Munich Re Group
Annual Report 2004

Advancing innovation

Münchener Rück
Munich Re Group

125 years
Advancing innovation

The Munich Re Group

Our operations encompass all aspects of risk assumption in primary insurance and reinsurance. We are one of the world's largest reinsurers and the second-largest primary insurer in Germany.

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

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

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

Munich Re Group

Key figures (IFRS)

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**38.1**	40.4	40.0	36.1	31.1
Result before amortisation of goodwill	€m	**2,948**	1,971*	–20*	–445*	2,595*
Taxes on income*	€m	**712**	1,752*	–605*	–1,070*	379*
Minority interests in earnings	€m	**59**	–34	–74	145	321
Profit for the year	€m	**1,833**	–434	288	250	1,750
Investments	€bn	**178.1**	171.9	156.3	162.0	159.4
Return on equity	%	**9.4**	–2.6	1.7	1.2	8.3
Shareholders' equity	€bn	**20.2**	18.9	13.9	19.4	23.6
Valuation reserves not recognised in balance sheet**	€bn	**3.2**	1.8	1.1	16.4	21.9
Net underwriting provisions	€bn	**154.3**	147.5	143.0	138.6	131.5
Staff at 31 December		**40,962**	41,431	41,396	38,317	36,481

*Adjusted after reallocation of "other tax" to "other expenses".
**Including amounts apportionable to minority interests.

Reinsurance*

Key figures (IFRS)

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**22.4**	24.8	25.4	22.2	18.3
Investments	€bn	**81.2**	80.4	68.6	71.0	64.9
Net underwriting provisions	€bn	**58.2**	56.7	55.3	50.8	43.9
Reserve ratio property-casualty	%	**243.8**	205.0	201.1	245.6	225.6
Large and very large losses (net)	€m	**1,201**	1,054	1,844	3,407	1,150
Thereof natural catastrophe losses	€m	**713**	288	577	212	410
Combined ratio non-life	%	**98.9**	96.7	122.4	135.1	115.3

*Before elimination of intra-Group transactions across segments.

Primary insurance*

Key figures (IFRS)

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**17.5**	17.6	16.6	15.7	14.4
Investments	€bn	**115.0**	108.3	104.4	103.6	102.9
Net underwriting provisions	€bn	**96.1**	91.0	88.4	87.4	87.3
Reserve ratio property-casualty	%	**116.8**	114.5	116.3	113.9	113.1
Combined ratio property-casualty	%	**93.0**	96.4	99.9	101.4	97.2

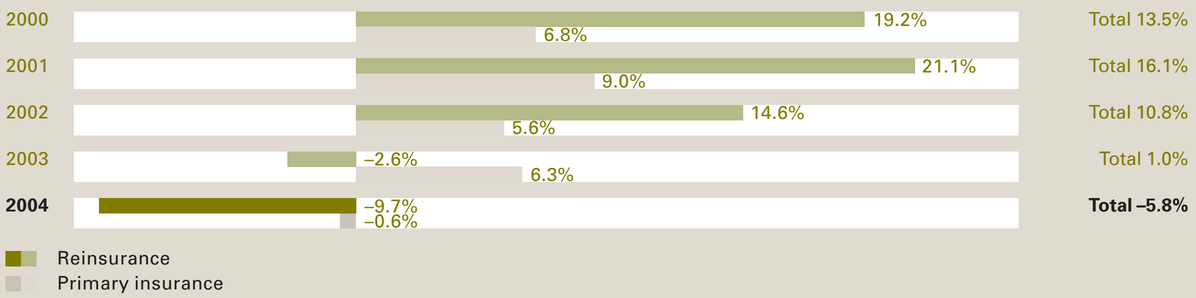
*Before elimination of intra-Group transactions across segments.

Our shares

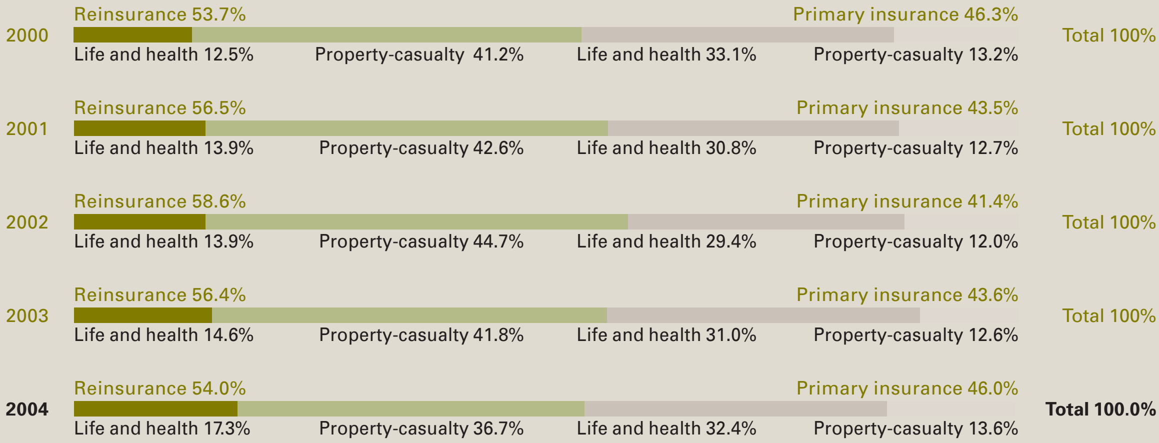
		2004	2003	2002	2001	2000
Earnings per share	€	**8.01**	–2.25	1.54*	1.34*	9.41*
Dividend per share	€	**2.00**	1.25	1.25	1.25	1.25
Amount distributed	€m	**457**	286	223	221	221
Share price at 31 December	€	**90.45**	96.12	114.00	305.00	380.00
Munich Re's market capitalisation at 31 December	€bn	**20.8**	22.1	20.4	54.0	67.2

*Taking into account the capital increase in November 2003.

Premium growth



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



*After elimination of intra-Group transactions across segments.

Reinsurance
Primary insurance

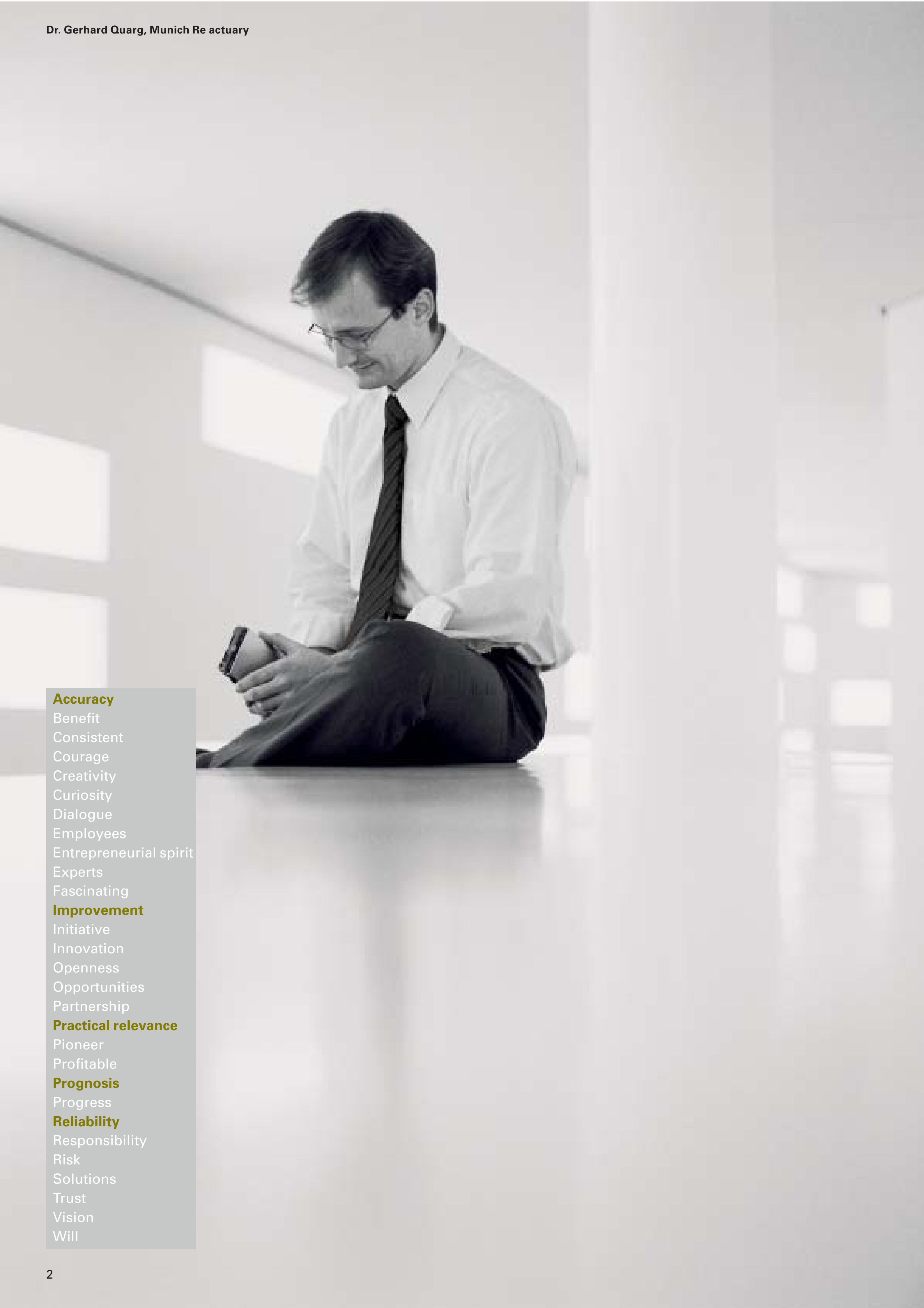
Share of premium income from outside Germany*

*After elimination of intra-Group transactions across segments.

Reinsurance
Primary insurance

Advancing innovation

Progress is accompanied by risks – everywhere, at all times. Munich Re's task is to identify and evaluate these risks and turn them into viable insurance concepts. That is the key to profitable growth. We have therefore launched an innovation offensive. Our initiatives bring movement into the market: be it our involvement in India, our refinement of loss reserve calculations, or our human resources risk management. In this way, we generate successful business and also show social responsibility by partnering technological progress, as in the case of insurance for geological risk. Behind these endeavours are competent and motivated staff, who demonstrate their skills in old and new fields with energy and ideas – advancing innovation.



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Gauß Prize for Dr. Gerhard Quarg

The German Association of Actuaries (DAV) and the German Society for Insurance and Finance Mathematics (DGVFM) have been awarding the Gauß Prize since 1998. Named after Carl Friedrich Gauß, who was outstanding as a scientist in combining theory and practice, the prize recognises achievements in mathematics that are exceptional and, above all, of practical relevance. In 2004 it was awarded to Dr. Gerhard Quarg of Munich Re. His achievement: a marked improvement in loss reserving and rate calculation. The consequence: greater reliability and accuracy of many important prognoses. This work is also a further illustration of how important mathematics is for Munich Re in modelling and anticipating risks.

Prof. Dr. Thomas Mack,
Chief Non-Life Actuary at Munich Re

I can still vividly recall how our mathematics teacher, frustrated by our lack of enthusiasm, came out with this incredible sentence that was more than provocative for us pupils: “Everything can be modelled with figures, even your antipathy to mathematics.“

That hit home. But it was only years later that the best among us were able to grasp the practical dimensions of this bon mot. Of course, emotions are very difficult to capture in figures and formulae. But the field in which we actuaries at Munich Re move is scarcely less complex, our job being to model risks – and thus future scenarios – mathematically. We have made substantial progress in this area, arriving at calculations that are of enormous practical significance. This includes in particular the area of loss reserving, where our actuaries have been active for many years. With the new mathematical model, Munich Chain Ladder, loss reserves can be determined more precisely than before. Dr. Gerhard Quarg was awarded the Gauß Prize for this innovation – to the great delight of us all.

Whilst mathematics has always played an important part in life insurance, it was neglected for a long time in non-life insurance. This was partly because insurers believed errors in premium calculation could be remedied relatively quickly, owing to the short policy periods. It was also because the bases for calculating with higher volatilities had yet to be developed. All this has changed significantly in the last ten years, so that mathematics now plays an indispensable role in non-life insurance as well.

Premium calculation is a classic domain of mathematics, in which new areas of work are constantly emerging for our actuaries. Owing to the global deregulation trend and resultant privatisations, for example, rates and products have to be developed that enable underwriting to be conducted on a reasonably sound basis right from the start. The stronger the competition, the narrower the margins – and the more precise the premium calculations need to be, especially in the case of complex and non-standardised covers. We have created a pricing tool for such individual requirements.

A further area of activity for mathematics came into being with the rapid growth of the stock markets, which promoted the shareholder-value principle and made return on equity the most important key indicator. Since then, one of our tasks has been to calculate the necessary operating equity for our reinsurance portfolio and distribute this in such a way between the individual segments that a risk-commensurate return can be determined for each business segment. We have a sophisticated risk model for this, which incorporates both our underwriting business and our investments. Ultimately, what this amounts to is a model for “steering“ the whole Group. After all, the more accurately we can calculate the steering components, the more precisely we can quantify the profit and loss potential inherent in each segment. Our actuaries’ work thus helps to prepare business policy decisions quantitatively.

Closely linked to this is an extremely important aspect which has grown in significance, not least owing to globalisation: the progressive tightening of accounting and solvency requirements. These demand a more realistic evaluation of assets and liabilities, for which loss reserves – and here we are back with Mr. Quarg’s topic – need to be accurately projected.

In a nutshell: Premium calculations, value-based management and risk management – all of these require mathematics.

More accurate ultimate loss projections with Munich Chain Ladder

Two different data sets are commonly used for calculating loss reserves: on the one hand, data from the development of paid losses and, on the other, data that reflects the development of losses incurred, i.e. the sum of paid losses and case reserves. Ideally, the results of the two calculations should tally. In practice, however, they are nearly always different. It is therefore difficult to decide which of the two ultimate loss projections is likely to be the more accurate. Especially in liability business, with its long run-off periods, this is a major problem. Gerhard Quarg therefore looked into whether correlations between the two data sets could be found that would pave the way for a new, more reliable calculation system. He found them by working out a third approach involving parameters from old, fully settled accident years in which the values of the paid-loss and incurred-loss data converged. He used this to link the two previously separate calculation methods with each other. Thus the chain ladder method became the Munich Chain Ladder method. With this model, it is possible to refine reserving procedures to such an extent that the uncertainty they always entail can be reduced in many instances – a significant improvement in loss reserving and rate calculation, also for our clients to whom we make the new calculation method available.

Head of Munich Re's central mathematics team for many years: Prof. Dr. Thomas Mack.

Innovation for profitable growth

"In advanced modernity, the social production of wealth is systematically accompanied by the social production of risks." This opening sentence from Ulrich Beck's "Risk Society"* is one of the foundations of Munich Re's business. Progress is not possible without innovation, and this cannot be had without certain risks. Rendering these imponderables calculable for investors and thus making innovation more likely – this is Munich Re's contribution to progress. We have come a long way with this approach: with virtues like entrepreneurial spirit, openness, curiosity and the declared will to find innovative solutions to problems. More? To follow.

* Ulrich Beck, *Risikogesellschaft. Auf dem Weg in eine andere Moderne* (Frankfurt a. M.: Suhrkamp 1986), translated into English as *Risk society: Towards a new modernity.*

Dr. Tanja Hujber, Innovative Solutions Asia, Australasia, Africa

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Dr. Torsten Jeworrek, member of Munich Re's Board of Management

Munich Re practises joined-up thinking to an extent unmatched by most other companies, can draw on a wealth of knowledge, and has the world's leading risk models: an excellent starting position for profitable growth, which we aim to achieve above all through sustainable innovations.

For us, "innovation" means devising a solution that is needed and new for the market. As reinsurers, we thus develop vital new earnings potentials. This does not happen of its own accord, but as a result of initiative, self-criticism, creativity, entrepreneurial thinking and dialogue with our clients.

The message is clear: We want to meet the needs of our clients even more flexibly, to differentiate ourselves clearly from our competitors and thus forge long-term ties with our clients.

We have understood the need to sharpen our "hunting instinct" further and have made innovation – one of Munich Re's old strengths – a central topic. The objective is an omnipresent, creative and productive restlessness that courageously tackles new issues but is also able to recognise misdevelopments quickly and to stop projects without hesitation if necessary. After all, the relationship between risk and opportunity must be right.

Our innovation teams have an important part to play here. They are made up of highly qualified staff with a broad knowledge profile who work together with the operative units to identify and develop new fields of business, create new products and optimise our services and distribution channels. As they operate on a cross-divisional basis, they have the benefit of a broader perspective. They can approach the various topics from different angles and give new answers to new questions, not least because they incorporate experience from other areas and so initiate synergy effects. In short, the innovation teams function as catalysts that can stimulate fruitful developments within Munich Re and open up new sources of earnings.

Innovation – Part of Munich Re for over 100 years

At the beginning of the industrial era, the question arose of how the risks that inevitably accompanied progress could be limited and distributed in such a way that they would not hinder the modernisation process. What needed to be tamed above all were the unusually powerful and dangerous forces of steam engines and boilers. As far back as 1859, the Boiler Assurance Company was set up, with the aim not only of preventing accidents by means of inspections but also of offering insurance cover for property damage and bodily injury. Thus began the history of engineering insurance, which in the wake of industrialisation also spread from the UK and the USA to Germany.

At the end of the 19th century, Munich Re – still a young company – devised a completely new concept for machinery insurance. In contrast to fire insurance, which only indemnified losses resulting from named perils, machinery insurance was conceived as an all-risks cover – an innovative product that was rapidly expanded and soon offered for machines in nearly all sectors. Success was forthcoming: machinery insurance was soon being marketed in Austria, Hungary, Italy, the Netherlands and overseas as well. Munich Re developed further new products like loss of business insurance in 1910 (which anticipated the basic features of machinery loss of profits insurance) or erection all risks insurance (providing cover for the construction of technical facilities). Ever since that time, Munich Re has been partnering technological development and setting standards with its products, right up to the present “information age”.

Munich Re has also taken innovative paths in life insurance, especially in the field of so-called substandard risks. In 1916, for example, it set up the Research and Service Department for Medically Substandard Risks, which gave many companies in Germany and abroad the chance to offer insurance cover to groups of people who had previously been considered uninsurable. This actually involved around 40% of applications. Heart attacks, mental diseases, hernias or bronchial tuberculosis, a disease still very common at the time, were no longer grounds for exclusion. Besides this, it introduced a new rating system that no longer simply added together individual impairments but considered an applicant’s overall medical condition. This approach, together with medical progress, has meanwhile led to a situation where a good 98% of life insurance applications can be accepted. The evaluation system initiated by Munich Re has been continually refined and is used throughout the world as a rating aid. Given the constant acceleration in medical advances, the rating basis is reviewed at ever-shorter intervals. Most of the rating aids are long since available as internet-based services, which offer clients the latest knowledge on a constantly updated basis.

Dr. Torsten Jeworrek, Board member responsible for the Special and Financial Risks Division, which coordinates Munich Re’s innovation teams.

