies especially to long-tail business. We are reckoning with a decline in our premium for the current business year due to the reduction of our share in a treaty with a large premium volume. The result should stabilise at the present good level.

Our premium income in **motor reinsurance** was somewhat below the previous year's level. After the profit in the previous year, we recorded a loss in 2003, owing to reserve strengthening for prior years. In the renewals, we again withdrew from business that did not meet our return requirements. For the year 2004, we therefore assume that premium income will show a marginal decline. However, our further efforts to limit motor liability cover in markets with previously unlimited cover will contribute to an improvement in the risk situation. Our remedial measures should have a favourable effect, with the result returning to the profit zone.

In **marine reinsurance**, we equalled the premium level of the previous year, despite portfolio remedial measures. In addition, higher underlying retentions by primary insurers and the exclusion of highly exposed risks from the scope of cover substantially enhanced the quality of the portfolio. With this qualitative upgrading of our business and the relatively low claims costs for major losses in the year under review, we were able to significantly improve the result. In the current year, we expect a slight reduction in premium income. Given average claims incidence, the result will probably be somewhat lower than for 2003.

In **aviation reinsurance**, we were able to compensate with new business for the decline in premium due to currency translation, so that the premium volume remained around the same. The exceptionally good result of the previous year, with its fortuitously very low loss incidence, could not quite be repeated. Renewals to date have shown that rates are starting to fall again, but they are still at a risk-adequate level. If claims incidence is average, the still acceptable level of rates will enable us to post a very positive result again in the current year.

Currency translation effects caused premium income in **fire reinsurance** to fall. If exchange rates had remained the same, it would have risen slightly. This growth, due to rate increases and new business, is especially noteworthy given that we had re-underwritten our portfolio and consistently withdrawn from business that did not satisfy our pricing requirements in relation to the risks accepted. Furthermore, changes in conditions have directly and substantially strengthened the profitability of our business. The result was again affected by losses from natural catastrophes, with various tornadoes and Hurricane Isabel in the USA having the greatest impact. We nevertheless succeeded in posting a large profit, which clearly reflects the high quality and earnings strength of our business. We are rigorously adhering to our profit-oriented acceptance policy, so that in the recent renewal season we again terminated business that did not meet our high standards with regard to profit margins. This means the quality of the portfolio as a whole is being further improved, albeit with a curbing effect on premium growth. For the current year, we therefore estimate that premium income will be lower than last year. By contrast, our fine-tuning of prices and conditions should have a positive influence on the result. The decisive factor, however, will be what claims burdens we sustain from natural catastrophes and other major losses.

Premium volume in the **engineering classes of business** (machinery, EAR, CAR, electronic equipment, etc.) remained about the same as in the previous year, despite our consistent steps to improve the quality of the portfolio even further. Loss of premium income due to the termination of business was compensated for by higher premium rates for existing reinsurances and by new business. Although costs for major losses were higher than in the previous year, we were able to increase the profit further. For the current year, we expect premium income to stay at the same level and the result to be appreciably better again.

Under the heading of **"other classes of business"**, we subsume the remaining classes of property insurance (burglary, glass, hail, water damage, contingency, windstorm, livestock and householders' and homeowners' comprehensive insurance) as well as credit and fidelity guarantee insurance. These classes of business together recorded slightly higher premium income than in the previous year. The combined result was markedly better than in 2002, when windstorm and homeowners' comprehensive insurance in particular were hit by heavy claims expenditure for natural catastrophes. The result in credit business also improved, despite the prevailing difficult economic environment, and was clearly positive, mainly due to the better terms and conditions. For the current year, we expect a slight decrease in premium. Given the improvements we have achieved, the result should again be positive in 2004.

Investments

The book value of Munich Reinsurance Company's investments (excluding deposits retained on assumed reinsurance) rose by 29.0% to €45.5bn (35.2bn).

Real estate, at €1.05bn (1.07bn), shows barely any change compared with the previous year.

Investments in affiliated enterprises and participating interests fell by €1.5bn to €14.9bn (16.4bn). This reduction is partly due to the disposal of shares in Allianz AG and Hypo Real Estate AG. At the end of the year, we still held 12.2% of Allianz's share capital; these shares are included in "other investments".

The other investments increased by 66.2% to €29.5bn (17.7bn). In addition to the regular cash flow, more funds were available for investment owing to the strengthening of our shareholders' equity and the related additional liquidity. Consequently, shares and investment fund certificates showed a rise to €12.9bn (9.6bn). Bearer bonds and other fixed-interest securities now total €16.2bn (7.7bn).

The market value of our real estate, equity investments (shareholdings in affiliated enterprises, participating interests, shares and investment fund certificates), bearer bonds and other fixed-interest securities amounted to €50.8bn (43.5bn) at 31 December 2003, or 16.7% more than in the previous year.

Income from investments decreased to €8.1bn (12.4bn). This is mainly due to the lower capital gains, which were exceptionally high in the previous year as a result of the reorganisation of Munich Re's and Allianz's shareholdings. In the business year 2003, intra-Group shareholding transactions gave rise to income of €3.7bn which, however, was offset by the item "expenses from loss transfers".

Altogether, investment expenses totalled €4.5bn (5.5bn). Adjusted to eliminate the effects of intra-Group loss transfers, expenses showed a significant decrease, mainly due to the marked reduction of €4,383m to €504m in writedowns on investments.