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A pioneer in growth markets

If you want to open up opportunities in new fields of business, you have to do adopt a pioneering approach. This requires courage, the willingness to run a certain amount of risk, perseverance and above all a clear vision. Such as when Munich Re helps to create parameters for the insurance of risks in new markets. For the fact is, we do not want to start doing business until there is a reasonable framework that makes the underlying risks controllable. A strategy that prepares the ground for our business. This gives rise to major opportunities and competitive advantages. For as a pioneer, Munich Re grows with the developing market, gaining experience and building up trust, relationships and partnerships right from the start – with investment that remains within manageable bounds. As in India.

Dr. Nayan Shah, Partner and Executive Manager of Paramount Health Care Management, Mumbai

I remember it well. It was in Mumbai in September 1999. I was sitting in the office of my X-ray institute. Mr. Weber of Munich Re came in – and had to be careful not to bang his head on the ceiling. That might have become our first joint claims case. It was quickly evident that we shared the same vision: the development of a professional management system for Indian health insurance business. In India there are around 250 million potential insurance clients who can afford private health insurance cover. But only 4% of them have health insurance at present. What potential! Since data is lacking and there are no uniform standards for cooperation between medical providers, these opportunities could not be exploited up to now. Patients themselves are hardest hit: they are left to fend for themselves financially and cannot influence the quality of services. What we urgently needed was a constructive intermediary role between insurers, patients and healthcare providers, someone who could assess and manage the benefits and the related risks professionally so that trust is engendered among all concerned. With strong backing from Munich Re, Paramount has managed to fill this role – and with considerable success. Of the original total of 23 licensed Third Party Administrators (TPAs), only three to four have respectable volume, and Paramount is today considered number one in the market. It lists among its clients all four state companies and six of the seven private insurers and enjoys an excellent reputation. Whereas to begin with we had 30 staff at our head office in Mumbai, today we have over 780 in more than 20 branch offices all over India, including more than 100 excellently trained doctors; with 200,000 claims cases a year, they manage a volume of some US$ 65m. Anyone familiar with the Indian market knows that this is only the beginning.

Profiting from flourishing markets – The example of India

One billion people, an economic system that is in the process of opening up, a flourishing national economy and one of the most important growth markets – that, too, is India. Owing to the demographic trends, the strongly expanding middle class and the low insurance penetration, growth potential is especially great in health insurance. However, we can and will only carry risk when we enter a market if the parameters allow control of the related risks and thus profitable business. Our involvement is therefore geared to building up the first nationwide administration and management services in India for health insurance. That is something the insurance companies cannot fully achieve themselves because in some cases their know-how and technical tools are not extensive enough or because their business volume does not make it worthwhile.

With Paramount, we already manage and administer two million insureds, and thus a considerable claims volume. As a result, we are acquiring an increasingly strong negotiating position with medical providers. Thanks to our business volume and know-how, we are able to negotiate discounts, to make treatments more transparent, to prevent manipulations in the settlement of accounts, and to trigger improvements in quality in the healthcare sector. We consequently offer our clients further added value, which they could not attain on their own. Increasing co-operation additionally gives rise to trust and confidence, also with the medical providers – to our mutual benefit. The hospitals and their investors recognise the growing demand potential. Their capacity is better utilised and the increasing revenue streams from the private sector create more financial stability.

We can also use the experience gained from this interaction, plus the information and data we gather, for the optimum design and pricing of insurance products. With such an integrated approach, our insurance company clients enjoy a broad range of valuable services which are key success factors in carrying risk – be it as an insurer or a reinsurer.

Paramount has become a hallmark of quality, and significant efforts are being made to further improve standards in the market. It will enjoy an above-average share of India's growing insurance market and will be able to transfer its experience to other fields of business: in the case of medical examination services, for example, or in risk assessment for health and life insurance, in emergency medical assistance for travellers (in cooperation with Munich Re's subsidiaries Mercur Assistance and Euroalarm) and in business process outsourcing, initially for our own Group companies – a new, innovative field of business that we can extend to external clients as well.



Horst Weber and Dr. Nayan Shah, both pleased about the development of service company Paramount.

New energy

Climate change and its dramatic effects can no longer be denied. Munich Re considers it has a duty to play an active part in creating ecologically oriented, innovative solutions. This serves our business and helps preserve the environment for coming generations as well. Creativity is now called for, sound prognoses and international dialogue with experts – on the subject of renewable energy, for example, which has inherent economic potential as well as being ecologically significant. How deep Munich Re's knowledge goes is shown by the insurance for geological risk we provided for geothermal drilling, thus paving the way for future-oriented projects and accepting social responsibility.

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Questions to Prof. Dr. Fritz Vahrenholt, Chairman of the Board of Management of REpower Systems AG, a leading manufacturer of wind power plants, and member of the German Council for Sustainable Development.

Professor Vahrenholt, you are quoted as saying "We have to solve three important problems in the 21st century: first the energy question, second the energy question and third the energy question." What makes the energy question so important?
Vahrenholt: For me, there are three driving factors. The first is scarcity. We are about to experience an enormous hunger for energy – just think of developments in China, India or Brazil. Affluence is growing there, as are the populations. At the same time, oil production will reach its peak in the next 15 to 20 years. You'll buy your next-but-one car in the oil crisis! The second driving factor is dependency. In the OECD states, we are reliant on politically unstable regions where 70% of the oil reserves are to be found. The third factor is the climate. We have already reached a position where we can only curb the force of climate change, not prevent it. If we need more energy, it will have to be sustainable. Whoever solves the energy question also answers all the important questions of the future, such as those relating to drinking water and food, because you need sustainable energy for all of them.

The key thing is to reduce carbon dioxide emissions. For that, major investments in renewable energy are necessary. What are the most important steps?
Vahrenholt: Given the scarcity of resources and the growing demand, large investments are essential. What we need is sufficient CO_2-free energy. At present, all forms of renewable energy are more expensive than the classic forms. We need to get them to where they have the biggest chance of being competitive – technically and regionally. Every new form of energy takes 30 years to become competitive. With the renewables, we have only five to ten years behind us; in ten to 20 years, they will be the cheap forms of energy in the power mix. All nations and firms that are far-sighted and invest in renewable energy today will have an unassailable lead in ten years' time.

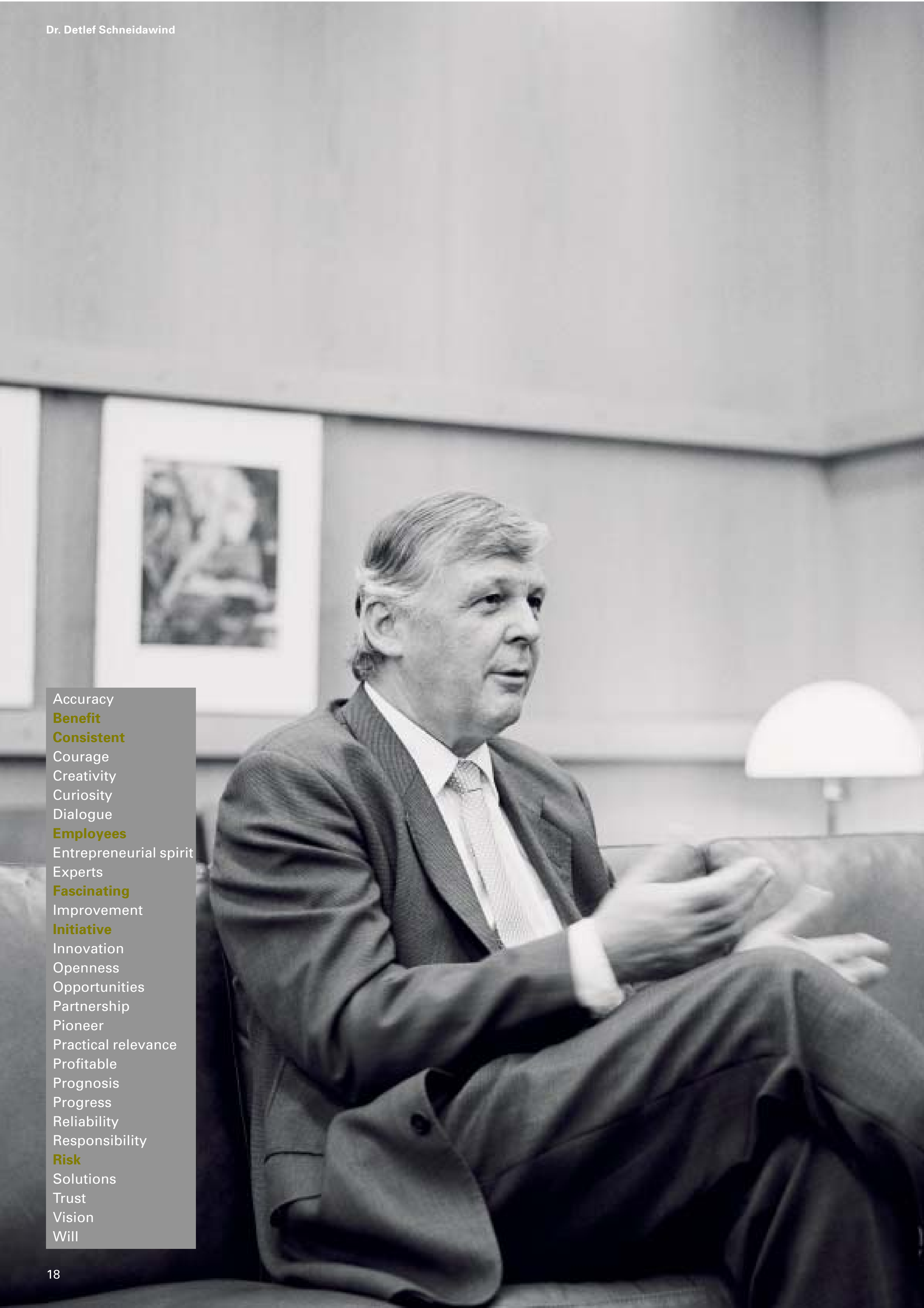
What contribution can insurers make?
Vahrenholt: If we don't run any risks, we won't have any chance of solving the huge problems of the future. Insurers can help to carry the risks. For this, we need companies like Munich Re which have the knowledge to recognise the role of renewable energies and, in their own interests, share the climate-policy perspective of those who are breaking new ground in this field.

Enjoying their work – Munich Re experts handling insurance for geological risk: Dr. Thomas Amoldt, Senior Consultant and Thomas Friedrich, Underwriter.

Insurance for geological risk – A chance for geothermal power

One of the biggest hopes among renewable energies is geothermal power, i.e. heat from beneath the earth's surface, which in contrast to wind or solar power has the ability to provide base load capacity to meet demand around the clock. Munich Re devoted a great deal of attention to this subject last year. It all started when the mayor of Unterhaching, a municipality on the outskirts of Munich, approached us about a project for drilling for thermal water there in order to generate power in a geothermal power plant. The drilling work – to a depth of over 3,000 metres – was expected to cost €5m, but the outcome was uncertain: a classic entrepreneurial risk. What with the geological and technical imponderables involved, investors are reluctant to put money into such geothermal projects. The problem is that very few comparable projects have started so far, so there is little data available for modelling and calculating risks. Our specialists – above all geologists and drilling engineers – studied the paperwork and, on the basis of external engineering opinions and their own expertise, assessed the risk. The result: Munich Re came up with a solution in the form of insurance for geological risk, the first private-sector insurance of this kind in Europe. Thanks to our extensive knowledge and our scientific resources, we were able to define a risk-adequate and competitive premium. The insurance covers the risk of project failure, i.e. the production of less than 65 litres per second, or partial success, the production of more than 65 but less than 100 litres per second. In addition, the insurance gave backing for so-called stimulation measures that might be necessary in order to influence the outcome positively if the initial drilling is unsuccessful. In other words, insurance for geological risk covers the loss that is incurred if, despite stimulation measures, the drilling yields such poor results that the production of thermal water would not be worthwhile. The maximum possible loss is calculated as the costs of drilling plus the costs of stimulation measures.

During the drilling work, our experts were regularly on site for consultation and advice. The geothermal project was successful: the production rate of over 150 litres of water per second at a temperature of 122°C is sufficient to operate a 3.9 MW turbine for generating electricity and to run a district-heating system. This amounts to an annual saving of 30,000 tonnes of carbon dioxide, 7 tonnes of sulphur dioxide and 11 tonnes of nitrous oxide. Apart from significantly enhancing our reputation for innovative solutions in the field of renewable energies, the project also brought us an economic profit with its positive outcome, and documented one of Munich Re's special qualities: being able to model risks well even on the basis of limited data – an ability that makes it possible to insure innovative projects at all. In the meantime there have been further enquiries, relating to similar projects. Trend: Strongly rising.



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Competent risk management for human resources

Employees are a company's distinctive and most important asset. Nevertheless, few firms take the initiative to safeguard and develop this asset, using systematic and consistent risk management. "All soundly run firms practise personnel development", says Dr. Rudolf Lürzer, partner of General Consulting Network and organiser of the Insurance Industry Conference at Arlberg. "The new and fascinating thing about the model Munich Re has devised is that for the first time the risks – which are difficult to quantify – are defined and measured using clearly formulated criteria. That's what I call a consistent approach to human resources work. This concept can also be of enormous benefit to firms outside the insurance industry."

An interview with Dr. Detlef Schneidawind, member of the Board of Management responsible for Human Resources, Life and Health

Dr. Schneidawind, how do human resources and risk management go together? Are employees a risk for you?
Schneidawind: No, on the contrary. It's not our employees that are a risk, not our human resources, but the potential lack of them. What we are talking about is the risk of not having staff for important positions, or at least not the right staff.

How great is this risk?
Schneidawind: That's precisely the problem. A firm may quickly find itself short of capital, but that risk is easy to measure. By contrast, the problem of having staff with insufficient or inappropriate qualifications is difficult to quantify. For that reason alone, we all too easily lose sight of it.

How did you come to link human resources and risk management?
Schneidawind: We had long been discussing different risks, especially those posed by storms, diseases, new technologies and investments. What it came down to in every case was the need for functioning risk management. Then the penny dropped for me: How do I, as the Board member responsible for human resources, actually handle the risk connected with loss of staff, inadequate qualifications, or lack of motivation?

How did you then develop a system for human resources risk management?
Schneidawind: Firstly, we established that we already do a great deal in terms of personnel development and knowledge management. Then I took the experience I had gained from our Life and Health Division and considered how our know-how in risk management could be linked with the area of human resources. And from this we evolved our human resources risk management.

Does that mean you have human resources risks at Munich Re under control?
Schneidawind: If we look at the positive attitude of our staff towards our firm, then we can at least say that we're not doing too badly. 98% of our employees are proud to work for Munich Re. And the 12,000 applications we receive each year point to the fact that we are considered an attractive employer. Thus our risk of "not having staff" is relatively low. But that need not always remain so. We will therefore be refining our risk management in the area of human resources and, as the next step, will subject our system to a stress test like those used elsewhere, mainly in the financial sector.

Munich Re's human resources risk management
Our risk management system PRIMUS in the human resources sector identifies, measures and controls personnel risks on the basis of the four generally acknowledged individual risks:
- Risk of shortages: The company lacks the necessary knowledge carriers and high performers.
- Risk of insufficient adaptation: Employees' skills and qualifications do not keep pace with the company's development.
- Risk of demotivation: Staff do not give their best.
- Risk of losing staff: High performers and knowledge carriers may leave the company.

In our personnel controlling, we identify indicators for evaluating, monitoring and managing the individual risks.

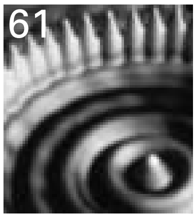
Take the risk of shortages, for example. If a company has a positive image, this helps to prevent shortages in human resources from occurring in the first place. Indicators of an employer's attractiveness include the number of unsolicited applications, the number of applications in response to a job advert and staff turnover. All three indicators can easily be quantified and already give an indication of whether a company's risk of personnel shortages is on the high or low side.

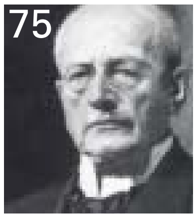
We also incorporate other factors in the evaluation, such as the efficiency of staff recruitment and the capacity of our successor pool. The measure for this, includes an internal recruitment quota: if many positions can be filled internally, the company is not so dependent on external factors such as demographic development and the situation on the employment market. If the successor pool is well stocked by the staff development scheme, it is possible, for example, to nominate at least three potential managers for each executive position to be filled. Munich Re can counter the risk of shortages well in this way – but at the same time it exposes itself to another risk: if three potential successors are available for each management position, two inevitably lose out. That can lead to frustration, demotivation or even loss of very well trained staff. We counter this risk with a whole package of measures. Employees must be eligible for several positions. Supply and demand should be more or less balanced out. But a competitive, performance-related salary is also part of the equation, as are fringe benefits and a company pension.

This shows that the interdependencies of different influences and measures make the management of human resources risks a similarly complex task to that of the classic risk management with which we conduct our business.


Dr. Bernd Kosub, developer of PRIMUS, Munich Re's risk management system for human resources.

Munich Re – 125 years





Then and now

125 years
Advancing innovation

Dear Shareholders,

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

Today I am in a much more agreeable position than one year ago, when I had to report to you on a disappointing result for 2003. It was already becoming apparent then, however, that the steps we had taken would bear fruit in 2004. With the Group profit for the past business year – the best in Munich Re's history – we have achieved a turnaround that could not be more striking. What did I want to accomplish in the first year of my chairmanship? Are we on course with our result for 2004? At the beginning of last year, we established three focal points in our programme to secure a profitable future for the Munich Re Group:

- Firstly, in reinsurance, to maintain the high level of profitability we had regained in the previous year, building on it where possible.
- Secondly, in primary insurance, to return ERGO to the profit zone.
- Thirdly, to ensure by means of tools like our integrated risk management that our investments support our underwriting business – without themselves tying up too much risk capital.

We worked energetically on these three major projects in the past year. The result we achieved in 2004 is an important and visible step towards sustainable profitability. It documents our will to regain our undisputed strength of former years and gives us the strategic scope we need to secure lasting success for the Munich Re Group in the future. And that is how we also aim to fulfil your justified expectations: the capital that you have invested in Munich Re should earn an adequate return. For I regard your confidence in Munich Re – and thus also the confidence of the capital markets – as a basic precondition for long-term success.

With our Group profit of €1.8bn, we did not quite reach our very ambitious target of €2bn. This is mainly due to the HVB Group's special writedown, which only became known this January and impacted our income statement to the tune of €240m.

In addition to the heavy losses from natural catastrophes, which I wrote about in my letter for the third quarter, burdens from US business also affected our result. Our subsidiary American Re added US$ 180m to its reserves for asbestos-related claims, which are still being reported for periods going back many years. It made a further increase of US$ 302m to reserves for losses stemming in particular from US liability business. In this segment, we have already taken fundamental business policy decisions to ensure that we achieve long-term profitability. These include the decision for MARP, an American Re subsidiary, to give up directly written US liability and professional indemnity business for large clients.

Despite these adversities, a combined ratio of 98.9% enabled us to post an underwriting profit in property-casualty reinsurance. For me, this shows two things. Our reinsurance portfolio has now attained a quality that allows us to absorb even large additional loss burdens. At the same time, the result endorses our policy of not deviating from risk-adequate prices and conditions. We have steadfastly adhered to this policy in the successful renewals of treaties at 1 January 2005. I therefore expect that in the current year we will again record a very satisfactory reinsurance result.

In 2004, primary insurance – in the form of ERGO – also made a positive contribution to the Group result. I am particularly pleased that in the past year ERGO was able to earn its cost of capital, an objective we originally did not envisage meeting until 2005.

Given its importance in the Group, ERGO has a major part to play in sustaining future profitability. The steps for restructuring ERGO, which I strongly supported, were initiated in 2004 and are already having a positive effect. With the clear accountability that now exists, business objectives can be pursued much more vigorously than before.

We are following our clear words on the significance of primary insurance in the Munich Re Group with action. Not only does ERGO remain an integral part of the Group, we will also be placing more emphasis on the Group perspective when taking decisions that affect the Munich Re Group as whole. ERGO and Munich Re will cooperate more closely in future. As regards the fundamental questions of strategy development and value-based management of our business, we see ourselves as one unit. That – no more and no less – is the meaning of “uniform control“, to which we committed ourselves at the end of last year. But we have strictly separated the two big blocks in terms of operative business, not least because our clients in reinsurance rightly expect this of us.

The third focal point that I mentioned at the outset is integrated risk management. Here we concentrated last year on asset-liability and active capital management. We made substantial progress in our efforts to relieve our balance sheet of risks that do not conform to our business model strategy. Put plainly, we have significantly reduced our equity exposure, especially our investments in the German and European financial sector. We have thus appreciably diminished the concentration risk, even if there is certainly still scope for further "derisking" measures.

Ladies and gentlemen, we have produced a very good result for the business year 2004. We regard this – especially in reinsurance – not as the chance result of a particular market situation, but as the fruit of consistent and hard work. We are naturally continuing this work, given that the related challenges will remain with us in the coming years. Our programme for the next few years can be subsumed under three – admittedly rather abstract – headings:

– Active diversification of risks
– Focus on controlling "risk" as the underlying object of our business
– Optimising management quality and our VBM methods and tools

In our case, "diversification of risks" is more than the customary spreading of risks in insurance and reinsurance. For us, it is immaterial whether the risks we deal with derive formally from insurance or reinsurance: we approach the risks holistically. The borders between the two segments are becoming increasingly blurred. It is also a significant competitive advantage that we cover the whole value chain in the insurance industry and can exploit synergies in our risk management that profit all parts of the Group. Here we differ clearly from our main competitors, a fact that is plainly evident, for example, in life or health insurance. As social security systems are being restructured in many countries, we see great potential for insurance and reinsurance in these business segments.

To differentiate ourselves even more clearly from the competition and at the same time to achieve profitable growth, we intend to make even greater use of our distinctive risk competence in systematically offering the markets innovative concepts for risk management. The active search for new risks that need managing is a core part of our business model. Dotted throughout Munich Re's history are examples of how we have achieved a competitive edge through innovation and initiative. I want us to continue this tradition, drawing on our old strengths. For one thing is clear: the player that is quicker in identifying, technically modelling and assuming new risks from clients, at an adequate price and at the right conditions, has a decisive competitive lead and sets standards in the markets.

To this end, we need methods and tools for dynamically managing risks with foresight and prudent deployment of capital. The integrated management of risks on the assets side (such as investments) and the liabilities side (underwriting business) is of great importance. The better we control our risks, the more risk capital we can free up to finance, say, strategic growth opportunities and advance our Group's development.

Excellent management requires stable foundations, which include administration systems that provide reliable and versatile data resources for making decisions. In this area, we will be taking a huge step in our reinsurance operations by implementing our global administration system. This will create a joint platform with full data consistency throughout the reinsurance group and a "universal" solution for risk assessment, administration and accounting, thus significantly facilitating the analysis and controlling of our business.

I would like to conclude, ladies and gentlemen, with a far from everyday topic: on 19 April 2005, Munich Re will be 125 years old. This is a special event not many companies are privileged to celebrate. I would like this anniversary to send out a clear signal. Despite its age, Munich Re has remained young, full of energy and fit to take on the competition. Although there have been a few downs as well as ups in the many years of its existence, Munich Re's history is a success story. Our Company can claim an impressive record; it has brought great benefit – to its shareholders, clients and employees, and not least to the economy and society as a whole, both at home and abroad. Many generations have contributed to this success. Our task today is to continue bearing the torch, maintaining the importance and strengths of Munich Re in the future through our entrepreneurial and professional skills, through initiative and innovation – and thus consistently earning the profits that you, our shareholders, expect.

I am sure that I speak on your behalf when I thank the staff of the Munich Re Group for their dedication and hard work in the business year 2004. Without their commitment, the great turnaround in results would not have been possible.

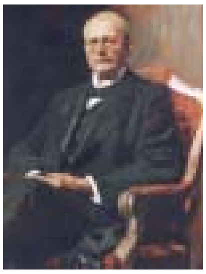
Yours sincerely,

Munich Re – 125 years

2005 is a special year, as we are celebrating our 125th anniversary. Munich Re became the largest reinsurer in the world within five years of its foundation. A glance at our history shows why we have been successful over so many years. We have always looked ahead, have constantly pursued new avenues of opportunity, and have utilised our risk competence for ourselves and our clients. Developing creative and innovative solutions for new risks – that is the recurrent theme of our corporate history.

1880 – Founding of Munich Re

On 19 April, Carl Thieme establishes the Munich Reinsurance Company together with Messrs. Cramer-Klett, von Finck, Schauss, Pemsel and Schmidt-Polex. The first treaty is concluded with Thuringia. This and 32 other treaties, one of which is the first to be taken out with a foreign partner, are the proud results of Munich Re's first year of business. Five years later, Munich Re is the largest reinsurer in the world.



1898 – The birth of machinery insurance

In 1898, chief engineer Fritz Böhrer proposes to Carl Thieme a totally new type of insurance for machinery. Böhrer polls companies in Bavaria and, in collaboration with friendly insurance companies, develops "accident insurance for machinery". On 1 January 1900, Allianz Munich is granted a licence for Bavaria. From 1903, machinery insurance is authorised for all of Germany.

1906 – Earthquake in San Francisco

On 18 April 1906, the San Andreas Fault tears open over a distance of more than 200 kilometres. The earthquake strikes San Francisco with full force. 750 people are killed. The property damage incurred comes to an inconceivable 500 million dollars, Munich Re's share amounting to 11 million marks. In terms of premium income, the San Francisco earthquake constitutes the highest financial burden Munich Re has ever had to bear.

1919 – The second beginning

During the First World War, trading-with-the-enemy laws prohibit any business contacts with the German Reich. Countless reinsurance treaties are annulled and companies in foreign countries wound up. After the war, important countries such as Russia, England and the USA remain closed to Germany for many years. Gradually, from 1919 onwards, Munich Re's old business partners start coming back, eager to revive relations.

1922 – The first change of management

Carl Thieme transfers to the Supervisory Board in 1922; his successor as Chairman of the Board of Management is Wilhelm Kisskalt. He steers the company through difficult, changing times until 1937. In 1938, Dr. Kurt Schmitt takes the helm and manages the Company until 1945. From 1945 until his premature death in 1950, Dr. Eberhard von Reininghaus takes on the arduous task of helping to heal the wounds left by the war.

1985 – Mexico City in ruins

On 19 September, the largest city in the world is jolted by an earthquake measuring 8.1 on the Richter Scale and with a 7.5-magnitude aftershock the following day. 10,000 people are killed. A third of the city is reduced to rubble. Mexico's earthquake is the largest earthquake loss since the 1923 quake in Tokyo and one of the greatest burdens for the company since its founding.

1882 – "Our phone number is 46"
The Royal Bavarian Post Office succeeds in enlisting 104 parties interested in owning a telephone and begins to set up a telephone network. Munich Re is one of these parties, and its first telephone connection is number 46. Not until 17 years later are electric light bulbs used to light the Company's offices. On 2 August 1899, Maffeistrasse 1 is hooked up to the municipal electricity grid.

1885 – Social innovations
Working at Munich Re has always been something special. Salaries are high. A Christmas bonus is introduced in 1885. A company pension scheme is established at Munich Re in 1891. From the mid-1890s, the company adopts "English working hours" from 9 a.m. to 4 p.m. Free lunches are served from 1897 on. In 1898, a programme for procuring housing for families is initiated. And as of 1905, all employees are entitled to paid holidays.

1907 – A great idea is sparked
Hungarian timber merchant Max von Engel is standing on the station platform in Lucerne. There are huge piles of baggage heaped up next to the train. Sparks fly from the steam engine and land on the suitcases. What if the suitcases caught fire? Who would indemnify the loss? Engel is struck by an idea: it would be good to be able to insure one's baggage at the check-in counter. The idea does not catch on at first. Until Engel meets Thieme. On 9 May 1907 they found Europäische Reiseversicherungs-A.G.

1939 – Working during the Second World War
Business proves increasingly difficult from 1939 onwards. Foreign business is largely transacted via Union Zürich, a Munich Re subsidiary. The war also leaves its mark within the Company. Paper consumption is rationalised; after work, typewriters and calculators have to be carried into the air-raid shelter. In 1943, Accounting is transferred to Schliersee. All staff return to Munich in 1946, where they are accommodated in emergency quarters.

1950 – The third beginning
Things are finally starting to look up. Foreign trade is allowed again, and the Company moves back into the previously requisitioned Main Building. Dr. Alois Alzheimer steers the company through the difficult post-war years. He is considered a strong guarantor of continuity and symbolises the successful rebuilding of Munich Re. In 1954, he recruits Horst K. Jannott, who in 1969 becomes his successor as Chairman of the Board of Management and heads the Company until 1993.

1996 – Acquisition of American Re
On 14 August, Munich Re and the Board of Directors of American Re as well as the latter's majority shareholder, investment company Kohlberg Kravis Robert & Co., reach agreement on Munich Re acquiring American Re for a total price of approximately US$ 3.3bn. Through the US reinsurer, Munich Re strongly expands its market position in the USA, the world's largest insurance market.

1997 – ERGO and MEAG established
3 July. The insurance groups VICTORIA/D.A.S. and Hamburg-Mannheimer/DKV merge under one holding company and become ERGO Versicherungsgruppe AG. To reinforce the financial strength of Munich Re and ERGO on a sustained basis, MEAG MUNICH ERGO AssetManagement GmbH is founded in 1999. Today, MEAG manages assets totalling approximately €146.8bn (as at 31 December 2004) and is hence one of the largest asset managers in the German insurance industry.

1888 – Initial public offering
On 21 March 1888, Munich Re's shares are introduced on the stock exchange at a flotation price of 700 marks. In 1895, Munich Re's capital is increased from 4.8 million to 10 million marks and in 1898 to 20 million marks. On 2 January 1890, Munich Re's shares are traded at 990 marks, ten years later at 2,435 marks.

1889 – Carl Thieme establishes a primary insurance company
In September 1889, Carl Thieme and Wilhelm von Finck found an accident and liability insurance company. Its name: Allianz Versicherungs-Aktiengesellschaft. By 1914, Allianz ascends to the rank of largest German property insurer. Only recently, at 31 December 2003, as a consequence of the two companies' strategic realignment, is the general agreement between them terminated. The good business relationship is maintained.

1910 – Munich Re takes to the air
Munich Re enters an absolutely new field – aviation business. The market is young, the number of potential insureds is low, a spread of risks is hardly possible. In 1913, seven insurers purchase the first reinsurance cover for the fire insurance of an airship. In 1918, an extensive exposé is written on the liability and accident insurance of aviation risks. The first aviation risks are reinsured in 1919.

1973 – A logo travels the world
Anton Stankowsi designs Munich Re's new logo: parallel lines meeting on a square field. The linear structure stands for connection and exchange, partnership and interaction, reciprocity and trust, development and order, safety and solidarity, size and differentiation. The logo is introduced worldwide on 1 January 1973.

Münchener Rück
Munich Re Group

11 September 2001
At 8.45 a.m., a Boeing 767 carrying 92 passengers and 90,000 litres of kerosene crashes into the World Trade Center's North Tower. At 9.03 a.m., another plane hits the South Tower. About 3,000 people are killed, and 150,000 lose their workplace. The insured loss is estimated at around US$ 40–60bn. Munich Re anticipates a burden of US$ 2.6bn. 9/11 is by far the largest loss in Munich Re's history.

1890 – London, a difficult terrain

From 1886, the first representative offices abroad are established in Paris, St. Petersburg, Copenhagen and Stockholm. London, however, is still viewed with caution. The market is regarded as extremely difficult for foreign companies. Carl Schreiner goes to London in 1890. Contrary to all expectations, business develops amazingly well. In 1899, Schreiner ventures to cross the big pond – and is again successful. London is considered a milestone in the internationalisation of Munich Re.

1913 – All under one roof

A total of 350 employees work in six different buildings. Thieme finds this unacceptable. A construction site is purchased on Königinstrasse. Architects Bieber and Hollweck design the Main Building. Staff officially move in on 20 March 1913. Miss Hirsch and Miss Fiedler are hired to operate the switchboard. They are the first women to be employed by Munich Re – 33 years after its foundation.

1916 – Life insurance for everyone

Life insurance used to be reserved for the healthy. In 1916, Munich Re creates a department that looks into "substandard risks". Its records and those of other insurers are used to develop a risk assessment system. To this day, Munich Re's mortality tables are the material basis for underwriting life insurance policies – also for people who are not completely healthy.

1974 – Looking nature in the eye

Since the number of natural catastrophes is rising strongly, Munich Re establishes the Joint Office for Natural Hazards. Under the name Geo Risks Research, it soon becomes an indispensable resource for politicians, scientists, idustrialists and insurers worldwide. The World Map of Natural Hazards and the knowledge database NATHAN, both developed by Geo Risks Research, remain unique sources of information to this day. On 15 June 2004, Geo Risks Research celebrates its 30th birthday.

2002 – The flood

2002 sees record values for windstorms, precipitation and floods. The most prominent event of the year is the flood in August. The heaviest flooding in Europe in centuries, possibly even since the millennium floods in August 1342, occurs on the Danube, Elbe, Vltava, and their tributaries. It causes economic losses throughout Europe of some €18.5bn, €3bn of which is insured.

Shareholdings reduced further
We reduce our investments in the financial services sector further in conjunction with HypoVereinsbank's capital increase and by lowering our stake in Allianz to under 10%. The marketing cooperation between ERGO and the HVB Group is maintained.
> Pages 121, 127

Geothermal energy project insured
Germany's largest geothermal energy project is launched in Unterhaching. The plan is to erect a geothermal power plant with an output of around 3.7 MW by the end of 2005, saving up to 30,000 tonnes of carbon dioxide per year. We come up with a new kind of insurance to cover the investment risks involved.
> Pages 14, 89

New management structure for ERGO
ERGO reorganises its management, providing for uniform, group-wide control and thus greater profitability. The identity of the individual brands and their sales channels remain intact.
> Page 120

Involvement in India
By founding Munich Re India Services Ltd, Mumbai, we strengthen our presence in the Indian insurance market. Our service company Paramount offers local health insurers effective services.
> Pages 10, 104

Cyclones cause high losses
An unusually high number of cyclones hit the Atlantic and Pacific coasts. In a space of six weeks, four major hurricanes give rise to losses in the Caribbean and southeastern United States running into billions.
> Pages 62, 107

Closer integration of ERGO
Munich Re involves ERGO more closely in significant Group processes, especially strategic issues and risk management. There is now "unified control" within the meaning of the German Stock Companies Act.
> Page 120

DKV in China
DKV plays an active part in becoming a shareholder of the first private health insurer in growth market China.
> Page 71

Tsunami in South Asia
On 26 December, there is an extremely strong earthquake off Sumatra. Seismic sea waves (tsunamis) surge with great force against sections of coast thousands of kilometres away. Around 180,000 people are killed, 100,000 reported missing and millions made homeless.
> Pages 70, 107

01
Munich Re shares

We have set ourselves clear objectives: sustained profitability and rigorous management of our business. The majority of analysts assess our shares positively.

125 years
Advancing innovation
We offer perspectives

On 21 March 1888, our shares were traded on the Munich stock exchange for the first time at a price of 700 marks. Demand was so great that they had to be allocated. By 1900, their price had already reached 2,435 marks. Today we are one the world's most recognised listed companies in successfully reconciling economy and ecology.

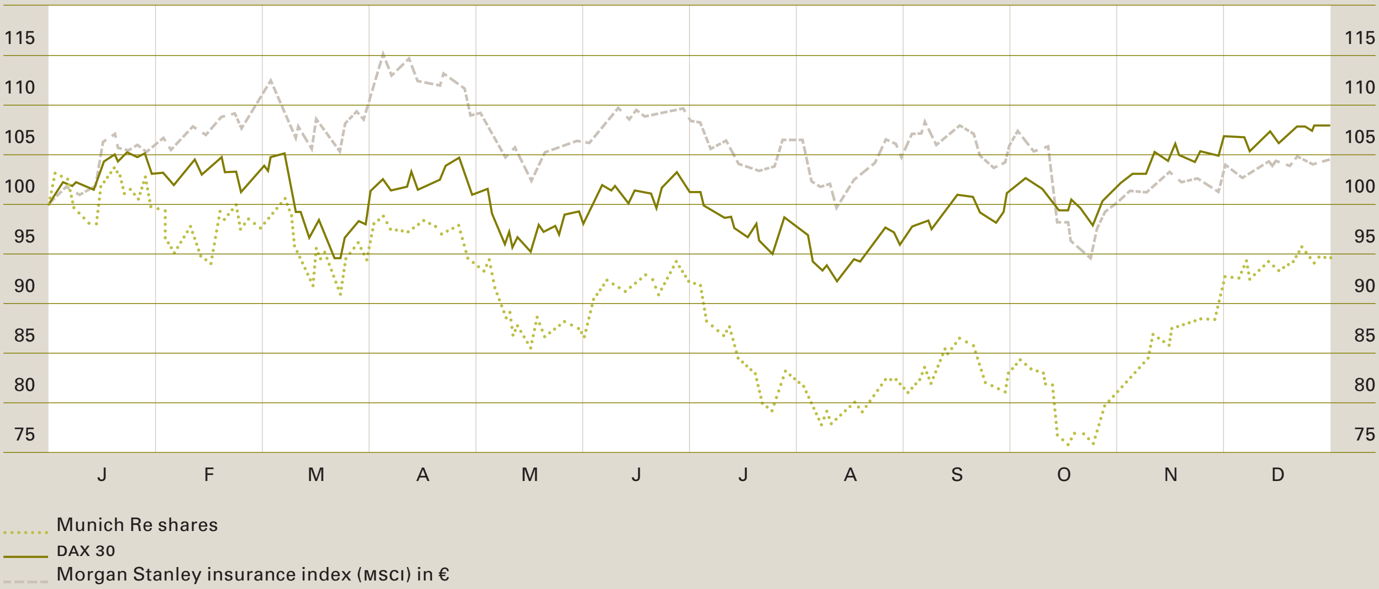
Stock market year 2004
Hesitant start but strong finish

Although we were not satisfied with the performance of our shares in 2004, the largely positive assessments from analysts show their confidence in the development of our Group

In the first half of 2004, a sideways trend prevailed on the main stock markets. Positive news of rising company profits was negated by investors' fear of higher interest rates. After most stock exchanges had recorded their year low in mid-August, share prices took an upward turn, boosted by declining yields on the bond markets and the outcome of the elections in the USA. At the end of 2004, indices like the Dow Jones, the EURO STOXX 50 and the DAX closed between 3% and 7% up.