Investments with participating interests have been valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for under Section 341 b of the German Commercial Code.

Losses on the disposal of investments amounted to €213m (429m).

The overall investment result totalled €3.6bn (6.9bn).

Prospects

For the current business year, we expect premium income to be slightly lower than last year. Munich Re will consistently pursue its strategy of selective and profit-oriented underwriting. This means there will probably be an overall drop in premium from our fire and liability business. A strong euro will have an additional curbing effect. By contrast, we expect growth rates in life insurance to remain high.

For the third year in succession, we have succeeded in achieving significantly better prices and conditions in the renewal negotiations for our property-casualty reinsurance. This should have a positive impact on the underwriting results in the current year. A major factor, however, will be what claims costs affect us as a result of natural catastrophes and other major losses during the risk period.

As far as investments are concerned, given the macroeconomic environment we expect a continuation of the favourable development on the international stock markets to begin with and a further increase in yields. In the course of the year, there is a risk of the markets weakening, especially if growth in the real economy in the USA does not prove to be sustainable.

All in all, we expect the business year 2004 to be a successful one for the Company.

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 Munich Reinsurance Company's business model. As part of our permeating and systematic risk management, we continually identify and analyse risks, examine what claims burdens we are able and willing to carry, and base our 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 Company by decentralised risk controllers in the operative units, who adjust 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 provided 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 Company 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.

Our risk management system and its further development are examined independently by the Internal Auditing Division 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.

Munich Reinsurance Company 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 Company's size and internationality make a broad diversification of underwriting risks possible. In reinsurance, for example, we achieve a geographical balance of risks over various continents. 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 reinsurance business, for example, correlates to only a small extent with the more volatile classes of property-casualty reinsurance.

For Munich Reinsurance Company, closely gearing its 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 reinsurance the biometric risk, the lapse risk and the interest-guarantee risk are especially relevant.

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.

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. 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 reinsurance, have developed as follows over the last ten years:

Combined ratio	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Including natural catastrophes	93.8	108.3**	127.4*	115.7	120.6	101.9	98.8	97.8	99.9	103.5
Excluding natural catastrophes	92.1	104.8**	126.1*	111.7	107.2	98.9	97.9	97.7	99.0	101.3

* Thereof World Trade Center: 15.9%.
** Thereof World Trade Center: 3.5%.

Risk control measures

Within the Company, 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. As our reinsurance agreements generally provide for clear liability limits, 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. Particularly in property lines, 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 company-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 the Company for such events per loss accumulation zone. The loss scenarios underlying the accumulation budgets are regularly checked by means of scientific analyses.

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 receivables from other companies in reinsurance and asset management business. 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 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 are also referred to and, where necessary, appropriate adjustments are made to the provisions posted.

Finally, a further important risk control measure in the field of underwriting is the cession of a portion of our risks to third parties via external retrocession.

There is appropriate intra-Group and external retrocession cover. The core component of this 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 retrocession or reinsurance 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: 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

3.9% 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 0.1%.

Main investment risks

The fair value of our fixed-interest securities as at 31 December 2003 totalled €16.5bn. This represents 21.2% of the fair value of the Company's investments and thus makes up the largest portion of our investments available for sale and held to maturity.

The risk of changes in interest rates constitutes a significant risk for fixed-interest investments. Falling interest rates result in increases in the fair value of fixed-interest securities, and rising interest rates to reductions in fair 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 Company's investment principles – in the gradings of international rating agencies. The majority of fixed-interest securities in our portfolio in 2003 were issued by governments or banks with excellent ratings or security, e.g. German government bonds, US Treasuries, and mortgage-backed bonds.

The fair value of our equity investments, including participating interests, amounted to €31.5bn as at 31 December 2003. We aim to spread equity risks through systematic diversification in different sectors and regions.

Besides addressing the structure of our equity portfolio, we also took a close look at the share of equities in our overall portfolio in 2003, with the aim of further reducing and flexibilising the proportion of equities held. The Company also made use of derivative financial instruments for hedging purposes.

The Company's portfolio continues to include historically evolved large shareholdings in the HypoVereinsbank Group 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 disengaging further from the Allianz Group and selling our Hypo Real Estate shares. These measures are geared to achieving another decrease in the concentration risk and optimising our portfolio structure from the risk and earnings point of view.

As we write part of our business in foreign currencies, the investments covering the resultant liabilities are subject to currency risks.

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 holdings of the Company 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 fair value of investments sensitive to share prices
Increase of 20%	+€5.168bn
Increase of 10%	+€2.589bn
Fall of 10%	–€2.570bn
Fall of 20%	–€5.149bn
Fair values at 31.12.2003	€25.912bn

Change in interest rates	Change in fair value of investments sensitive to interest rates
Increase of 200 BP	–€2.666bn
Increase of 100 BP	–€1.308bn
Fall of 100 BP	+€1.362bn
Fall of 200 BP	+€2.645bn
Fair values at 31.12.2003	€26.249bn

Change in exchange rates	Change in fair value of investments sensitive to exchange rates
Increase of 10%	+€1.567bn
Fall of 10%	–€1.567bn
Fair values at 31.12.2003	€15.674bn

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

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

Investment principles and risk controlling

In the investment sector, the Company 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 us is sufficient liquidity at all times to cover our obligations from underwriting business, and a targeted diversification in terms of region and type of investment.