Insurance stocks moved more or less parallel to the market as a whole, with the MSCI insurance index rising by 3.9% in 2004. Within the insurance industry, international reinsurers had a rougher ride as their results came under pressure from heavy windstorm losses. The hurricanes and typhoons in the USA, the Caribbean and Japan, and the earthquake off Sumatra, made 2004 the costliest year ever for natural catastrophes.

Share price performance
1 January 2004 = 100
Source: Datastream



The insurance sector also suffered following the news that a lawsuit was being filed by the New York Attorney General against US insurance brokers (see page 142). In the aftermath of this announcement, our shares fell to a year low of €72.73 in October. However, bolstered by the turn-around of the ERGO Group and the unchanged prospect of a record result for 2004, our shares rallied at the end of the year. In the last two months, they recorded an above-average price increase compared with the market and the sector as a whole.

Nevertheless, ending down 5.9% overall in 2004, Munich Re shares were outperformed by the blue chip indices and competitors' stocks. We are not satisfied with our share price performance, but we remain convinced that if we continue to rigorously pursue our strategy, our stock price should soon reflect the fundamental positive development of our Group.

Munich Re shares as seen by the analysts

More than 50 analysts give regular assessments on the performance of Munich Re's shares. During the period under review, the buy-recommendations showed a marked increase year on year. At the end of 2004, 62% of analysts assessed our shares positively, compared with only 44% the year before.

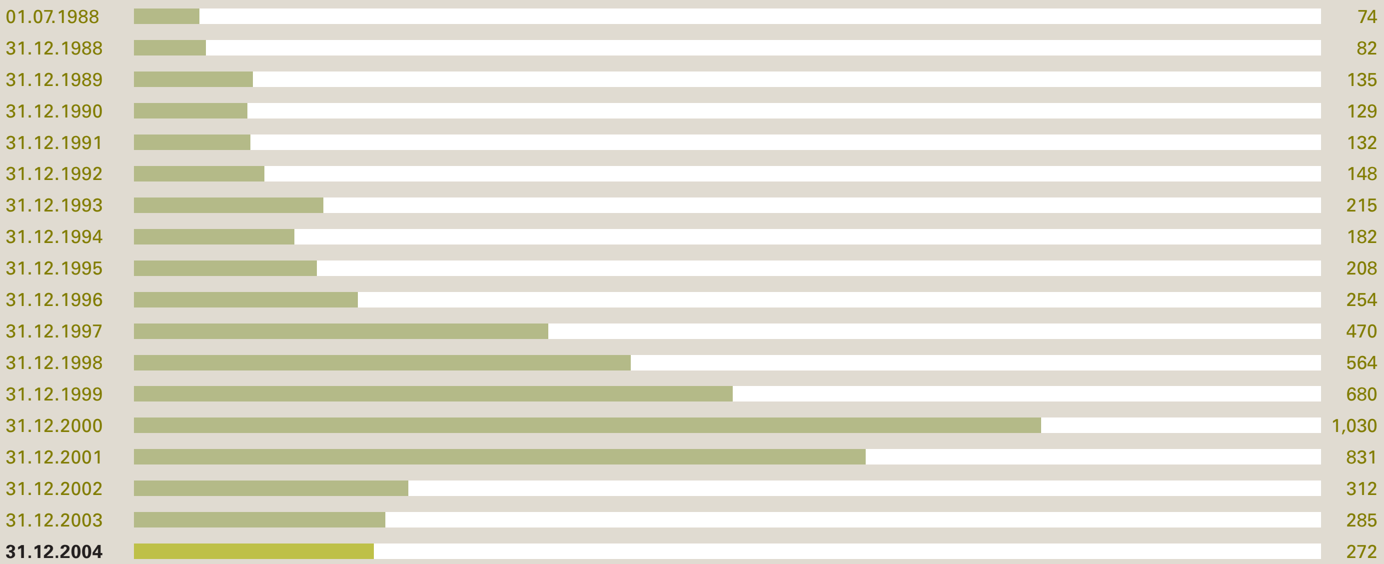
Long-term performance of Munich Re shares

On 1 July 1988, the date on which the German share price index DAX was launched, a shareholder buying a portfolio of 100 Munich Re registered shares with a par value of DM 100 each (= €51.13) at a share price of DM 1,450.00 (= €741.37) would have had to invest a total of €74,137.32 (excluding transaction costs). After the two stock splits in August 1997 and January 1999, this investment would today comprise a portfolio of 2,000 no-par-value shares.

By reinvesting dividends to purchase further shares and making use of opération blanche (i.e. reinvesting the proceeds of subscription rights), a German shareholder would have been able to add a total of 1,007 no-par-value shares to the portfolio.

Based on a price of €90.45 per share on 31 December 2004, the value of the portfolio amounts to €271,983.15, equivalent to an increase of 266.86%. According to the internal rate-of-return method, this works out at an average annual return of 8.22% per year, compared with an average annual return for the DAX of 8.18% over the same period.

Performance of a specimen deposit as from 1 July 1988 in €'000



Higher dividend

Given the record result in 2004, the dividend proposal of the Board of Management and Supervisory Board at the Annual General Meeting on 28 April 2005 will be payment of an increased dividend of €2.00 per share (75 cents higher than last year). We will thus distribute a record amount of €457m (286m) to shareholders.

Whereas in the past we have focused on continuity in our dividend payments, in future the amount distributed will depend more strongly on the result for the year and on our capital resources and requirements. This means the dividend will fluctuate more strongly than in the past.

Share profile

Munich Re shares are no-par-value registered shares. Each share carries one vote. First launched on the stock exchange in Munich on 21 March 1888, they are today traded on all the German stock exchanges. The major part of the trading (over 95%) takes place on the electronic platform Xetra. We ranked 11th among the DAX stocks in terms of market capitalisation as at 31 December 2004.

Key figures for our shares

		2004	Previous year
Number of shares at 31 December	m	**229.6**	229.6
Share capital	€m	**587.7**	587.7
Year high	€	**99.00**	117.32
Year low	€	**72.73**	49.93
Year-end closing price	€	**90.45**	96.12
Annual performance (excluding dividend)	%	**–5.90**	–11.4
Beta relative to DAX		**1.1**	1.4
Market capitalisation at 31 December	€bn	**20.8**	22.1
Market value/book value at 31 December		**1.0**	1.2
Average daily turnover	'000	**1,827**	2,402
Earnings per share	€	**8.01**	–2.25
Dividend per share	€	**2.00**	1.25
Dividend yield at 31 December	%	**2.2**	1.3
Overall dividend amount	€m	**457**	286

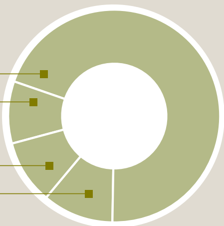
Free float over 80%

At the end of 2004, the number of Munich Re shareholders totalled 178,000. Around 172,000 of these were private investors, whose proportion of our share capital decreased from around 12% to just under 11% in the year under review, although gratifyingly this is still a good 50% higher than the level at the end of 2002. Munich Re's largest shareholders are HypoVereinsbank, with a stake of almost 10%, and Allianz, with 9.4%, these holdings having been reduced to under 10% by March 2004 from 13.2% and 12.4% respectively. Currently, there are no other shareholders with a stake of more than 5% of Munich Re's share capital. At the end of 2004, around 50% of the shares were held by foreign investors.

Our free float, which is important for the weighting of Munich Re shares in various indices, stands at around 80.6%.

Investor groups*

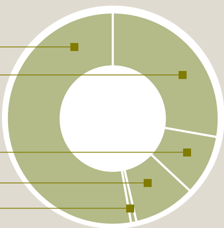
Free float
Institutional investors **69.9%**
Private investors **10.7%**
Core shareholders
HVB **9.97%**
Allianz **9.4%**



*Percentage of share capital.

Regional distribution*

Germany **53.5%**
Rest of Europe **27.9%**
North America **9.3%**
UK **9.2%**
Others **0.1%**



*Percentage of share capital.

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

Featured in many indices

Munich Re shares have been represented for many years in the main national and international share price indices like the DAX and the EURO STOXX 50. In the sector indices for insurance companies, Munich Re has traditionally had a strong weighting. Since 2001, our shares have also been included in the Dow Jones Sustainability and the FTSE4Good index family. These sustainability indices only accept companies that fulfil exacting ecological and social criteria and are among the best in their sector (see page 83).

Weighting of Munich Re shares in various indices

Status: 31 December 2004

	Weighting (%)
DAX 30	3.7
DJ EURO STOXX 50	1.1
MSCI Euro	0.8
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.3
FTSE4Good EUROPE	0.6
DJ EURO STOXX Insurance	8.6

Investor relations work

Quick and pertinent information is a key factor for participants in the international capital markets. Our investor relations team is a competent contact partner, always ready to meet their needs. We attach importance to open and honest dialogue – particularly in difficult times. This gives investors the transparency they require for their investment decisions.

Our communications have been further enhanced by the speed of our financial reporting. Since the second quarter of 2004, we have been publishing our quarterly reports three weeks earlier than three years ago. Our "fast close" approach is designed to meet the capital markets' high-level requirements. The annual report, too, is appearing one month earlier than last year and six weeks earlier than the annual report for 2002.

Munich Re organised more than ten roadshows in the USA and Europe last year to present the Group. We also held over 100 individual meetings with investors and analysts at our offices. Additionally, as in previous years, we participated in several investor conferences around the world. But our activities are not only geared to institutional investors: private investors can contact Munich Re directly at any time as well. They obtain prompt answers to their enquiries via our shareholder hotline or e-mail postbox.

Our investor relations work again received recognition from external specialists last year. The business magazine "Capital" examined the investor relations activities of companies in the EURO STOXX 50, and awarded Munich Re first place amongst the insurers.

Internet services expanded

We publish all important investor relations information on our website where, besides annual and quarterly reports, investors can find details about our shares, analysts' opinions, important dates in the financial calendar, and much more. Our already extensive online services were expanded further last year with the section "Socially responsible investing". A further addition followed on 3 January 2005 with our new online shareholder portal.

www.munichre.com/register

Great interest in the Annual General Meeting

The 117th Annual General Meeting of shareholders on 26 May 2004 was attended by over 4,000 at the International Congress Center Munich. The proposals of the Board of Management and Supervisory Board on the individual agenda items were adopted by the shareholders with clear majorities in each case.

Our internet service for the Annual General Meeting is highly advanced. Nearly every fifth admission card was ordered electronically in 2004. Many shareholders again availed themselves of the option to authorise a proxy nominated by the Company. In fact, these proxies represented more shareholders than the banks did via voting rights from shares held in custody. Shareholders who were unable to attend in person once more had the opportunity to follow the whole Annual General Meeting live on the internet.

All the information relating to our 2005 Annual General Meeting can be found on our website in a special section created for the AGM (www.munichre.com/agm). Our portal's service pages also offer shareholders other options, such as registering to receive documents for the Annual General Meeting by e-mail or updating their registered shareholder data online.

Other capital market instruments of the Munich Re Group

The subordinated bonds we issued last year have performed well. At the end of 2004, the euro tranche was listed at 116.1% and the pound sterling bond at 116.0%.

The term of the bonds exchangeable into Allianz shares ends on 9 June 2005. If bond holders do not make use of their conversion rights, the bond will be redeemed at 108.56%. At the end of the year the bonds stood at 107.4%.

Current bonds issued by the Munich Re Group

Issuer	Munich Re Finance B. V.		Munich Reinsurance Company	ERGO International AG		American Re Corporation
Type	Subordinated bonds	Subordinated bonds	Exchangeable bonds	Exchangeable bonds	Exchangeable bonds	Senior notes
Base value	–	–	Allianz AG	Sanofi-Aventis S. A.	E.ON AG	–
Volume	€3.0bn	£0.3bn	€1.2bn	€0.3bn	€0.3bn	US$ 0.5bn
Coupon rate p. a.	6.75%	7.625%	1.00%	0.75%	2.25%	7.35%
Maturity date	2023*	2028*	2005	2006	2006	2026

*First possible redemption dates are 21 June 2013 and 21 June 2018 respectively.

02
Strategy

Whether integrated risk management, VBM or strict profit orientation – we have taken the necessary steps to ensure that we turn risk into value.

Carl Thieme had the vision of an independent reinsurer that spread risks internationally over many lines of business and attached great importance to partnership, both externally and internally. We still remain true to our principles 125 years later: "Turning risk into value" is how we word our vision today.

125 years
Advancing innovation
We have clear objectives

Turning risk into value

We are focused on managing risks, diversifying them and steering our Group efficiently and effectively.

Our business as an insurer and reinsurer is the professional handling of risk. We utilise advantages obtained from the diversification of risks and, through management of the selected and calculated risks that we assume, provide for a balance over time, regions and classes of insurance. We create value by using our broad knowledge and sophisticated underwriting techniques to make risks from many different spheres of private and economic life manageable – for our clients and for us. We are only successful in the long run if what we do is worthwhile both for our shareholders and for our clients. Consequently, our business model is "turning risk into value".

What we aim to achieve

We are successful if we achieve our ambitious objectives:

Segment	Key indicator	Objective 2004	Result 2004	Objective 2005
Reinsurance	Combined ratio*	97%	98.9%	97%
Primary insurance	Combined ratio**	97%	93.0%	95%
Group	RoI	4.5%	4.6%	4.5%
	Annual result	€2bn	€1.8bn	–
	RoE***	–	9.4%	12%

* Non-life.
** Property-casualty (including legal expenses insurance).
*** Annual result divided by mean shareholders' equity, including minority interets in each case.

In life primary and reinsurance and in health primary insurance, we manage and measure performance using the embedded-value system.

Cornerstones of our strategy

Three strategic statements form the foundation of our business activities and determine our success:
– We utilise the diversification of risks as the essential driver for creating value.
– We manage risks in both the primary insurance and the reinsurance sectors on this basis.
– We strive for operative quality in the management of our business and in the methods and tools we use to steer it.

Diversification effects are calculated using our risk model, with which we determine the amount of risk capital necessary for the respective risk assumed. If risks are independent of each other in terms of their occurrence probability, less risk capital is needed for the portfolio as a whole than for the sum of the individual risks. The size and mix of our risk portfolio allows us to use such diversification effects on our existing risk capital to make available comparatively more capacity. A further dimension is to be found in the area of capital allocation between the fields of business, e.g. in asset-liability management, which we are making a point of expanding, not least in the light of our experiences in the stock market crisis of the last few years. Also important in this context is accumulation control.

Whether a risk is written in insurance or reinsurance is not material for risk management, given that the borderline between the two is becoming increasingly blurred anyway. We can react flexibly and innovatively to the challenges of the future on the basis of our extensive risk know-how across the fields of business. Thus positioned, our objective is to generate the growth necessary for sustained success in the area where more value can be created in the market environment concerned.

Under "operative quality" we subsume a number of different requirements. We devote particular attention to sophisticated steering tools and excellent management. Thus we see the "art of underwriting" as a cycle that includes not only sophisticated actuarial methods but also ongoing analysis and monitoring of business development. By incorporating feedback from claims experience into pricing policy, we can respond rapidly to current trends. The art of underwriting also means that knowledge from science or trend research is taken into account for new risks at an early stage, using scenario techniques, in order to make such risks manageable and thus insurable. The more successful we are in this, the greater the lead we have on the competition and on possible political measures that might limit the scope for structuring appropriate underwriting solutions.

Implementation of our strategy

From this strategic foundation, we derive concrete business-policy principles and initiatives for their realisation. The various strategies are set out in balanced scorecards. Such a scorecard exists firstly for the Munich Re Group as a whole. From this, scorecards are derived for primary insurance and reinsurance, and then cascaded downwards – in the case of the reinsurance group, for example, for the individual divisions, divisional units and departments. In these scorecards, we record in concrete terms who in the Group, in what position, instigates, carries out and is accountable for particular actions or initiatives, in order to generate the required added value. In so doing, we focus on the following aspects:

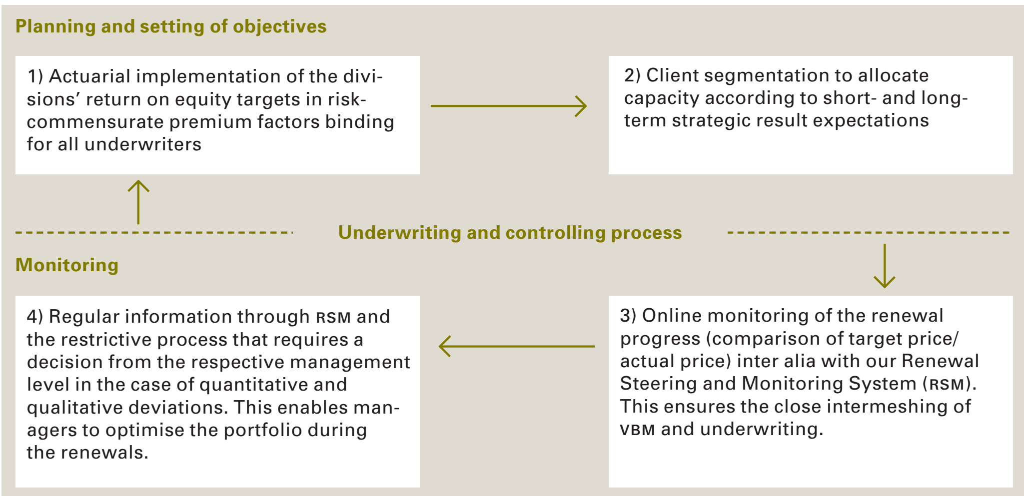
Achieving sustained profitable growth and value creation for our investors

– A strictly profit-based approach in the design of products and in underwriting: We aim for long-term profitability in both reinsurance and primary insurance. We reject growth geared solely to volume and intended merely to achieve or defend places in the rankings, regardless of profitability.
– Value-based management: We set clear financial objectives and ensure the requisite earnings orientation. The central performance measure for value-based management is the enhancement of corporate value.

Risk-commensurate prices and conditions – A hallmark of quality

In order to make ourselves as independent as possible of the cyclical movements that have always characterised the reinsurance market in non-life business, we focus strictly on achieving risk-commensurate prices and conditions based on our calculations of the technically required level.

Such prices and conditions are crucial, as they are essential for earning sustainable profits and establishing successful and reliable business relationships. To ensure risk-adequate prices and conditions, we have developed the following underwriting and controlling process:



Strong capital base, integrated risk management and concentration of our resources on commercial success

- Financial strength: We safeguard and improve our financial strength, which offers our clients top-level security.
- Integrated risk management: We strive for an optimised portfolio in respect of the risks on the assets and liabilities sides of our balance sheet – i.e. the risks of investments and underwriting – both individually and in the interplay between the two, in order to use our risk capital in the best possible way. Internal risk models form the basis for decision-making. The structure of our obligations on the liabilities side of the balance sheet determines the investment of our assets.

Meeting the individual requirements of our clients

- Quality: We offer our clients individual, tailor-made solutions to which high standards are applied.
- Market proximity and international presence: We are close to clients and the market, allowing us to identify at any early stage any changes in the social, economic and legal environment or among our cedants, to translate these changes into business measures, and thus to add value for our clients.

High quality in management and administration

- Optimised decision-making and organisational structures and processes: We develop structures and processes that are transparent, efficient and geared to profitability, and consistently implement them.