The Company's investment strategy is based on asset-liability management, i.e. we consider requirements relating to underwriting, supervisory regulations, accounting, tax, liquidity and currencies.

Besides this, 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.

MEAG, which is entrusted with our asset management, is given a mandate based on uniform criteria established Group-wide. The status of our mandate 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.

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 by the Company, since it practises 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.

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.

Regular watch-lists with critical cases are prepared in order to monitor individual issuers. Thus, as in previous years, our investments were only affected to a very slight extent by defaults in connection with accounting scandals.

Detailed liquidity planning ensures that we 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 Company'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.

Risks in the area of information technology and project risks

Global business and 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.

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 staff attend pertinent training programmes and must comply with directives on information security and data protection.

Dependence 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. When the IT Division moved into its new premises at "Münchner Tor" at the end of January 2004, an enhanced contingency and disaster recovery concept came into effect. This concept makes it possible to limit the restart time for all relevant core systems to a maximum of 48 hours across all locations. In a nutshell, we have distributed all the relevant electronically stored business data and the requisite IT infrastructure between two locations and, if disaster strikes, can be online again without undue delay.

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.

Risks in the human resources sector

We have binding standards of corporate integrity governing conduct within the Company itself, its business transactions and other relationships with external parties. These standards 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 may affect the whole Company. 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 company and as a representative of the insurance industry.

Besides this, on account of our 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 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 Company is not precisely quantifiable at present. We take it that our existing provisions for asbestos-related claims will be the yardstick for the Company'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, and a certain loss potential continues to exist for liability insurance 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 we have posted so far.

Supervisory risks

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

In December 2002, the EU adopted a directive regarding solvency requirements. Once this directive is implemented in Germany, the Company may face more stringent requirements regarding its capitalisation.

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 our global business activities. Since the FSA uses different criteria to BaFin in evaluating capitalisation, there was a need for clarification between the FSA and the Company last year. On the basis of the present state of the talks, we are convinced that we also meet the FSA's requirements.

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 the Company; we see the Company's situation with regard to risks as controlled and viable.

04

Financial statements

Balance sheet as at 31 December 2003

ASSETS	Notes	T€	T€	T€	T€	Prev. year T€
A. Intangible assets	(1)				156,604	143,303
B. Investments	(2, 3)					
I. Real estate				1,049,044		1,067,853
II. Investments in affiliated enterprises and participations*						
1. Shares in affiliated enterprises			11,822,848			11,280,014
2. Loans to affiliated enterprises			1,252,192			1,412,517
3. Participations			1,789,695			3,681,847
4. Loans to participations			72,328			62,672
				14,937,063		16,437,050
III. Other investments						
1. Shares, investment fund certificates and other non-fixed-interest securities			12,919,695			9,571,528
2. Bearer bonds and other fixed-interest securities			16,189,399			7,698,849
3. Mortgage loans			10,980			12,152
4. Other loans						
a) Registered bonds		4,030				3,539
b) Loans and promissory notes		5,304				6,304
c) Miscellaneous		177				222
			9,511			10,065
5. Deposits with banks			298,571			370,197
6. Miscellaneous investments			52,163			73,195
				29,480,319		17,735,986
IV. Deposits retained on assumed reinsurance business				25,426,262		22,714,482
					70,892,688	57,955,371
C. Receivables						
I. Accounts receivable on reinsurance business Thereof from – affiliated enterprises: T€1,122,925 (782,704) – participations: T€5,968 (3,191)				2,541,669		2,518,588
II. Other receivables Thereof from – affiliated enterprises: T€180,447 (254,877) – participations: T€382 (9,047)				655,433		638,436
					3,197,102	3,157,024

* Companies in which a participating interest is held.

	Notes	T€	T€	T€	T€	Prev. year T€
D. Other assets						
I. Tangible assets and inventories				48,274		48,007
II. Cash at bank in current accounts, cheques and cash in hand				137,298		169,777
III. Own shares				150		177
					185,722	217,961
E. Deferred taxes					379,407	336,148
F. Other deferred items	(4)					
I. Accrued interest and rent				309,039		119,356
II. Miscellaneous deferred items				2,132		2,076
					311,171	121,432
Total assets					75,122,694	61,931,239

EQUITY AND LIABILITIES	Notes	T€	T€	T€	Prev. year T€
A. Shareholders' equity	(5)				
I. Issued capital			587,725		457,388
II. Capital reserve			6,832,037		2,989,918
III. Revenue reserves			3,668,734		2,364,708
IV. Balance sheet profit			286,975		1,303,081
				11,375,471	7,115,095
B. Special reserve	(6)			0	175,033
C. Underwriting provisions	(7)				
I. Unearned premiums					
1. Gross amount		4,433,106			3,927,764
2. Less for retroceded business		211,734			227,297
			4,221,372		3,700,467
II. Provision for future policy benefits					
1. Gross amount		20,727,448			19,003,044
2. Less for retroceded business		1,962,358			1,893,802
			18,765,090		17,109,242
III. Provision for outstanding claims					
1. Gross amount		23,113,239			22,935,279
2. Less for retroceded business		1,525,290			2,101,009
			21,587,949		20,834,270
IV. Provision for premium refunds					
1. Gross amount		16,065			21,693
2. Less for retroceded business		1,535			6,388
			14,530		15,305
V. Claims equalisation provision and similar provisions			6,881,203		4,127,728
VI. Other underwriting provisions					
1. Gross amount		636,364			313,803
2. Less for retroceded business		7,412			9,712
			628,952		304,091
				52,099,096	46,091,103