Our staff, who find the best solutions with their knowledge of risk and the capital markets and their capacity for innovation

- Knowledge and expertise: We distinguish ourselves from our competitors through our knowledge edge. To this end, we build on the know-how of our staff throughout the world, their experience, and their specialist and intercultural knowledge.
- Innovation: We draw on our innovative capacity for dealing with challenges of the future like climate or demographic change, and exploit it to derive new business perspectives.

Pronounced performance culture that motivates staff

- Quality performance: We achieve optimum performance by setting clear objectives for our staff at all levels.
- Management: We give feedback openly, learn from mistakes, and reward success.

Progress in 2004 and outlook

A successful strategy must measure up in terms of results. We have geared our activities clearly to the goal of profitability and have reduced the risks in the investment sector. These initiatives had a strikingly positive impact on our results in 2004.

- In reinsurance, we consistently pursued our policy of charging risk-adequate prices and are firmly on track in terms of earnings.
- We have achieved the desired turnaround in results in primary insurance. The new structure of the ERGO Group, which was conceived and largely put in place in 2004, is designed to make this recovery lasting.
- 2004 produced the best result in Munich Re's history.

With these results, we have gained considerably more room for manoeuvre in developing the Munich Re Group, which we intend to utilise in the coming years in the long-term interests of our shareholders.

How does Munich Re manage its business?

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

For non-life business, we use the following financial concept:

Adjusted result	–	Cost of equity: Necessary operating equity X Target rate	=	Value added

The adjusted result serves as the basis for determining the value added. It consists of the adjusted underwriting result, the investment result and the remaining non-technical result, each adjusted to eliminate the effects of random fluctuations.

We compare the adjusted result with the cost of equity that we need to earn. The basis for determining the cost of equity is the necessary operating equity, which is derived from the risk-based capital, the solvency capital and the IFRS equity capital.

The risk-based capital quantifies the risk of the individual units' business, enabling us to compare risks from non-life and life, from investments, and from reinsurance and primary insurance. It is based on Munich Re's risk tolerance and is calculated using an internally developed risk model.

If a business unit holds equity capital in excess of the risk-based capital in order to comply with market, rating or supervisory requirements, a return needs to be earned on this as well.

Any investment of capital in the Group must, from the investor's point of view, offer at least the return of an alternative risk-commensurate investment (opportunity costs). However, in order to significantly increase its corporate value, the Munich Re Group has set itself a target rate for the return on necessary operating equity that is markedly higher than the opportunity costs. We only achieve our objective if this target rate is achieved on a sustained basis.

Consequently, value is only added if the adjusted result exceeds the cost of equity.

In life primary insurance and reinsurance and in health primary insurance, we manage the business using embedded-value-based indicators to take account of the long-term nature of the business and the distribution of results over the duration of the policies. By setting a minimum return requirement, we ensure that here, too, an adequate return is earned on the capital employed.

In addition to these purely financial performance factors, non-financial performance measures like market penetraction, process efficiency and staff satisfaction play a major part in the strategic management of the Munich Re Group. We closely link strategy and operative planning by defining our strategies in balanced scorecards, from which we derive initiatives, performance measures and responsibilities within a framework of four perspectives: "financial", "market and client", "process" and "employee". We promote an entrepreneurial culture among staff through the clear allocation of responsibility and accountability, which makes it more apparent how much individuals can contribute to increasing value in their particular areas of work. In addition, ambitious return targets, integrated in our incentive system for the Board of Management and executives, ensure that the principles of value-based management are realised. In this way, we create the basis for identifying quickly and clearly those fields of business which add value for Munich Re, and for optimising the use of our resources.

In the long term, a firm can only be successful if it operates sustainably and takes account of non-financial performance factors as well. Value-based management is a holistic management system with which managers at all levels of the Group can steer their units in such a way that lasting value is created which also meets the expectations of external investors.

03
Group profile

The borders between insurance and reinsurance are fluid. We are in a position to carry risks regardless of where they occur and, as the Munich Re Group, to benefit from this diversification.

125years
Advancing innovation
We present a clear profile

Munich Re was the first reinsurer to acquire holdings in primary insurers and also to set up its own primary insurance company. Today we are one of the world's leading risk carriers, with operations in reinsurance and primary insurance. We are using our capacity for innovation to ensure we remain the "preferred partner in risk" in the future.

01


02


03


04


05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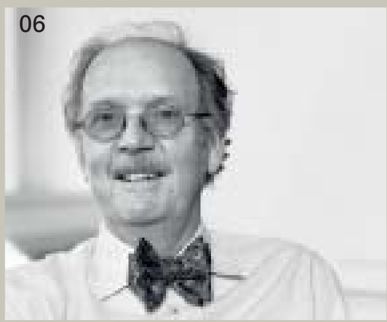


07


08


09


10


The Board of Management
(in alphabetical order)

01 **Dr. jur. Nikolaus von Bomhard**
(Chairman of the Board of Management)

* 1956, lawyer, with Munich Re since 1985
Executive Offices
Press
Internal Auditing
Strategic Planning

03 **Dr. jur. Heiner Hasford**

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

05 **Dr. rer. nat. Torsten Jeworrek**

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

07 **John Phelan**

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

09 **Dr. jur. Jörg Schneider**

*1958, business graduate, lawyer,
with Munich Re since 1988
Accounting
Controlling
Integrated Risk Management
Taxes
Investor Relations

02 **Georg Daschner**

*1949, chartered insurer,
with Munich Re since 1965
Europe 2 and Latin America

04 **Stefan Heyd**

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

06 **Christian Kluge**

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

08 **Dr. phil. Detlef Schneidawind**

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

10 **Karl Wittmann**

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

The Supervisory Board

CHAIRMAN (until 26 May 2004)
Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

CHAIRMAN (from 26 May 2004)
Dr. jur. Hans-Jürgen Schinzler (from 2 January 2004)
Former Chairman of the Board of Management
of Munich Reinsurance Company

DEPUTY CHAIRMAN
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Klaus Peter Biebrach (until 26 May 2004)
Employee of Munich Reinsurance Company

Peter Burgmayr (until 26 May 2004)
Employee of Munich Reinsurance Company

Holger Emmert (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. rer. nat. Rainer Janßen (from 26 May 2004)
Employee of Munich Reinsurance Company

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

Gertraud Köppen (until 26.5.2004)
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

Ingrid Müller (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Chairman of the Board of Management of Siemens AG
(until 27 January 2005)
Chairman of the Supervisory Board of Siemens AG
(from 27 January 2005)

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

Dr. rer. nat. Jürgen Schimetschek (from 26 May 2004)
Employee 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.-Chemiker Klaus Schumann (until 26 May 2004)
Employee of Munich Reinsurance Company

Kerstin Seefried (from 26 May 2004)
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 (until 26 May 2004)
Employee of Munich Reinsurance Company

Munich Re Group: Risk management is our business

Reinsurance + primary insurance + asset management = Munich Re Group

The Munich Re Group is one of the world's leading risk carriers. Over 40,000 staff in 60 countries vouch for the outstanding quality of our service. Our business extends along the value chain in insurance to include all aspects of risk-carrying in primary insurance and reinsurance business. We also operate in the field of asset management.

Munich Re Group

Reinsurance

Munich Re Group

American Re-Insurance Company

Munich American Reassurance Company

Munich Reinsurance Company of Canada

Munich Reinsurance Company of Australasia Ltd.

Munich Reinsurance Company of Africa Ltd.

Münchener Rück Italia S.p.A.

New Reinsurance Company

Great Lakes Reinsurance (UK) PLC

Primary insurance

ERGO Versicherungsgruppe AG

VICTORIA

Hamburg-Mannheimer

Deutsche Krankenversicherung AG

Deutscher Automobil Schutz

KarstadtQuelle Versicherungen

ERGO Previdenza S.p.A.

ERGO Hestia S.A.

Karlsruher Versicherungen

Europäische Reiseversicherung AG

Mercur Assistance AG

Munich Re Underwriting Ltd.

Asset management

MEAG MUNICH ERGO AssetManagement GmbH

Reinsurance: We insure insurers

When Munich Re was founded in 1880, in the heyday of industrialisation, it was one of the first reinsurance companies that did not itself conduct primary insurance. Reinsurers are risk managers – they assume parts of the risks covered by primary insurers. Reinsurance and primary insurance are thus two elements that complement each other.

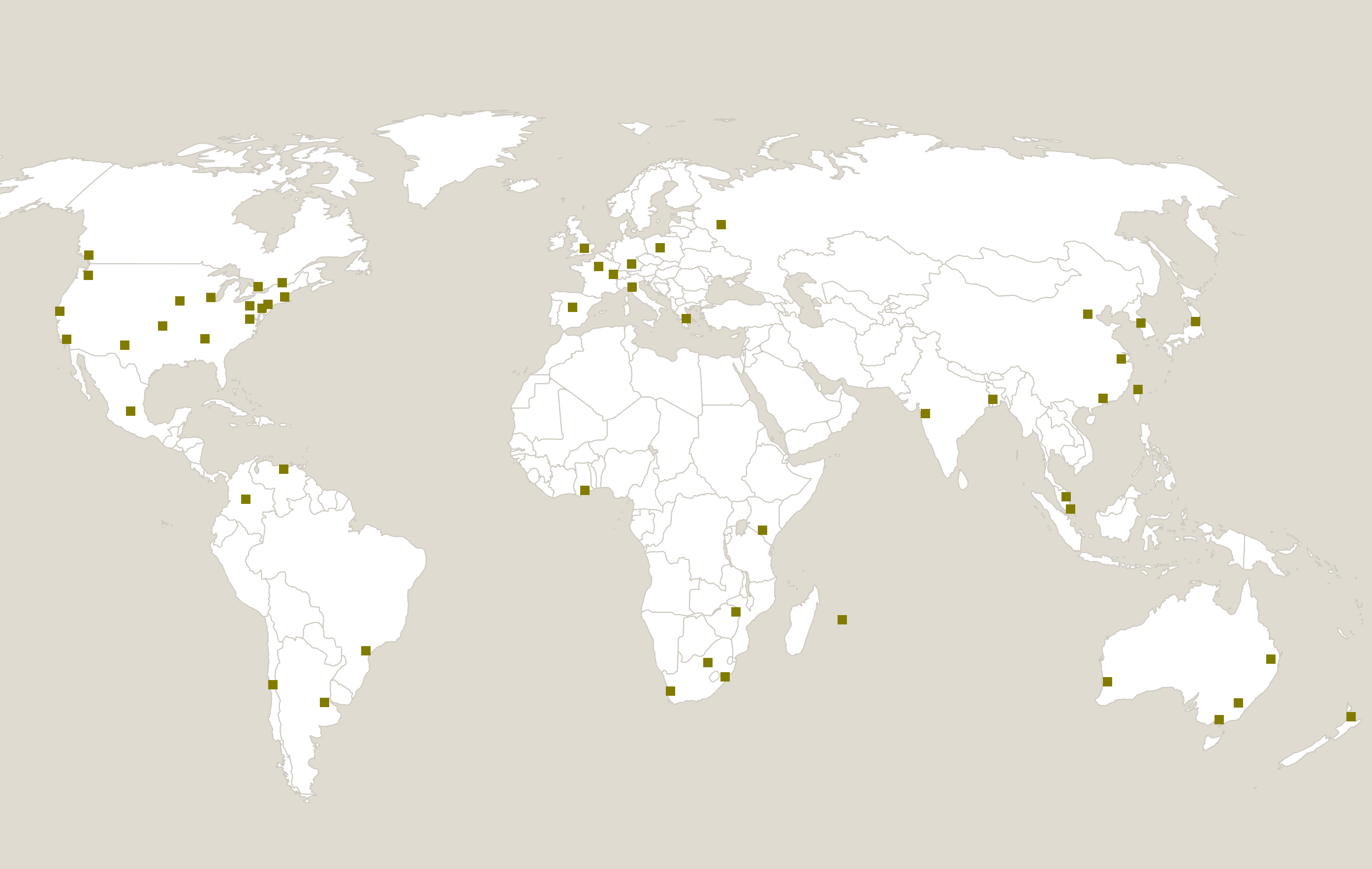
Reinsurance is by nature internationally oriented, since many large and catastrophe risks can only be borne in economic terms if they are spread globally. For perils such as earthquake, a balance of risks can only be achieved in a portfolio that is global in composition.

That is why, soon after its establishment, Munich Re expanded its activities to foreign countries. Starting in 1886, it set up offices in other European countries, and opened its first branch in the USA in 1899. Since then, it has numbered among the largest reinsurers in the world: today, 5,000 insurance companies in around 160 countries rely on its expertise and financial strength.

Of the gross premiums totalling €22.4bn written in 2004, around 66% came from property-casualty and 34% from life and health business. Munich Re offers a full range of products – from traditional forms of risk transfer to alternative, individual coverage concepts of financial reinsurance.

Besides the traditional lines of business, we reinsure inter alia the risks of natural catastrophes, satellites and major events, and those arising from the use of genetic engineering and information technology or from the management of companies.

Reinsurance locations



Structure of the reinsurance group

Our reinsurance business is organised in seven operative divisions, six of which service our property-casualty business and special lines, and one of which deals with life and health reinsurance. Full responsibility for the respective client accounts always lies in one pair of hands. The operative divisions are also responsible for our business units abroad, including our subsidiaries.

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

In our division Europe 1, we handle non-life business from our clients in Germany, Switzerland and Austria, eastern Europe, Greece, and Turkey.

Our division Europe 2 and Latin America services clients from northern, western and southern Europe, as well as from Latin America.

Our division Asia, Australasia, Africa takes care of property-casualty business with clients in these three continents and the Pacific Islands.

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

Europe 1

Munich, Athens, Moscow, Warsaw

Europe 2 and Latin America

London, Madrid, Milan, Paris

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

Subsidiaries/Branches:
Munich Ré France
Münchener Rück Italia
Münchener Rückversicherungs-Gesellschaft Sucursal España y Portugal
Munich Reinsurance Company UK General Branch

Special and Financial Risks

Geneva, Johannesburg, London, Munich, New York

Subsidiaries/Branches:
New Reinsurance Company
Great Lakes Reinsurance (UK) PLC
Munich American Capital Markets
Munich-American RiskPartners
Nova Group

Corporate Underwriting/Global Clients

London

Subsidiaries/Branches:
Munich Re Underwriting Ltd.

Asia, Australasia and Africa

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

Accra, Cape Town, Durban, Harare, Johannesburg, Nairobi, Port Louis

Auckland, Brisbane, Melbourne, Perth, Sydney

Subsidiaries/Branches:
Munich Reinsurance Company of Africa
Munich Reinsurance Company Australian Branch
Munich Reinsurance Company New Zealand Branch
Munich Reinsurance Company China Branch
Munich Reinsurance Company Singapore Branch
Munich Reinsurance Company Hong Kong Branch
Munich Reinsurance Company Malaysia Branch
Munich Reinsurance Company Korea Branch

North America

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

Subsidiaries/Branches:
Munich Reinsurance Company of Canada
American Re-Insurance Company
Temple Insurance Company

Life and Health

Atlanta, Chicago, London, Montreal, Mumbai, Princeton, Santiago de Chile, Sydney, Toronto, Waltham

Subsidiaries/Branches:
Munich Reinsurance Company of Australasia
Munich American Reassurance Company
Munich Reinsurance Company Canada Branch (Life)
Munich Reinsurance Company UK Life Branch

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

Special and Financial Risks (SFR) is responsible for the special classes of credit, aviation and space, enterprise risks and contingency risks, and for alternative markets business. Besides this, it develops and implements division-specific innovation projects and coordinates the overarching work of the innovation teams in the non-life divisions. Via Munich American Capital Markets (MACM), we structure and offer the transfer of insurance risks to the capital market (see page 65). In addition, SFR also attends to our own reinsurance (retrocession).

Awards
The Munich Re Group received a number of awards in 2004. We are delighted to gain such recognition, and thank all of our staff who contributed to this success.

Flaspöhler Survey 2004: Best Overall Reinsurer
In a survey by the Flaspöhler Research Group, an independent US market research institute, Munich Re was voted "Best Non-Life Reinsurance Company" ahead of all other competitors. It also came out top in the "Life Reinsurers" category. This means Munich Re was considered by the participating primary insurers to be the best provider, taking the title of "Best Overall Reinsurer".

Reactions Awards 2004: Reinsurer of the Year
Munich Re was awarded the title of "Reinsurer of the Year" by the British journal "Reactions". The award was based on a vote among readers of the journal, who are primarily involved in insurance and reinsurance.

MEAG
- Second place among the "small companies" in the over-ten-years performance class (Standard & Poor's Fund Awards 2004)
- Top ratings for MEAG EuroInvest from the international fund rating agencies FERI Trust, Morningstar and Standard & Poor's
- More than 50% of the rated retail funds have been given four or five stars (volume-weighted according to Standard & Poor's at 31 December 2004)

Best annual report
Munich Re was awarded first place by "manager magazin" in its competition for the best annual report.

Primary insurance:
We offer security for private and corporate clients

The second main pillar of the Munich Re Group is primary insurance business. Here we focus on Europe and particularly Germany, where we are the second-largest primary insurance group in terms of gross premiums written in 2004.

Munich Re primary insurance group

ERGO Versicherungsgruppe AG

Karlsruher Versicherungen

Karlsruher Lebensversicherung AG and other subsidiaries

Europäische Reiseversicherung

Subsidiaries in Czech Republic, Denmark, France, Italy, Poland, Sweden, Spain and the UK, and participating interests in Austria, Hungary and the Slovak Republic

Germany

Life

- Hamburg-Mannheimer Versicherungs-AG
- VICTORIA Lebensversicherung AG
- Vorsorge Lebensversicherung AG
- KarstadtQuelle Lebensversicherung AG
- Neckermann Lebensversicherung AG

Health

- DKV Deutsche Krankenversicherung AG
- VICTORIA Krankenversicherung AG
- KarstadtQuelle Krankenversicherung AG

Property-casualty

- VICTORIA Versicherung AG
- Hamburg-Mannheimer Sachversicherungs-AG
- D.A.S. Versicherungs-AG
- KarstadtQuelle Versicherung AG

Legal expenses

- D.A.S. Allgemeine Rechtschutz-Versicherungs-AG
- Hamburg-Mannheimer Rechtsschutzversicherungs-AG

International*

Life

- ERGO Previdenza S.p.A., Milan
- Hamburg-Mannheimer N.V., S.A., Brussels
- VICTORIA Seguros de Vida, S.A., Lisbon
- VICTORIA-Volksbanken Versicherungsaktiengesellschaft, Vienna
- Vorsorge Luxemburg Lebensversicherung S.A., Münsbach

Health

- DKV Belgium S.A., Brussels
- DKV Seguros y Reaseguros S.A., Saragossa

Property-casualty

- STU ERGO Hestia S.A., Sopot
- ERGO Assicurazioni S.p.A., Milan
- Nieuwe Hollandse Lloyd Schadeverzekeringsmaatschappij N.V., Woerden

Legal expenses

- D.A.S. Subsidiaries and branches in Austria, Belgium, Czech Republic, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Slovak Republic, Spain, Switzerland and the UK

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

As primary insurers, we provide more than 30 million clients – mainly private individuals and small and medium-sized firms – with security and service in life, health, property-casualty and legal expenses insurance. Around 30% of the business, which has a total premium volume of €17.5bn, derives from property-casualty and 70% from life and health insurance.

Structure of the primary insurance group

Our primary insurers include the ERGO Insurance Group, the Karlsruher Insurance Group, Europäische Reiseversicherung and the assistance services provider Mercur Assistance.

The ERGO Insurance Group was created in 1997 by merging the long-established German companies VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. In 2002, they were joined by KarstadtQuelle Versicherungen.

In April 2004, ERGO unveiled its new management organisation. Segment responsibility at holding company level and the chairmanship of the relevant company have been combined. In addition, there are two new seats on the ERGO holding company board for cross-segment functions. This bundling of responsibilities represented a consistent extension of the single back-office approach. The strong identity of the individual brands and their sales channels remain intact.

In November 2004, Munich Re decided to involve ERGO more closely in significant Group processes, especially strategic issues and risk management, so that there is now "unified control" within the meaning of the German Stock Companies Act.

The main emphasis of the ERGO Group's business is on personal lines insurances, especially insurances of the person, i.e. life, health and personal accident insurance. Another important segment of ERGO's business is insurance for small and medium-sized firms as well as, on a selective basis, industrial business. Moreover, ERGO is one of the leading providers in the market for company pensions. In health insurance and legal expenses insurance, it holds a leading position in Europe through DKV and D.A.S. respectively.

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

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

With numerous subsidiaries and affiliated companies in 11 countries, as well as a network of strategic cooperation agreements, Europäische Reiseversicherung is an effective international alliance. Its most important product is travel cancellation insurance. EUROPÄISCHE is innovative in new sales channels such as the internet and in new types of insurance benefit. For example, its new Corporate Travel Insurance (CTI) provides all-round travel protection for international business trips.

Mercur Assistance offers 24-hour assistance services worldwide in the field of medicine and mobility.

The Watkins Syndicate has been part of the Munich Re Group since 1997. It specialises in marine business and has taken advantage of the favourable conditions over the last few years to substantially improve its market position and broaden its risk profile. Today it is the largest marine syndicate at Lloyd's and is represented in the UK, Hong Kong and Singapore.

Asset management: We are partners for investment

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) is one of the major asset managers in the European financial sector. It was set up by Munich Re and ERGO in 1999 to bundle the two groups' investment activities and the management of their real estate. Virtually the entire asset management of the Munich Re Group is concentrated in MEAG. Altogether, it had around €142bn under management at the end of 2004.

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

Asset management structure

The subsidiary MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH is one of the major investment fund companies in Germany, managing special and retail funds both for Group companies and for clients outside the Munich Re Group.

MEAG's stake in the joint venture FSB FondsService-Bank GmbH was sold with effect from 1 January 2005.

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

04
Business issues 2004

Carrying risks – our business for 125 years. With our competence and innovative capacity, we actively work for successful solutions: be it in the dynamically growing markets of eastern Europe and China, through our involvement in healthcare management, or in our response to climate change.

125 years
Advancing innovation
We shape the future

"Integrated risk management" or "customised portfolio solutions" would have been completely unknown to our founder Carl Thieme – but not the commitment to developing future-oriented, individual client solutions. In 1910, we broke new ground by writing aviation insurance; nowadays it is the uncharted territory of fields like nanotechnology and biotechnology that we are concerned with. For 125 years it has been our task to answer the questions of tomorrow today.

Hurricanes and typhoons: New paths through the storms

Behind us lies a record year of windstorms. The trend is clear: a higher incidence of cyclones and increasing losses. Our approach to managing the risks more effectively includes new solutions to supplement a high level of underwriting discipline.

Charley, Frances, Ivan, Jeanne, Songda and Tokage – names that belie the fact that they are natural forces which last year claimed the lives of many people and caused enormous damage. The economic losses from the 2004 windstorm season in the Atlantic and Pacific totalled approximately US$ 50bn, of which US$ 20–35bn will be borne by the insurance industry.

Windstorm record in Florida

Hurricane Charley alone, which cut across Florida on 13 and 14 August 2004 and reached maximum gust speeds of over 280 km/h, was responsible for estimated economic losses of US$ 20bn, of which around US$ 7.5bn was insured. At the end of August and beginning of September, Frances raged over the Caribbean and Florida, causing insurance losses of US$ 4.5bn. Just a few days later, Ivan and Jeanne hit the same region, wreaking havoc that will cost the insurance industry US$ 9bn and US$ 4–5bn respectively. Florida registered a record number of storms in 2004. Since 1886, there had been only three years in which the state was struck by three hurricanes. Last year there were four.

The northwest Pacific was also affected by violent storms in 2004. Typhoons Songda and Tokage caused billions of dollars of destruction on the Japanese islands. Insurance losses from these two cyclones and from eight other tropical cyclones are estimated at US$ 5–6bn.

2004 became the year with the highest loss total in the north Pacific in recent decades, Tokage being the tenth cyclone to sweep over Japan.

The trend is unmistakeable: severe storms are becoming more frequent. Long-term weather observations prove this, as does the record year 2004. In the northwest Pacific, it is the tropical cyclones and weaker typhoons that are occurring more frequently, whereas in the Atlantic and Caribbean the number of windstorms in all categories is increasing. Particularly alarming is the rise in very severe hurricanes: around 150 years ago there was an average of only one windstorm of this category over the Atlantic every year; now the expectation stands at three.

The experts are agreed on the causes of this development: one of the main impacts of global climate change is that the oceans are becoming warmer. As a consequence, the area of water with the critical surface temperature of 26 to 27°C is also increasing – one of the conditions for a tropical cyclone. The result: a larger number of severe windstorms which, in turn, also produce higher claims amounts. Hurricane Andrew in 1992 is still the highest insurance loss ever caused by a single hurricane in the USA (US$ 17bn). Until recently, Hurricane Hugo in 1989 was listed as the second-highest (at US$ 4.5bn), but insured losses in the year under review for each and every one of the four large hurricanes were either equivalent to or even higher than the "hundred-year storm" Hugo.

Consistent underwriting policy

Munich Re is countering this trend by adopting various strategies. We are using our meteorological expertise, which is unique in the international insurance industry, to calculate the weather risks as accurately as possible and taking these findings into account in our treaty conditions, for instance by consistently introducing event limits. Our underwriting policy is positively reflected in our result for 2004: in relative terms, Munich Re was not hit as hard by the windstorms as some other providers.

This is illustrated by the greatest-ever loss in the history of marine and offshore energy insurance, which is currently estimated at US$ 2.5bn and was triggered by Hurricane Ivan. Munich Re's share amounts to only approximately US$ 40–45m, i.e. less than 2% of the overall loss. Since we consider the accumulation exposure for offshore energy risks to be very high, we consciously kept our share in catastrophe layers comparatively low in this business segment. In our view, the reinsurance premiums that can be achieved in the market are not commensurate with the statistically expectable return periods. This is one of the reasons why Ivan's effect on Munich Re was relatively limited, even though our world market share in treaty reinsurance is significantly over 10% in the marine and offshore energy area.

We are developing customised solutions to meet the recurrent demand for new types of cover. In the wake of the unusual accumulation of severe storms in the past year, clients are increasingly requesting protection against such events. We have developed various products to cover these frequency losses. Another example of new insurance demand are oil rigs. These had to be evacuated and their operation interrupted in part because of statutory provisions applying when a storm is imminent. Even if a rig is not devastated by the storm, it is still affected by a business interruption loss. Our experts are developing new insurance solutions for cases like these.

Our solutions allow weather-sensitive companies such as power suppliers, organisers of events and manufacturers of drinks, clothing and air-conditioning systems to stabilise their results. We tailor our products to the customers' requirements in a number of ways: in the form of traditional, customised reinsurance covers, or as capital market products available from our subsidiary Munich American Capital Markets, which transfers insurance risks to the capital market (see page 66). We are thus in a position to provide our clients with a solution that best suits their needs and limits both their risks and ours.

Tropical cyclone
When tropical cyclones attain hurricane force (force 12 on the Beaufort Scale, i.e. 118 km/h) in the Atlantic and northeast Pacific, they are referred to as hurricanes; in the Indian Ocean, the area around Australia and the south Pacific, they are called cyclones; in the northwest Pacific, they are referred to as typhoons. If they do not reach hurricane force, i.e. if they range from 62 to 117 km/h (8–11 on the Beaufort Scale), they are referred to as tropical storms.

Hurricane Ivan, moving at wind speeds of up to 220 km/h towards the coast of Alabama. Picture by kind permission of the MODIS Rapid Response Project of NASA/GSFC.

Eastern Europe: Differentiated view required

The enlargement of the EU to the east has given a definite boost to economies in central and eastern Europe. A differentiated view of the economic parameters is nevertheless essential. New insurance products, in-depth knowledge of the local situation and good relations with clients can open up sustainable opportunities for development.

Attracted by what they imagined to be excellent growth prospects, a whole range of companies began courting the countries of central and eastern Europe at the beginning of the 1990s. But the policy of many international groups in extending their business all too rapidly to the former Warsaw Pact countries has not always paid dividends. Quite a few investments have failed to bear fruit, owing to an undifferentiated view of the very heterogeneous countries and state of development of the individual markets.

Great development potential

It is true that, with growth rates of 3 to 7%, the economies of central and eastern Europe are considerably more dynamic than the 15 western and southern member states of the European Union, with around 2%. But even under optimum conditions, most of them will require many years to reach the average per capita GDP of other EU states. Their insurance markets already offer great development potential. In the year 2003, the new EU members states of Poland, the Czech Republic, Hungary, Slovenia, the Slovak Republic, Latvia, Lithuania and Estonia generated a premium volume of over US$ 15.5bn, compared with US$ 930.8bn in the 15 states of the old EU in the same period. The markets are characterised by keen competition, partly fuelled by numerous foreign investors. In Hungary, for instance, 84% of insurance business is in foreign hands. In Poland, the Czech Republic and Slovakia, on the other hand, the former state monopoly insurers still hold a strong position. The three Baltic states are developing well economically, with foreign insurance companies – especially from their Scandinavian neighbours – strongly represented.

Progress in the markets of the candidates for EU accession, Bulgaria and Romania, is considerably slower than in the new EU member states. People in these countries have not yet adjusted to the idea of privately insuring themselves against risks. The attitude still prevails in many cases that the state is responsible for providing cover for its citizens.

Russia occupies a special place among the eastern European economies. For reasons of size alone – 17 million square kilometres spread over seven time zones, with a population of some 147 million (equivalent to nearly a third of the population of the EU) – the country offers enormous insurance potential. At present, insurance activities there are concentrated mainly on Moscow and St. Petersburg.

The challenge for us is to exploit the opportunities presented by the dynamic growth of the central and eastern European economies. Particularly in the new member states of the European Union, the conditions for this have basically been created. As legal parameters become more similar and liberalisation advances, the markets are increasingly opening up for western companies. Non-life insurance is currently more significant than life insurance, the former's share amounting to 64% in 2003 (compared with 42% in the old EU members states) and primarily driven by motor insurance. In collaboration with our business partners, we create individual solutions for the rapidly growing markets and for the demands arising from the privatisation process.

Social security systems under pressure

The states of central and eastern Europe face similar if not even greater problems with their social security systems to those encountered by western countries. Whereas Germany currently spends approximately 4% of its gross domestic product on financing its system, this figure is around 15% in Poland. Here, too, new models are called for to provide the necessary security, and we draw on our know-how to support the creation of appropriate solutions.

In order to provide new impulses and expand our business, we are employing innovative concepts in these countries to help primary insurers launch new insurance products on the market. One example is a model we have devised for disability insurance, which ensures extensive cover for two years after the occurrence of occupational disability. The idea is that insureds endeavour to take up a new occupation within these two years. If they do not succeed, they only continue to receive insurance benefits if their disability prevents them from pursuing any occupation at all. This scaled cover makes it possible to set an attractive insurance premium for the eastern European market.

The key to successful operations in eastern Europe is knowing the local situation and clients well. We build up contacts via established representatives and thus achieve stable growth of our business. The dominance of former state insurance companies makes it difficult to write profitable business on a large scale. We therefore cooperate closely with regional insurers. Our branches in Moscow and Warsaw give us proximity to the markets and resultant regional competence. They allow us to carefully select partners with whom we want to develop our business long term. We can thus exploit the opportunities that present themselves in eastern Europe and participate profitably in the steady evolution of these markets.

Capital market solutions: Innovative tools for risk hedging

In certain cases, the demand for risk protection exceeds the capacity provided by insurers. At the same time, investors on the international capital markets are constantly seeking new forms of investment. Our subsidiary Munich American Capital Markets (MACM) fills the gap, linking the rising demand for insurance with innovative capital market products.

As last season's windstorm season demonstrated, natural hazard events can cause gigantic losses within a very short period. It is beyond dispute among climate experts that climate change will lead to more natural catastrophes and meteorological anomalies. The resultant losses could push the limits of the insurance industry's capacity to assume these risks. New, innovative instruments are therefore becoming increasingly important for the industry.

The international capital markets are assuming growing significance in this context. Innovative financial market products are extremely well suited for diversification purposes and are ideal supplements to traditional underwriting and asset management techniques.

Weather derivatives are financial instruments for hedging against the vagaries of the weather. Meteorological research institutes estimate that around 80% of the turnover and profitability of all economic activities are dependent – either directly or indirectly – on the weather. In winter, energy consumption increases because of heating needs, whereas in summer it rises due to greater use of air-conditioning and cooling systems. But above all, crop yields in agriculture are subject to substantial weather-related fluctuations. In the case of such risks, hedging via weather derivatives like weather options may be considered. The purchaser of a weather option pays a premium for the right to receive a compensation payment if, for example, the temperature falls below or exceeds a certain threshold stipulated in the option.

Another way to protect oneself against losses from natural catastrophes like earthquakes or windstorms is through structured bonds, known in the trade as catastrophe bonds or insurance securitisation. Here the risk of a potential loss event is securitised and issued as a bond. This has a better return than traditional bonds, because investors demand an enhanced spread for what is generally regarded as a novel form of risk. For if the predefined loss event occurs, the bond loses some or all of its value, the paid-in capital is used to cover the losses, and the investor could be left with nothing.

MACM protection for energy company

Munich Re has bundled its capital market activities for risk transfer and hedging in its subsidiary Munich American Capital Markets (MACM), through which we assume risks from our clients and place them on the capital market. Last year, for instance, we helped protect an American energy company against its high dependency on the weather. This company's earnings deteriorated substantially in warm winters. For this risk, MAMC developed an index-linked product for the capital market. One parameter for this was the number of particularly warm days during the heating period. Our experts discovered that the relationship between energy consumption and temperature is not linear. And so a differentiated structure emerged, which allows the company's risk to be limited depending on the course of the winter.

But weather and natural catastrophes are only one of the many fields of business in which MAMC operates. Innovative solutions are in ever greater demand elsewhere, too. An example is the search for alternative financing possibilities for research and development costs in the pharmaceuticals industry, or in all areas where it is necessary to protect future income – in the leisure industry, among toll-road operators, or in the film sector.

Film productions nowadays frequently cost US$ 100m or more. As the production costs rise, so does the entrepreneurial risk: if the film is not successful, the studio can find itself in serious difficulty. MAMC has provided cover for a whole package of films from one US film studio. For this film portfolio, it developed a model that made it possible to evaluate the portfolio performance and the earnings prospects. In this way, a sound decision-making basis could be established for the risk that a slate of films does not produce the expected income. The solution is transparent for both the company and investors – possible losses are clearly defined.

We also advise our clients in the development of innovative risk transfer or risk financing structures in life insurance and company semi-retirement schemes. Alternative capital market solutions are becoming increasingly important in life insurance: to finance business, to comply with reserving regulations or to transfer risk. They allow the capital employed to be optimised and performance to be improved.

In Germany, we have come up with an innovative solution for company semi-retirement schemes. Since 1 July 2004, companies have been legally obliged to provide suitable protection for their employees' working-hour accounts. We combine traditional insurance elements with modern capital market instruments and use derivatives to hedge against price movements, all in all an economic and efficient alternative for protecting semi-retirement credit.

Growing capital-market appetite

We are convinced that our tools for assessing risks and for devising these innovative capital market solutions constitute an important part of risk management – both for our clients and for our own business. Although the capital market's appetite for insurance-related risks is currently still small, there is clearly an upward trend. Institutional investors in particular can no longer ignore such products and regard these risks as an interesting way to complement and diversify their investment portfolios.

Customised portfolio solutions: Growth market "retrospective reinsurance"

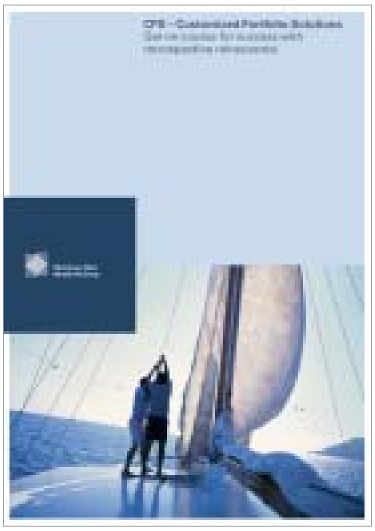
When insurers and industrial firms actively manage the run-off of their claims portfolios, they improve their risk and capital situation.

The demands being made on insurance companies' capitalisation are continually mounting, whilst the risks to which insurers are exposed are being looked at in an increasingly differentiated way. It is therefore becoming more and more important to actively manage these risks and the capital employed. An attractive option in this context is retrospective reinsurance. In contrast to conventional reinsurance, it provides protection not for future risk periods but for periods that have already expired. For it is a feature of insurance that although coverage has expired, the ultimate claims amount often remains unknown for a long time – possibly for decades in the case of liability business. Retrospective reinsurance offers the prospect of sharing the run-off risk with the reinsurer or even ceding it completely, freeing up capital for other investments.

Prepared for the new regulations

Many companies underestimate the advantages that can be derived from arranging protection for their claims portfolios. But pressure is growing to carry out effective risk and capital management – it is required by investors, rating agencies and new solvency and accounting regulations. Retrospective reinsurance also offers interesting opportunities for limiting risks in the case of strategic realignments or takeovers.

In principle, it functions just as simply as conventional reinsurance: the primary insurer cedes risk to the reinsurer against payment of a premium. At present, the run-off risk for claims portfolios is usually regarded as a factor that cannot be influenced. Few companies actively manage the reserving risk; most concentrate on adequate administration of their claims portfolios and keeping an eye on run-off performance.



Our CPS brochure introduces the Munich Re centre of competence and concisely outlines the basic functioning of retrospective reinsurance.
www.munichre.com/mr-publications
Order number 302-00926

Potential demand in continental Europe

Insurers in the Anglo-Saxon markets currently use the product much more frequently than insurers in continental Europe. But in these countries, too, the potential for companies to simultaneously optimise their risk and financial situation is enormous. By removing risks from their books, they release capital and management resources that may be better allocated to other areas and improve important solvency and balance-sheet ratios.

Munich Re has been offering individual reinsurance solutions for claims portfolios since 1997. The risk assessment process for these covers focuses on different elements to those in traditional reinsurance: at the centre are the risks of error and change. The underwriting of such business has consequently been assigned to a dedicated centre of competence – Customized Portfolio Solutions (CPS). Twelve specially qualified staff provide the expert knowledge required for the underwriting and performance control of such business and ensure that this know-how is developed further. CPS also draws on the experience and knowledge of actuaries, lawyers and other experts via the international network of the Munich Re Group. This enables us to successfully exploit the whole range of opportunities emerging from this globally growing market.