EQUITY AND LIABILITIES	Notes	T€	T€	T€	Prev. year T€
D. Other accrued liabilities	(8)				
I. Provisions for employees' pensions and similar commitments			301,012		282,881
II. Provisions for tax			834,720		803,328
III. Miscellaneous			503,345		453,001
				1,639,077	1,539,210
E. Deposits retained on retroceded business				2,183,499	2,227,724
F. Other liabilities					
I. Accounts payable on reinsurance business Thereof to – affiliated enterprises: T€188,146 (182,798) – participations: T€2,181 (150,221)			1,592,527		2,142,867
II. Notes and debentures	(9)		1,218,905		1,198,934
III. Amounts owed to banks	(10)		650,198		636,594
IV. Miscellaneous liabilities Thereof towards – affiliated enterprises: T€3,678,083 (530,496) – participations: T€0 (27,079) Thereof from taxes: T€3,693 (4,146) Thereof for social security: T€3,840 (3,567)	(11)		4,360,298		803,708
				7,821,928	4,782,103
G. Deferred items	(12)			3,623	971
Total equity and liabilities				75,122,694	61,931,239

Income statement for the business year 2003

ITEMS	Notes	T€	T€	T€	Prev. year T€
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written		21,747,736			21,857,190
b) Retroceded premiums		1,440,599			1,493,536
			20,307,137		20,363,654
c) Change in gross unearned premiums		–832,320			–934,836
d) Change in retroceded share of unearned premiums		–12,352			–2,198
			–844,672		–937,034
				19,462,465	19,426,620
2. Interest on underwriting provisions for own account	(14)			894,358	1,018,197
3. Other underwriting income for own account				3,567	1,768
4. Claims incurred for own account					
a) Claims paid					
aa) Gross amount		11,839,156			11,724,994
ab) Retroceded amount		1,127,980			1,078,335
			10,711,176		10,646,659
b) Change in provision for outstanding claims					
ba) Gross amount		2,166,311			3,992,390
bb) Retroceded amount		–424,540			–166,498
			2,590,851		4,158,888
				13,302,027	14,805,547
5. Change in other underwriting provisions for own account					
a) Net provision for future policy benefits			–156,433		–769,774
b) Other net underwriting provisions			44,843		130,900
				–111,590	–638,874
6. Expenses for premium refunds for own account				9,597	509
7. Operating expenses for own account	(15)				
a) Gross operating expenses			6,051,052		6,341,239
b) Less commission received on retroceded business			268,395		320,158
				5,782,657	6,021,081
8. Other underwriting expenses for own account				23,922	19,299
9. Subtotal				1,130,597	–1,038,725
10. Change in claims equalisation provision and similar provisions				–2,877,794	–1,490,515
11. Underwriting result for own account	(13)			–1,747,197	–2,529,240

	Notes	T€	T€	T€	T€	Prev. year T€
II. Non-technical account						
1. Investment income	(16, 18)					
a) Dividends from participations			4,155,103			290,631
Thereof from affiliated enterprises: T€4,122,983 (132,094)						
b) Income from other investments						
Thereof from affiliated enterprises: T€375,345 (397,435)						
ba) Rents from real estate		159,004				157,988
bb) Income from other investments		1,971,097				2,614,067
			2,130,101			2,772,055
c) Income from write-ups			297,200			125,542
d) Realised gains on investments			1,326,748			9,159,537
e) Income from profit-transfer agreements			49,151			0
f) Income from reduction of special reserve			175,183			32,384
				8,133,486		12,380,149
2. Investment expenses	(15, 17, 18)					
a) Expenses for the management of investments, interest paid and other expenses for investments			141,940			138,502
b) Writedowns on investments			504,392			4,886,786
c) Realised losses on investments			212,532			429,436
d) Expenses from loss transfers			3,678,757			0
e) Allocations to special reserve			0			58,444
				4,537,621		5,513,168
				3,595,865		6,866,981
3. Interest income on underwriting provisions				981,302		1,112,870
					2,614,563	5,754,111
4. Other income					261,856	146,262
5. Other expenses					605,217	399,642
6. Operating result before tax					524,005	2,971,491
7. Taxes on profit and income				7,601		360,728
8. Other taxes				5,570		4,945
					13,171	365,673
9. Profit for the year					510,834	2,605,818
10. Profit brought forward from previous year					420	172
11. Transfer to revenue reserves					224,279	1,302,909
12. Balance sheet profit					286,975	1,303,081

Notes to the financial statements

The financial statements have been prepared on the basis of German accounting regulations (German Commercial Code).

Accounting and valuation methods

Basic principle

The assets and liabilities shown in the company financial statements are included and valued uniformly according to conservative principles.

Intangible assets

Intangible assets are valued at the acquisition cost less admissible straight-line depreciations.

Investments

Our real estate is valued at the acquisition or construction cost less depreciations admissible under German tax law. The whole portfolio was revalued at the balance sheet date. The useful economic life of the items concerned ranges from 25 to 50 years.

Shareholdings in affiliated enterprises and other participations are generally valued at the acquisition cost; necessary writedowns are made.