Healthcare management: Working hard for better health

Healthcare in many countries is ailing. Everywhere cost-saving is on the agenda. Counter to the general trend of cuts, we are successfully pursuing initiatives for improved healthcare management with more service – for better health at economically viable conditions.

Health is a valuable good. The industrial nations in particular spend a great deal of money on it. Top of the table in per capita expenditure for healthcare is the USA, which according to a World Health Organization report, stood at US$ 4,887 in 2001. In second place was Switzerland with US$ 3,779, whilst average spending in the European Union totalled US$ 1,843. The costs of healthcare systems are constantly rising worldwide. In many countries, ideas for more efficiency are being debated, some of which have been implemented. But not much has changed with regard to the fundamental problems. There is still a tendency to look at things in isolation, with a lack of coordination between service providers, cost carriers and end consumers.

The Munich Re Group is one of the major cost carriers in healthcare. DKV, for example, which belongs to our primary insurance group ERGO, is the largest private health insurer in Europe. Europäische Reiseversicherung provides cover for medical costs incurred during travel. In addition, as health reinsurers, we assume and manage risks from our primary insurance clients throughout the world. Given this position, we naturally have a vital interest in money being spent well on patient care and in all technical risk components being soundly assessed and managed.

Competence along the whole treatment chain

Optimising the management of medical care is at the very heart of our initiatives. Throughout the whole treatment process – from searching for the right specialist, through diagnosis and therapy, to rehabilitation – we provide services that give our clients additional benefits to those of the insurance itself and also improve our risk management. A guiding principle in this process is a fair balance of interests between insured, insurer and provider, to achieve the best possible treatment at economically acceptable conditions.

We help to resolve the apparent conflict between optimum care and lowest possible costs through our additional services. Our subsidiary MedNet, for instance, assumes organisational tasks in connection with health insurance, especially in the Arab region but also in Italy, Greece, Turkey and Cyprus. In these countries, many health insurers are not equipped to deal with the special procedures and business processes connected with medical care and invoicing. In order to improve healthcare management, we draw on the information gained from our insurance cases and the medical know-how of our experts. We work out proposals for better and more cost-effective treatment. Thus a patient whose complex medical treatment in the United Arab Emirates would have cost US$ 17,000 was, on our initiative, treated in Germany – at a higher standard of medical quality and a significantly lower cost of US$ 12,000.

Standards for treatment developed

We achieve similar successes through the work of our specialists at ArztPartner almeda, a subsidiary of DKV. They develop disease management programmes for selected medical diagnoses, based on information from health insurers and patients. The primary focus here is on chronic conditions such as cardiac insufficiency, diabetes mellitus, asthma and coronary heart disease. In line with a tried-and-tested standard, patients with such diagnoses are accompanied throughout the course of their illness, with consultation and involvement of all the parties concerned. This substantially enhances quality and efficiency for patients and health insurers. By using such a programme, it has proved possible to reduce expense for patients suffering from cardiac insufficiency by around 30% per case.

A special service called "Best Care" is available from DKV. This guarantees that insureds suffering from one of 25 serious conditions can be treated without delay by top specialists in Germany. DKV organises the contact between patient and specialist, and provides for swift therapy and rehabilitation. A scientific advisory board, comprising renowned doctors from the relevant disciplines, supports the work of the Best Care network. In this way, DKV improves medical and post-operative treatment for its insureds.

Our cooperation with Best Doctors Inc. is also all about ensuring the best possible healthcare for our clients. Via a database with around 50,000 physicians worldwide, this organisation offers patients the chance to have a diagnosis checked by one of the recognised specialists on its register. Our US subsidiary American Re has integrated this service into its products, above all in the field of workers' compensation, and as a result has been able to significantly improve traditional treatment management and case management, making them more cost-effective. Unnecessary operations are avoided and patients are cured more quickly. Hence it proved possible to save the eye of one patient, for instance. A doctor wanted to remove her left eye because of a malignant tumour. Through Best Doctors, however, the young woman found a doctor for alternative treatment. Best Doctors not only provide access to better forms of therapy; they also help to reduce costs for acute treatment. On average, expenses for acute care in the first year have decreased by around 27%. Besides this, the co-operation with Best Doctors has helped to prevent cases of long-term disability among insureds as well. The reserves for lifetime benefits from workers' compensation insurance alone have fallen on average by more than US$ 190,000 per patient. In the biggest case to date, it was possible to reduce the reserves by as much as US$ 2.2m. A man who had been struck by lightning was first thought to be clinically dead but in the meantime he has been fully restored to health and has returned to his job without any residual disability. Our Canadian subsidiary Munich Reinsurance Company Canada Branch (Life) offers clients the services of Best Doctors as an add-on to its critical illness products.

Creating the platform for optimum care

A special contribution to healthcare management is made by our subsidiary Mercur Assistance. As the first point of contact, it offers a 24/7 information and advisory service by phone, e-mail or internet to patients at home and abroad who need help in locating a doctor or answering medical questions. It takes on and bundles tasks that health insurers cannot provide on such a broad scale, thus helping to start things moving in the right direction right from the beginning of treatment. Mercur Assistance organised extensive support, for example, in 2002 after the attack on the synagogue on Djerba (Tunisia), or after a bus accident involving a German-Swiss travel group in Mexico in 2004, and not least following the terrible flood disaster in South Asia (see box). In the process, it has proved its ability to competently manage and coordinate help internationally in emergency situations.

And so, in quite different ways, we as the Munich Re Group improve the management of medical and insurance cases with our experience and competence. Our service initiatives provide added value for health insurers and patients, as well as enhancing quality and efficiency both at primary insurance companies and in our own insurance and reinsurance.

Extensive service and assistance management for tsunami victims

Swift and well-coordinated professional help is more crucial than ever in the wake of disasters like the tsunami at the end of 2004. After the earthquake off Sumatra and the devastation caused by the gigantic waves that followed, Mercur Assistance quickly took on the task of managing the medical care and repatriation of injured tourists. As an experienced service provider for insurance companies and their insureds in emergency situations, our subsidiary worked tirelessly behind the scenes, initiating, organising and coordinating a whole range of assistance measures.

The tsunami in South Asia and its aftermath are one of the greatest natural catastrophes in human memory. The death and destruction it caused afflicted both the local population and tourists.

Injured people far from home required special help: rapid medical care, treatment to stabilise their conditions, repatriation and, finally, hospitalisation as near to home as possible.

Within a very short time, Mercur Assistance organised and coordinated this for around 200 tourists, acting centrally for all assistance providers of the German Insurance Association (GDV). Soon after the first news of the tsunami on 26 December 2004, the Mercur Assistance team started preparing itself for the foreseeable catastrophe. Extra shifts worked round the clock in Mercur's crisis centre. After consultations with the Foreign Office in Berlin, a German air force Airbus ambulance (MedEvac) was chartered and flown to Phuket to provide for the care and repatriation of insureds. Severely injured patients were transferred to special hospitals in Bangkok, while for the less seriously injured, flights back home were organised with travel operators. European partner organisations also arranged for injured tourists from Scandinavia, Belgium, Austria and Switzerland to be repatriated through Mercur. In a huge effort extending over one-and-a-half weeks, the Mercur Assistance team handled more than 200 cases, with all the people involved receiving medical attention of some kind and the necessary information being forwarded to the claims staff at the respective insurance companies.

A cool head and experience in disaster relief are essential in such operations. With its extensive know-how in providing professional aid, also internationally and over long distances, Mercur Assistance ensured that those in need received fast and competent help.

DKV in China:
Initiative in the largest growth market

The Chinese market offers virtually unparalleled potential for development. ERGO's health insurance subsidiary DKV has played an active part in establishing the first private health insurer in China.

In 2003, the approximately 1.3 billion inhabitants of the "Middle Kingdom" generated a GDP of almost US$ 1.4 trillion. The People's Republic of China is thus one of the most important markets of the future. It is the sixth largest economy in the world – with growth rates far above the average: in 2003, real growth in GDP totalled 9.1%.

Given the evident business potential, companies all over the world are investing in China. Although the markets are in part still subject to restrictive rules and regulations, global groups of companies are already jockeying for position to ensure successful long-term involvement in the People's Republic.

Major opportunities for health insurance

The health insurance market's development is particularly dynamic. Although its share in China's overall premium income is only around 6%, it has grown by up to 50% per annum in recent years. In 2003, income from health insurance products totalled more than €2bn. The majority of the population does not yet have enough health cover; however, the authorities are promoting the expansion of private health insurance.

Last year DKV, which has been represented in China since 1998, participated in establishing the PICC Health Insurance Company of China Limited. It is the first private health-only insurer, as it was hitherto customary in China to combine life and health insurance. DKV's stake is 19%, the maximum share a foreign company is allowed to hold in Chinese enterprises. Partners in the joint venture are PICC (51%), which is the largest Chinese insurance company with a premium income of US$ 6bn, and three Chinese investors, each holding a share of 10%. PICC has a very attractive and well-established brand and a market-wide sales network.

DKV has contributed not only financially; it has also offered the new company organisational and personnel support. 15 of its specialists are providing initial assistance in building up PICC Health. DKV is represented on the company's administrative, management and supervisory bodies. It also provides the chief actuary, who plays a major role in developing new products and premium calculations. DKV can draw on its experience as Europe's largest private health insurer, and we are convinced that all parties will benefit from it.

Life insurance: The future belongs to private provision

Despite the reforms in Germany, life insurance remains an attractive way of making private provision for old age. The companies in the Munich Re Group offer security and profitability.

Throughout Europe, demographic change is putting pressure on public pension systems. The trend towards lower birth rates is unbroken, whilst life expectancy is increasing. The consequences: lower pensions from social security systems financed on a pay-as-you-go basis, and a greater need for private provision. This is particularly evident in Germany, where there is a substantial amount of catching-up to do in the field of private provision compared with other countries. We are therefore expecting especially good business opportunities for the life insurers in our Group in the coming years.

New: Taxation at the benefit stage

Following the major pension reform of 2001, legislation was adopted in Germany last year for another extensive reform. The Retirement Income Act provides for a gradual transfer to taxing pensions at the benefit stage, with tax being reduced on contributions step by step and levied instead on the pensions paid. Putting this reform into practice will take time: the change is scheduled to be completed by the year 2040.

The Act is based on the philosophy of a "three-layer model" comprising a basic pension, additional funded supplementary pensions and other provision for retirement. The basic pension consists of lifetime pension payments that may not commence before the age of 60 and cannot be capitalised, inherited, transferred, used as collateral, or sold to third parties. This includes public pension insurance and the new private basic pension.

Funded supplementary pensions include products whose requirements are similar to those of the basic pension, such as all forms of company pension and the German "Riester" pension. Contributions are not taxable up to the respective maximum limit and, in the case of company pensions, are partly exempt from social insurance contributions; the pension itself and admissible partial capitalisations are taxed.

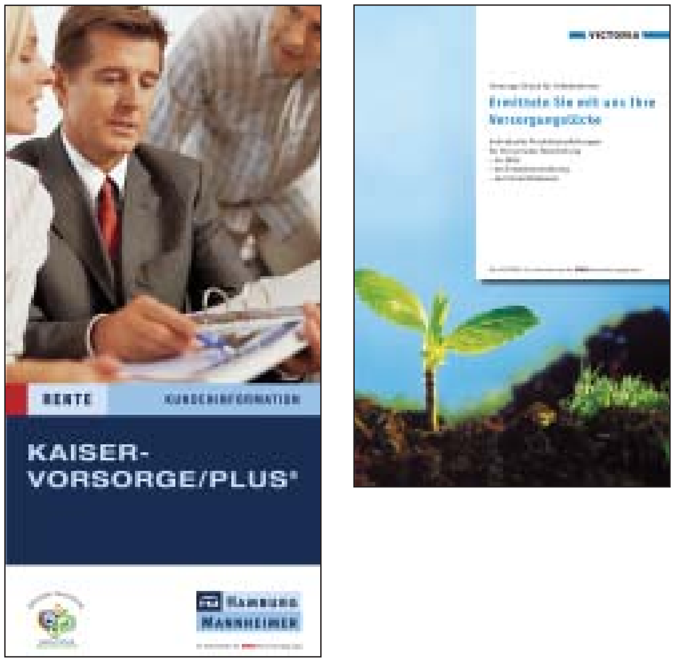
In the third layer, which includes endowment insurance and annuity insurance, the premiums are paid out of taxed income. Furthermore, interest earnings are taxable at the benefit stage in the case of lump-sum benefits. At first glance, this appears to represent a marked deterioration in the fiscal parameters for life insurance in Germany. But it is worth taking a closer look. In the case of annuity insurance, investment income earned in the accumulation period is tax-free if the policyholder chooses an annuity rather than a lump-sum payment; at the same time the taxable income content of the pension payment is reduced, so that altogether annuity insurance is in a better position than before. Endowment insurance also remains in a preferential position: if the capital is paid out after the age of 60 and the policy has run for at least 12 years, only half the earnings are taxable.

Corporate pension schemes in the ascendancy

Company pensions are especially attractive. Since the pension reform of 2001, which laid down a legal right for employees to demand certain forms of company retirement-provision arrangement, this area has increased appreciably in significance. A legal form that has benefited exceptionally from state promotion is the "Pensionskasse", the traditional type of German corporate pension scheme. More than 90% of the new company schemes have this form. The life insurers of the Munich Re Group are among the market leaders in company pension insurance. Besides many medium-sized firms, a substantial number of well-known major companies have entrusted provision for their employees to us. As there has been an improvement in the possibility for employees to take company pension entitlements with them when they change employers, the incentive to join corporate pension schemes has risen markedly.

Altogether, it can be said that private and company-based life insurance will continue to grow in importance as part of the overall concept of old-age provision. With a view to long-term and secure retirement provision, many investors see no real alternative to the mixture offered by life insurance – cover for the main biometric risks (such as death, longevity or disability), guaranteed interest plus additional profit sharing.

Our life insurers are paying even greater attention to cost and risk management, with the aim of making life insurance secure and profitable both for their clients and for our shareholders. Their risk management focuses particularly on investments and the biometric risks like longevity. Munich Re has developed an extensive range of tools to address the short-term risks (e.g. fluctuating share prices) and long-term hazards (e.g. interest-rate and biometric risks). The tools allow the respective risk situation to be optimally assessed and managed. We utilise the findings to further enhance our asset-liability management and our life insurers' product development.



Private provision closes the gaps. The primary insurers in the Munich Re Group offer extensive consultancy and individual solutions.

05
Corporate responsibility

Our Group has long been active in the field of sustainable development. Our Geo Risks unit is 30 years old. We are not letting up in our efforts – either in corporate governance or in developing stringent sustainability management.

125 years
Advancing innovation
We accept responsibility

Our founder, Carl Thieme, was generally considered to be one of the most progressive employers of his time in terms of socio-political thinking: Christmas bonuses were introduced in 1885, "English working hours" from 9 a.m. to 4 p.m. in 1890, and a pension fund in 1891. Paid leave for every member of staff dates back to 1905. Whether yesterday or today: Working for Munich Re is something special.

Report of the Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman of the Supervisory Board

Ladies and gentlemen,

The Supervisory Board closely monitored Munich Re's business development in the year under review, giving detailed attention to the Company's situation. We performed the duties incumbent on us by law and under the Articles of Association, advising the Board of Management and continually assuring ourselves of the fit and proper management of the Company. The Board of Management informed us promptly, comprehensively and regularly about all important business transactions. We were involved in all decisions of fundamental significance. The Chairman of the Supervisory Board kept in regular contact with the Chairman of the Board of Management in between the official meetings and obtained ongoing information on the business position.

Focal points of the meetings

Five meetings of the Supervisory Board took place in the business year 2004. The Supervisory Board allocated more time overall for the individual meetings – acting on a suggestion resulting from the efficiency audit of its activities – and was thus able to devote itself even more extensively to the Company's business situation. Special topics were also dealt with in depth, including the significance of long-term global trends and the related challenges for Munich Re. The meetings were attended by all the members in virtually every case.

The Board of Management reported in detail at the meetings about the quarterly financial statements and on the outlook for the 2004 results. On the basis of these reports, the Supervisory Board regularly discussed, in particular, the development of results in the Munich Re Group's individual business segments. In addition, we debated at length the business policy and planning for 2005 and 2006, as well as the measures for securing and expanding profitability in primary insurance and reinsurance. We had the new Chairman of the Board of Management give us a detailed picture of the Company's strategy. In addition, the Supervisory Board carefully examined the Company's risk situation and risk management, as well as the changes in supervisory requirements for reinsurance. The Board of Management kept us abreast of developments at the main subsidiaries, especially American Re, and the two major IT projects in the primary insurance and reinsurance groups. Other subjects of discussion were the personnel report of the Board of Management and a comparison with competitors of the Munich Re Group. The Supervisory Board also considered such topical issues as the effects of the German Investor Protection Enhancement Act and developments in connection with the investigations of New York State Attorney General Spitzer in the USA. The Board of Management briefed us about the restructuring measures at ERGO, the capital measure involving VICTORIA Leben and Munich Re's assumption of unified control in respect of ERGO.

Between the meetings, we were informed by the Board of Management in writing about various business transactions and events, including the successful renewals in reinsurance, Munich Re's approach with regard to Hypo-Vereinsbank's capital increase, the new management structure for the ERGO Insurance Group, the consequences of the hurricanes in the Caribbean and the USA, the typhoons in Asia, and the earthquake off Sumatra.

Committees of the Supervisory Board

The four committees of the Supervisory Board are each composed of shareholder and employee representatives. Their membership changed in the period under review and is shown separately on page 79. Except for the Audit Committee, they are chaired by the Chairman of the Supervisory Board.

The Personnel Committee met three times in the year under review. It dealt in particular with the compensation of the members of the Board of Management, and with the latter's acceptance of seats on supervisory, advisory and similar boards.

The Standing Committee, which also met three times, devoted itself mainly to topics of corporate governance. Among other things, it discussed how the efficiency of the Supervisory Board's work could be further improved and submitted proposals for this to the full Supervisory Board.

The Audit Committee met five times. It concerned itself extensively with the annual financial statements for Company and Group and the quarterly financial statements; the external auditors reported on their work. The committee also deliberated issues of corporate governance in accounting and risk management, the Internal Auditing Division's annual report, and the financial conglomerates directive. Apart from this, it made preparations for the appointment of the external auditor, which has to be decided on by the Supervisory Board as a whole, obtained the auditor's declaration of independence, and acquired detailed information on the type and scope of services not related to auditing. It appointed the auditor and specified the focal points of the audit.

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 financial statements and consolidated financial statements as at 31 December 2004, 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 in advance and discussed them in detail with the auditor at the Audit Committee meeting on 13 March 2005 in order to prepare for the resolution by the full Supervisory Board. The Audit Committee presented the results of its discussion to the full Supervisory Board 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 March 2005, 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 €2.00 per share.

Corporate governance and declaration of compliance

Munich Re is committed to good corporate governance. The Supervisory Board therefore again examined the efficiency of its work in the year under review and decided on various changes to the rules of procedure for the Board of Management and Supervisory Board. More information on this can be found in the section "Corporate governance" on page 80.