Loans to affiliated enterprises and to companies in which participations are held, mortgage loans, registered bonds, and loans and promissory notes are generally included in the balance sheet at their nominal values. An exception are bearer papers and zero bonds issued to affiliated enterprises and participations, which are accounted for at amortised cost in the items "loans to affiliated enterprises" and "loans to participations"; in the case of inclusion at the nominal values, the relevant premiums and discounts are shown as deferred items and placed to account pro rata temporis.

Shares, investment fund certificates, bearer bonds, fixed-interest and non-fixed-interest securities, and other investments are valued at acquisition cost or at the market price at the balance sheet date, whichever is the lower. Investments with participating interests have been valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for under Section 341 b of the Germany Commercial Code.

Lower valuations from previous years are maintained for our investments if the impairment in value is probably permanent. Where the market value at the balance sheet date was higher than the previous year's valuation, we have written back the value to the acquisition cost or the amortised cost.

Receivables

Deposits retained on assumed reinsurance business, amounts receivable on reinsurance business and other receivables are included at the nominal values; all necessary adjustments of value are made.

Other assets

Inventories are valued at acquisition cost. Office furniture and equipment is valued at acquisition cost less admissible depreciations. The purchase price of assets classifying as low-value goods is fully written off in the year of acquisition. Own shares are valued at acquisition cost or market value, whichever is the lower.

Deferred taxes

Deferred taxes result from temporary differences between financial statement valuations and valuations prescribed for determining taxable income. For foreign branches, deferred taxes are posted for differences between commercial and tax valuations and for tax loss carry-forwards.

Underwriting provisions

The underwriting provisions are calculated in accordance with the requirements of German commercial law. In all cases we have taken into account the necessity of ensuring that our obligations from reinsurance business can always be met.

Provisions for unearned premiums have been calculated in accordance with the principles of German commercial law, partly on the basis of information received from our ceding companies and partly using nominal percentages. Where unearned premiums are calculated using such percentages, these are based on many years of experience and the latest knowledge we have.

The provision for future policy benefits and the provision for outstanding claims have generally been set up in accordance with the amounts reported to us by our ceding companies; in all cases where these amounts do not appear adequate to us in the light of our experience and our assessment of the situation, we have increased them accordingly. Sufficient provisions, calculated using actuarial methods, have been posted for losses that have been incurred but not yet reported.

The item “claims equalisation provision and similar provisions” contains the amounts required in accordance with commercial law to mitigate fluctuations in claims experience in future years, plus the provisions for major risks and natural hazards.

The “other underwriting provisions” mainly comprise provisions for profit commission and the provision for anticipated losses. Provisions for anticipated losses are posted if, in a reinsurance portfolio, the future premiums plus the proportionate investment result will probably not be sufficient to cover the expected claims and costs.

Underwriting provisions apportionable to the business retroceded by us have been calculated in accordance with the terms of the retrocession agreements.

Other accrued liabilities

In calculating the provisions for employees’ pensions, we have followed the IAS approach, taking into account future increases in pensions and salaries and measuring these using an actuarial interest rate of 5.4%. The other provisions are posted in accordance with the probable requirements.

Liabilities

The deposits retained on retroceded business, the accounts payable on reinsurance business, the amounts owed to banks and the other liabilities are stated at the amount repayable.

Foreign currency translation

All business transactions are generally booked in the respective original currencies. For the balance sheet, foreign currencies have been translated using the respective year-end exchange rates. In the income statement, moving average exchange rates are used.

Realised exchange gains and realised and unrealised exchange losses are included under “other income” and “other expenses” respectively; unrealised exchange gains are neutralised through the formation of an appropriate provision.

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	**31.12.2003**	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	**135.17900**	124.53200	**131.04000**	118.12800

Notes to the balance sheet – Assets

The intangible assets and investments developed as follows in the year under review:

	Carrying amount 31.12.2002 T€	Currency translation effects T€	Additions T€	Disposals T€	Apprecia-tion T€	Deprecia-tion T€	**Carrying amount 31.12.2003 T€**
(1) **Intangible assets**	143,303		60,985	–6,000	33	–41,717	**156,604**
(2) **Investments**							
Real estate	1,067,853		177,584	–5,197		–191,196	**1,049,044**
Investments in affiliated enterprises and participations							
– Shares in affiliated enterprises	11,280,014	23	3,033,011	–2,430,462	1,880	–61,618	**11,822,848**
– Loans to affiliated enterprises	1,412,517	–192,303	139,558	–107,580			**1,252,192**
– Participations	3,681,847	–1,235	257,850	–2,123,101	460	–26,126	**1,789,695**
– Loans to participations	62,672	–8,007	69,533	–51,870			**72,328**
	16,437,050	**–201,522**	**3,499,952**	**–4,713,013**	**2,340**	**–87,744**	**14,937,063**
Other investments							
– Shares, investment fund certificates and other non-fixed-interest securities	9,571,528	–843,854	5,339,559	–1,363,852	264,147	–47,833	**12 919 695**
– Bearer bonds and other fixed-interest securities	7,698,849	–460,498	17,020,093	–7,934,845	3,201	–137,401	**16,189,399**
– Mortgage loans	12,152		1,869	–3,041			**10,980**
– Other loans							
– Registered bonds	3,539	61	430				**4,030**
– Loans and promissory notes	6,304		350	–1,350			**5,304**
– Miscellaneous	222	–38		–7			**177**
– Deposits with banks	370,197	–27,984		–43,642			**298,571**
– Miscellaneous investments	73,195			–2,715	17,570	–35,887	**52,163**
	17,735,986	**–1,332,313**	**22,362,301**	**–9,349,452**	**284,918**	**–221,121**	**29,480,319**
Total investments (2)	**35,240,889**	**–1,533,835**	**26,039,837**	**–14,067,662**	**287,258**	**–500,061**	**45,466,426**

In the business year 2003 the appreciation and depreciation in investments have been shown at year-end exchange rates, whereas in the income statement they have been calculated using average exchange rates.

The intangible assets consist mainly of purchased insurance portfolios, renewal rights in respect of insurance portfolios, and software.

The carrying amount of self-occupied real estate totals T€264,380 (263,573).

Shares in affiliated enterprises and participations involve those shareholdings that make up more than 20% of the share capital of the respective company, as well as our shareholdings in limited liability companies.

The substantial increase in bearer bonds and other fixed-interest securities is mainly due to the addition of liquid funds from the capital increase and the subordinated bonds issue.

The item "miscellaneous investments" is largely made up of swaptions, concluded to hedge against a risk of changes in interest rates assumed in underwriting.

Of our total investments (excluding deposits retained on assumed reinsurance business) with a carrying amount of T€45,466,426 (35,240,889), an amount of T€4,362,458 (3,436,455) is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us. In addition, investments of €324m are subject to a restraint on disposal and have been transferred to the custody of a trustee solely to safeguard pension commitments.

Derivative financial products continue to be used only for hedging purposes in respect of parts of the portfolio, for optimising earnings and for implementing planned purchases and sales. For this, strict rules apply as regards the limitation of risks in terms of volume and the choice of top-quality business partners. Adherence to these rules is continually monitored. In relation to the balance sheet total, the volume of open positions at the balance sheet date and all the transactions concluded in the period under review was negligible.

Valuation reserves			31.12.2003
	Fair value T€	Carrying amount T€	Valuation reserves T€
Real estate	2,856,708	1,049,044	1,807,664
Equity investments	31,461,173	26,532,238	4,928,935
Fixed-interest securities	16,482,372	16,198,954	283,418
Total	50,800,253	43,780,236	7,020,017

For the fair values of real estate, the capitalised earnings value is generally used; new buildings are valued at cost at the balance sheet date. Equity investments consist of shares, investment fund certificates and shareholdings in affiliated enterprises and other participations. Where the companies concerned are listed on the stock market, the share price at the balance sheet date is used; if no share prices are available, we calculate the capitalised earnings value. In the case of new acquisitions, we use the acquisition cost. The fair value of fixed-interest securities is determined on the basis of the stock market price at the balance sheet date.

(3) List of shareholdings

The information to be disclosed in accordance with Section 285 item 11 of the German Commercial Code is filed with the commercial registry in Munich.

(4) Other deferred items

This item includes differences totalling T€0 (1) arising from the posting of loans in the balance sheet at nominal values.

Notes to the balance sheet – Equity and liabilities

(5) 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 substantially increased by €130,337,141.76 from €457,388,254.72 to €587,725,396.48 through a rights 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.

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 is thus as follows:

All figures in €m	31.12.2002
Authorised Capital Increase 2002 (until 17 July 2007)	89.7
Authorised Capital Increase 2001 (until 18 July 2006)	3.8
Total	**93.5**

The capital reserve increased by €3,842m to €6,832m.

€224m from the profit for the year 2003 has been allocated to the revenue reserves, which contain a reserve for own shares amounting to T€150.

The balance sheet profit for the business year includes a profit of T€420 carried forward from the previous year.

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.

There were 1,559 own shares in Munich Re's portfolio and 286,592 in the portfolio of a subsidiary in the business year 2003. The calculated nominal value of these 288,151 own shares is €737,666.56, representing 0.13% of Munich Re's share capital.

In the business year 2003, the companies of the ERGO Insurance Group acquired 143,146 Munich Re shares to safeguard future obligations from the long-term incentive plan set up at 1 July 2003. 127,249 of these shares were acquired at an average price of €97.13 per share and 15,897 at €95.45 per share. Including the 46,912 Munich Re shares from the previous year still in their portfolio, the companies of the ERGO Insurance Group thus held a total of 190,058 Munich Re shares with a calculated nominal value of €486,548.48 at the end of the business year, representing 0.08% of Munich Re's share capital.

In addition, Europäische Reiseversicherung AG acquired 1,000 Munich Re shares, also to safeguard future obligations from the long-term incentive plan it set up in 2003, at a price of €99.25 per share with a calculated nominal value of €2,560, representing 0.0004% of Munich Re's share capital.

(6) Special reserve

The special reserve, originally posted as per Sections 6 b and 52 para. 16 of the German Income Tax Act, was completely reversed in the year under review.

(7) Underwriting provisions

Broken down by class of business, the net underwriting funds and provisions are as follows (in €m):

	Unearned premiums	Provision for future policy benefits	Claims provision	Claims equalisation provision	Other provisions	**Total**	**Reserves as % of net premiums**
Life	1,024	17,307	838	1	404	**19,574**	**427**
Health	140	823	308	–	32	**1,303**	**101**
Personal accident	156	636	1,050	–	32	**1,874**	**191**
Liability	461	–	7,254	1,965	12	**9,692**	**368**
Motor	431	–	4,502	716	36	**5,686**	**222**
Marine	195	–	905	161	5	**1,266**	**160**
Aviation	163	–	610	578	–	**1,351**	**194**
Fire	791	–	3,540	2,339	103	**6,773**	**178**
Engineering	466	–	1,588	537	2	**2,593**	**214**
Other classes	394	–	993	584	17	**1,988**	**114**
Non-life combined	3,197	1,459	20,750	6,880	239	**32,525**	**207**
Total	4,221	18,766	21,588	6,881	643	**52,099**	**257**

The claims equalisation provision and similar provisions break down as follows:

	31.12.2003 T€	Prev. year T€
Claims equalisation provision	**5,285,606**	2,659,605
Provision for major risks	**235,108**	221,385
– For nuclear facilities	**60,689**	56,189
– For pharmaceutical products liability	**55,117**	50,046
– For terrorism risks	**119,302**	115,150
Provisions for natural hazards	**1,360,489**	1,246,738
Total	**6,881,203**	4,127,728

The previous year's provision for anticipated losses of T€26,200 was completely reversed in the year under review, owing to the good underwriting results.

(8) Other accrued liabilities

We have agreed to pay pensions to nearly all our staff and their surviving dependants. These commitments are to be met partly by the company itself and partly by the "Versorgungskasse der Angestellten der Münchener Rückversicherungs-Gesellschaft", the Munich Re staff pension fund.

There are pension provisions of T€47,808 (37,530) for former members of the Board of Management or their surviving dependants.

The miscellaneous other provisions include, in particular, provisions of T€336,407 for currency risks and T€71,331 for personnel expenses not yet due at the balance sheet date.

(9) Notes and debentures

In June 2000 the Munich Reinsurance Company issued exchangeable bonds on Allianz shares. Creditors are entitled to convert each of their exchangeable bonds into Allianz shares with an equivalent value of €460.97 (509.44) per share. The conversion price was reduced as a result of the capital increase carried out by Allianz AG in 2003. The annual coupon payment is 1% on the face value. If the bonds are not converted by investors beforehand, they will be redeemed on 9 June 2005 at 108.5629% of the face value; the creditors' annual gross yield will then amount to 2.625%.

(10) Amounts owed to banks

Liabilities with a remaining term of more than five years total T€122,703.

(11) Miscellaneous liabilities

The marked increase derives from a liability towards Munich Re Finance B.V., Amsterdam, which issued two subordinated bonds with a volume of €3.4bn. These own funds were made available to the Company via two loan agreements. The sum of the liabilities secured by mortgages is T€128 (135).

(12) Deferred items

This item includes differences totalling T€0 (1) arising from the posting of loans in the balance sheet at nominal values.

Notes to the income statement

(13) Reinsurance underwriting result by class of business in €m

	Gross premiums written		Underwriting result		Change in claims equalisation provisions		Combined ratio in %	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Life	**5,164**	4,782	**192**	87	**–1**	–	**–**	–
Health	**1,341**	1,110	**43**	–28	**–**	–	**96.3**	102.6
Personal accident	**999**	935	**–17**	–29	**–**	–	**101.5**	104.0
Liability	**2,700**	3,074	**–122**	–765	**–920**	–458	**104.7**	127.6
Motor	**2,693**	2,734	**–142**	11	**–137**	–342	**105.8**	100.9
Marine	**823**	821	**75**	–152	**–160**	–	**90.6**	122.3
Aviation	**843**	916	**130**	255	**–125**	–478	**77.7**	65.5
Fire	**4,072**	4,422	**706**	–93	**–1,053**	–247	**81.2**	104.8
Engineering	**1,281**	1,313	**109**	42	**–229**	–113	**90.7**	97.3
Other classes	**1,832**	1,750	**157**	–367	**–253**	148	**90.4**	123.4
Non-life combined	**16,584**	17,075	**939**	–1,126	**–2,877**	–1,490	**93.8**	108.3
Total	**21,748**	21,857	**1,131**	–1,039	**–2,878**	–1,490	**–**	–

(14) Interest on underwriting provisions

We have calculated the interest on underwriting provisions in accordance with Section 38 of the German Accounting Regulations for Insurance Companies and – where prescribed there – have transferred it from the non-technical to the technical account.

(15) Personnel expenses

The management expenses include the following personnel expenses:

	2003 T€	Prev. year T€
Wages and salaries	**242,327**	196,921
Social insurance contributions and voluntary assistance	**49,803**	44,039
Expenses for employees' pensions	**21,676**	93,154
Total	**313,806**	334,114

They also include expenses for a long-term incentive plan, which links compensation for the Board of Management and top executives of the Munich Re Group to the performance of Munich Re's share price.

(16) Investment income

The write-ups result from the reversal of no longer appropriate writedowns.

(17) Investment expenses

Of the writedowns on investments, T€218,882 (4,752,227) comprised exceptional depreciations as per Section 253 para. 2 sentence 3 of the German Commercial Code.

Special writedowns of T€165,050 (19,648) were made for tax purposes as per Section 6 b of the German Income Tax Act.

(18) Tax influences on accounting

Writedowns for tax purposes and the reduction of the special reserve as per Sections 6 b and 52 para. 16 of the German Income Tax Act affected the Company's result for the year by T€165,050 and T€175,183 respectively. T€0 (58,444) was allocated to the special reserve.

(19) 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 418,798 (119,608) 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 €5.7m had to be posted for stock appreciation rights.

	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	104,340	–	–	–	–
Additions	–	63,496	–	–	–
Number of rights on 31 December 2000	104,340	63,496	–	–	–
Additions	–	5,946	96,934	–	–
Exercised	31,935	–	–	–	–
Number of rights on 31 December 2001	72,405	69,442	96,934	–	–
Additions	–	–	270	119,338	–
Exercised	2,587	–	–	–	–
Expired	–	321	443	–	–
Number of rights on 31 December 2002	69,818	69,121	96,761	119,338	–
Additions	3,540	3,434	4,923	6,057	400,844
Exercised	–	–	–	–	–
Expired	1,596	1,928	2,298	3,179	–
Number of rights on 31 December 2003	71,762	70,627	99,386	122,216	400,844
Exercisable at year-end	71,762	70,627	99,386	–	–

Other information

(20) Boards of the company, compensation and loans for Board members

The members of the Supervisory Board and the Board of Management are listed on pages 8 f. and 11 of this report.

Taking into account the proposal for the appropriation of the profit, the total emoluments of the members of the Board of Management amounted to T€10,552 (10,016). Of this, T€6,398 (4,900) is apportionable to fixed components, T€4,154 (4,915) to variable components, and T€0 (201) to the exercise of stock appreciation rights granted under the Long-Term Incentive Plan 1999. Details of this plan are provided in Note 19.

Payments to retired members of the Board of Management or their surviving dependants total T€3,323 (3,473).

Taking into account the proposal for the appropriation of the profit, the total emoluments of the members of the Supervisory Board amounted to T€1,356 (1,153). This sum includes emoluments of T€694 (605) dependent on the dividend paid to the shareholders.

The Board members did not receive any advances or loans in the year under review; no contingent liabilities were entered into for their benefit.

(21) 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 KGaA 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

[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).

Supervisory Board	**Seats held on supervisory boards of other German companies**	**Membership of comparable bodies of German and foreign business enterprises**
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 Austria, 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.

* 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 Kapitalanlagegesellschaft 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.

(22) Number of staff

The number of staff employed by the Company in Munich and at its offices abroad in the business year 2003 averaged 3,143 (2,915).

(23) Contingent liabilities, other financial commitments

The Company has given a customary market guarantee, required by supervisory law, for the liabilities of several foreign subsidiaries.

For two foreign subsidiaries, guarantees have been given in connection with a loan obligation of US$ 250m and a rent guarantee of US$ 1m.

Other financial commitments totalling €59m result mainly from various agency agreements concluded by the Company.

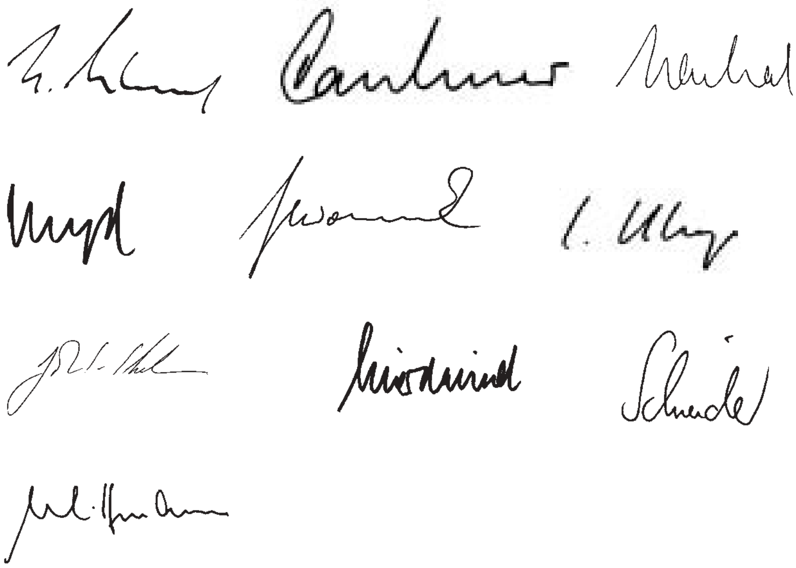
Otherwise, we have entered into no other financial commitments of significance for the assessment of the Company's financial position.

(24) Declaration of compliance with the German Code of Corporate Governance as per 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.

Munich, 26 March 2004

The Board of Management



Auditor's report

The following is a translation of the auditor's opinion in respect of the original German financial statements and management report:

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München for the business year from 1 January 2003 to 31 December 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institute of German Certified Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München in accordance with principles of proper accounting. Altogether, the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Munich, 31 March 2004

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Herbert Loy	Peter Ott
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Proposal for appropriation of profit

The balance sheet profit at the disposal of the Annual General Meeting amounts to €286,975,291.25.

We propose that this balance sheet profit be appropriated as follows: distribution of a dividend of €1.25 on each share entitled to dividend, with the amount apportionable to own shares being carried forward to new account. Up to the Annual General Meeting the number of shares entitled to dividend may decrease or increase through the further acquisition or sale of own shares. In this case, an appropriately modified proposal for the appropriation of the profit, with an unchanged dividend of €1.25 per share entitled to dividend, will be made to the Annual General Meeting.

Munich, 26 March 2004

The Board of Management

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Responsible for content
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