On 9 December 2004, the Board of Management and the Supervisory Board published a declaration of compliance in accordance with Section 161 of the German Stock Companies Act and made it permanently accessible to shareholders on the Company's website. The declaration of compliance is also included in the section on corporate governance on page 81.

Composition of the Supervisory Board

The term of office of the Supervisory Board expired at the end of the AGM on 26 May 2004. The AGM re-elected all the shareholders' representatives to the Supervisory Board.

Following the election for the employees' representatives, Klaus-Peter Biebrach, Peter Burgmayr, Gertraud Köppen, Dr. Klaus Schumann and Ludwig Wegmann ceased to be members. We wish to thank them all for their personal commitment and constructive work on the Supervisory Board. The new members elected were Holger Emmert, Dr. Rainer Janßen, Ingrid Müller, Dr. Jürgen Schimetschek and Kerstin Seefried; the other employees' representatives were re-elected.

At its constituent meeting following the AGM, the Supervisory Board elected Dr. Hans-Jürgen Schinzler as its new Chairman. Mr. Hartmann, who had been Chairman since December 1996, was no longer available for this office. We thank Mr. Hartmann very much for his dedicated and discerning work over many years and are glad that he will continue to serve Munich Re on this body.

The Supervisory Board wishes to thank the Board of Management and all staff for their hard work and commitment in the year under review, which played a decisive part in enabling Munich Re in 2004 to record the best result in its history.

Munich, 14 March 2005

For the Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman

Supervisory Board committees

Personnel Committee
Ulrich Hartmann (Chairman) (until 26 May 2004)
Dr. Hans-Jürgen Schinzler (Chairman) (from 26 May 2004)
Herbert Bach
Dr. Bernd Pischetsrieder

Standing Committee
Ulrich Hartmann (Chairman) (until 26 May 2004)
Dr. Hans-Jürgen Schinzler (Chairman) (from 26 May 2004)
Herbert Bach
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt
Josef Süßl

Audit Committee
Dr. Albrecht Schmidt (Chairman)
Hans-Georg Appel (from 26 May 2004)
Klaus Peter Biebrach (until 26 May 2004)
Ulrich Hartmann (until 26 May 2004)
Prof. Dr. Henning Kagermann
Dr. Hans-Jürgen Schinzler (from 26 May 2004)
Dr. Klaus Schumann (until 26 May 2004)
Wolfgang Stögbauer (from 26 May 2004)

Conference Committee
Ulrich Hartmann (Chairman) (until 26 May 2004)
Dr. Hans-Jürgen Schinzler (Chairman) (from 26 May 2004)
Herbert Bach
Dr. Bernd Pischetsrieder
Wolfgang Stögbauer (until 26 May 2004)
Judy Võ (from 26 May 2004)

Corporate governance: Transparent and efficient

We have expanded and broken down further the data we provide on the Board of Management's compensation, thus offering extensive information even without individualised disclosure

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

With its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe the respective national standards and internationally recognised best practices. In Germany, where Munich Re has its registered seat, corporate governance rules are contained in statutory provisions and also in the German Code of Corporate Governance, which came into force in 2002 and was revised in 2003. The Code contains the main legal rules to be observed by listed German companies; in addition, it gives recommendations and proposals based on nationally and internationally recognised standards of good and responsible management.

The corporate governance issue that dominated public debate in Germany this year was undoubtedly the individualised disclosure of compensation paid to management boards. The subject is a controversial one. Munich Re has carefully weighed up the arguments for and against individualised disclosure. In so doing, we have found it disquieting how far the important topic of corporate governance has been reduced to this one aspect. In our view, whether a company has "good" or "bad" corporate governance does not depend on whether it discloses its individual board members' remuneration or not.

On mature reflection, the Board of Management has ultimately decided against publication in this form because it does not consider such disclosure to be appropriate. The notes to our consolidated financial statements show how much the Board of Management as a whole earned in the business year 2004 (see p. 190 f.), broken down according to the different compensation components. In addition, the notes specify the structure of the Board of Management's compensation system (see p. 191). Supplementary to the data provided last year, there is now information on the Board members' pension entitlements as well. Even without individualised disclosure, Munich Re thus meets the objective needs of investors and shareholders for information, since they are in a position to assess the relationship between the Board of Management's performance and compensation on the basis of the details they receive regarding the Board of Management as a collegial body.

We thus cover the most important grounds advanced in favour of individualised publication. The allegation that if a company does not disclose compensation on an individual basis, it may be concealing unreasonably high amounts does not withstand scrutiny. Any excessive remuneration of individual Board members could be deduced from the amount of compensation for the Board as a whole, which is published every year. And as the relationship between performance and compensation can be ascertained on the basis of the existing information, the requirements of transparency are also met. The publication of managers' remuneration in the Anglo-American legal sphere has in no way prevented compensation excesses there.

Last year, too, the Supervisory Board reviewed the efficiency of its activities in terms of good corporate governance, in particular the question of whether the measures decided on by the Supervisory Board in the previous year to improve its efficiency had been effectively implemented. The main points of emphasis therefore, as in the previous year, were the form, content and timing of reports from the Board of Management to the Supervisory Board, and the flow of information between the committees and the full Supervisory Board. In all areas, the Supervisory Board found that there had been improvements, sometimes substantial ones. Where this was not yet the case to the desired extent, it decided on further refinements. Thus, for example, it has asked the Board of Management to extend its reporting to the Supervisory Board on certain topics.

In order to enhance the efficiency of its operations still further, the Supervisory Board made various adjustments to the rules of procedure for both Board of Management and Supervisory Board in 2004. On the one hand, it has expanded the group of transactions that require its approval and is therefore able to perform its supervisory function better than before. On the other hand, a change in its own rules of procedure has transferred certain responsibilities of the Standing Committee back to the full Supervisory Board, so that particularly important decisions are taken by all the members. This means that with regard to some topics that were previously discussed mainly in the committees, the Board of Management will report in detail at meetings with the full Supervisory Board.

Corporate governance is an ongoing process. We will continue to address this issue, refining our corporate governance principles and thereby taking into account the guidelines laid down by the German Code of Corporate Governance. But for us the key is that corporate governance is not only incorporated in rules and regulations but is also lived out in practice. Major contributors to ensuring this are internal auditing, risk management and the Compliance Office. Our Internal Auditing Division supports the Board of Management in its monitoring duties by performing risk-oriented reviews and audits. The job of Munich Re Group's risk management is to identify and analyse risk situations holistically. You can find detailed information on this starting on page 133. The Compliance Office makes sure that particular legal and supervisory obligations, such as those arising from securities trading law, are properly met.

On 9 December 2004 the Board of Management and the Supervisory Board published the following declaration of compliance, in accordance with Section 161 of the German Stock Companies Act:

"Since the last declaration of compliance on 5 December 2003, Munich Re has fulfilled the recommendations of the Government Commission's German Code of Corporate Governance in the version of 21 May 2003, or will fulfil these recommendations in future, with the following exceptions:

– Item 7.1.2
  The consolidated financial statements for the business year 2003 were published on 15 April 2004. This means Munich Re kept well within the deadline stipulated in the German Commercial Code but did not comply with the 90-day deadline recommended in the German Code of Corporate Governance.
  The publication of the consolidated financial statements for the business year 2004 is scheduled to take place within the 90-day deadline. In line with previous announcements, since the second quarter of 2004 the interim reports have been made publicly accessible within the 45-day deadline recommended by the German Code of Corporate Governance.
– Item 4.2.4 sentence 2
  For the business year 2003, the remuneration of the members of Munich Re's Board of Management was shown in detail for the whole Board in the notes to the consolidated financial statements, broken down according to fixed compensation, performance-related components and components with long-term incentive effect, although not individualised as recommended by the German Code of Corporate Governance. For the business year 2004, too, the Board of Management's remuneration will be published in detail for the whole Board but not individualised."

On our website, we provide detailed information on the Board of Management and the Supervisory Board. This includes information on the duties and composition of the four committees of the Supervisory Board (see also page 79), on the powers of the Annual General Meeting and how to participate in it, and on other topics of corporate governance.

Rating: Stabilisation at a high level

Munich Re's financial strength is traditionally given top ratings by the leading rating agencies. Following the downgradings that took place throughout the industry in the previous year, the ratings of the Munich Re Group stabilised in 2004 at a high level in comparison with our competitors. The rating agencies A. M. Best, Moody's and Fitch put Munich Re in their second-best category for financial strength, and Standard & Poor's in their third-best. Across the board, the rating agencies attest to our very strong market position, outstanding expertise and good capitalisation.

Financial strength ratings for the Munich Re Group

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

Reinsurance group

The ratings for our subsidiaries on 28 February 2005 at a glance:

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

Primary insurance group

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

Notes and debentures

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

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

Sustainability as an opportunity: On the way to sustainability management

As a consequence of its economic strength, its global operations and its knowledge of risks worldwide, Munich Re bears a special responsibility for sustainable development. Our involvement combines ecological and social interests with our long-term economic objectives as one of the world's leading risk carriers. We therefore decided last year to expand our traditionally high degree of commitment in this area.

We view sustainability from four perspectives: economic, ecological, employee-related and social. It is our objective to ensure the long-term success of our Group by continually improving our risks. Aspects of sustainability are to be systematically incorporated into product design so that we can offer insurance solutions that keep pace with technological progress. Another important objective is to make partnerships with clients and investors even more transparent, thus strengthening trust.

We already integrate numerous features of sustainability into our business: in evaluating and managing risks, investing capital, taking account of corporate governance guidelines, developing working-time models and advanced training concepts, devising insurance products, making available our expertise to numerous social and political bodies, and financially supporting cultural enterprises as well as the needy. Examples are provided in the individual parts of this section.

Sustainable investment: Double return

As leading sustainability indices show, Munich Re is among the top firms in this area. For us, socially responsible investment (SRI) is not merely a passing fashion but a part of our risk prevention.

Sustainable all round: Munich Re invests sustainably and its shares are a sustainable investment. Why is that so important to us? As a reinsurer we are professional handlers of risk. We evaluate and manage risks, but above all we engage in risk prevention. This includes keeping a close eye on long-term trends worldwide. For they have a direct impact on our risk portfolio and affect us as a major institutional investor and listed company. An example: hurricanes not only result in claims burdens for insurance and reinsurance; in the short term at least, they can also lead to price losses in the investment sector. Our own stock price can suffer as a consequence of claims payments and falls in share prices.

Climate change as a risk factor

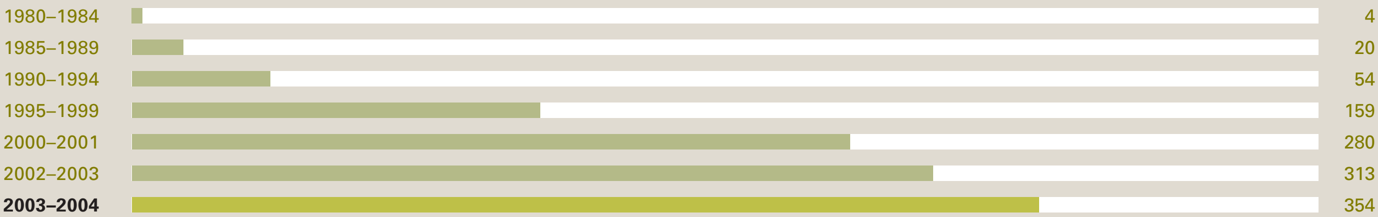
Up to now large loss events have not played a recognisable role on the capital markets. Climate change, however, could also become a significant risk factor in asset management, depending on how clearly the effects manifest themselves and how clients, shareholders, and the media and society at large come to terms with this phenomenon. Risk perception, public debate and investors' subjective criteria are also important factors. We constantly monitor climate developments and take into account their consequences in our investment activities.

Thus, back in 2001, we already included the criteria of sustainability in the objectives for our investments, along with return, security and liquidity. Through mandates for our asset management company MEAG, we also stipulate that 80% of our investments in shares and corporate bonds are to be made according to sustainability criteria. This applies to the whole Munich Re Group. Furthermore, in November 2003, MEAG presented its first retail sustainability fund. The internationally oriented "MEAG Nachhaltigkeit" fund invests solely in companies whose operations are in conformity with the principles of social and ecological sustainability. These companies are on the one hand established firms that meet all the strict sustainability criteria. On the other hand, they are innovators – small or medium-sized firms with especially good growth potential operating in such fields as water treatment or renewable energy.

Munich Re shares included in sustainability indices

Munich Re is also well positioned as an object of investment in the constantly growing market for sustainability-oriented investors. Since 2001, Munich Re shares have been included in the world's two most renowned sustainability indices, the Dow Jones Sustainability and the FTSE4Good. We also feature in other such indices as the ASPI, ESI and Ethical Index. We work to achieve this success year for year – through our commitment to sustainability and the servicing of our investors. The central contact for banks, financial institutions and rating agencies that specialise in sustainability is Munich Re's Investor Relations Division. Our involvement in this area ensured that Munich Re shares were again included in the sustainability indices in 2004. Our presentations at important European financial centres have also met with lively interest. With our traditionally high level of dedication to sustainable development, we are committed to protecting the value of our investments and our Group.

Number of sustainability investment retail funds in Europe



Source: Avanzi SRI Research/SiRi Company 2004

Staff:
Well-qualified for the future

Promoting the skills and qualifications of our staff is one of our most important tasks in safeguarding our Group's future. To make sure there will be no shortage of qualified staff, we are developing existing talents, pursuing new training routes and looking to integrate women more strongly in all areas, including senior management positions.

Our staff provide the basis for our success with their competence, motivation and commitment. They embody the qualities that make Munich Re the preferred partner in risk for its clients. It is therefore a logical step to invest consistently in their development.

International promotion of talent

Since 1997, Munich Re Munich has been systematically identifying and preparing staff for future management tasks with its scheme for assessing and developing staff potential. This scheme is now being extended to the international reinsurance group. Last year we devised an approach that meets the requirements of our head office in Munich and those of our international organisation. Highly talented and qualified staff are selected and groomed for management functions in Munich and for leading functions at business units abroad. We applied this process for the first time last October in the Asia, Australasia, Africa (AAA) Division. In future, each business unit in our international organisation will carry out its own potential assessment procedure based on common rules, in order to foster its management talent and to create career perspectives for its staff within the reinsurance group as a whole.

On the primary insurance side, the ERGO Management Academy (EMA), which is responsible for the personnel development of ERGO's executives, expanded its repertoire in 2004. Collaboration in the EMA programmes, which intensify the exchange of views and experience between management staff, were supplemented by an event for all German ERGO executives in December 2004.

Equal promotion opportunities and career perspectives

In 2001, together with the Ludwig Maximilian University in Munich, we launched a three-year study entitled "Professional careers of men and women at Munich Re". According to the results, now available, the potential of dedicated and motivated women in the Company is high. However, there is often a subconscious assumption that women are less career-oriented – this seems to be the only conclusion that can be drawn from the fact that they are not equally represented among executive staff and in projects and working groups. The study shows that this prejudice is unjustified. To make sure that the potential of our female staff is not lost, we are sensitising our executives to this issue and encouraging female staff themselves to take a more proactive approach. We support them by structuring our schemes and processes wherever possible in such a way that they promote women's interests.

New training routes

Initial and further training number among our strategic tasks, not least for reasons of risk management in the human resources sector (see page 19). Our staff must be highly qualified and motivated to ensure the continued success of our operations. Their knowledge edge is crucial in designing solutions for new market developments at an early stage and in meeting the growing requirements of our business.

We ensure the necessary qualifications and skills through systematic personnel development that takes into account individual abilities and future requirements. Hence, we consistently maintain the number of internal seminars for personal and specialist training at a high level.

We also broadened our area of training. In the area of asset management, for instance, we now train young people for qualifications in real-estate and residential administration as well. Beyond this, Munich Re has helped to create a new sandwich course at the University of the Federal Armed Forces in Munich: the course in business studies includes two years' practical training that concludes with a qualification in insurance from the Chamber of Industry and Commerce. We thus support moves to meet the growing demand for more practical relevance in university education, welcoming and closely partnering current developments in connection with higher education reform, such as the introduction of bachelor's and master's degrees.

Encounters and dialogue

Learning together and exchanging views – that is the idea behind the "Schliersee discussions", to which we invite senior and junior management staff from Munich Re and companies in our primary insurance group each year.

A further component in networking staff of Munich Re and ERGO on a personal level is the ERGO Summer Academy. It is an institutionalised opportunity for executives and high-potential staff at the ERGO companies to discuss current strategic issues with Board members of ERGO and its subsidiaries. Staff from our reinsurance units are invited as well.

Clear structure in primary insurance

The restructuring of our primary insurance business last year also led to marked changes at all levels. All companies are now organised according to the market segments life, health and property-casualty. Not only have competencies and responsibilities been reassigned at Board and senior-executive level; structures have also been optimised at the level of department head and group leader. Each position was carefully examined – over 1,000 jobs in all – and, where necessary, restructured and refilled.

Our job openings on the internet:
www.munichre.com/jc-d
www.ergo.com/karriere/index.html

Thank you

Munich Re's Board of Management would like to cordially thank all the staff of the Munich Re Group for their commitment and loyalty in 2004. The quality, innovation capacity and international reputation of our Group are in great part due to their hard work, skill and dedication.

Social commitment: Taking the initiative – Helping people

Companies are part of the society in which they operate. We accept the responsibility that this involves, supporting people and institutions committed to helping others, and initiating new projects ourselves.

Our commitment to social issues focuses above all on three areas. We support research and teaching, help people in difficult life situations and promote the cultural enrichment of our society.

For scientific progress in society

Societies are dependent on scientific knowledge. It is with this in mind that we have sponsored the internet portal **www.mathematik.de** of the German Mathematicians Association (DMW) for over three years now. This informative, lively and instructive website is directed at all those interested in the science of numbers and spaces. As an insurance enterprise, promoting mathematics is of vital interest to us.

Munich Re supports young academics and scientists with various initiatives and projects. Since its foundation in 1992, the Munich University Society has been housed rent-free on Munich Re premises. As the largest foundation of its type in Germany, it supports research and teaching at scientific institutes of higher education. We not only support this work in material form – we have also had close personal links with the society since its formation. Our Board member responsible for human resources, Dr. Schneidawind, has been its Chairman since 1993.

There is hardly any discipline with such a long-standing internationality as science, one of the reasons it is sponsored worldwide by Munich Re. This year, for instance, a new Chair of Insurance began its work at the renowned University of Waterloo in Canada, thanks to Munich Reinsurance Company Canada Branch (Life). In Italy, our reinsurance subsidiary Münchener Rück Italia S. p. A. supports talented graduates from the University of Bocconi in Milan by financing part of their postgraduate studies in the areas of insurance and risk management.

Munich Re helps people in need

Our social commitment is not limited to the academic and scientific field. We also sponsor and aid people in social difficulties who are dependent on others' help. The Munich society "Schwestern und Brüder vom heiligen Benedikt Labre" (Sisters and Brothers of St. Benedict Labre) offers homeless people practical assistance and a roof over their heads. Last year we helped the society convert a newly acquired building for this purpose.

People with serious illnesses are also dependent on the help of others. Cancer is still one of the scourges of our society. Since 1996 our subsidiary Munich Reinsurance Company of Canada has been sponsoring breast cancer research and the provision of education and information on this insidious disease.

Munich Re also supports initiatives for self-help in Africa, i.e. schemes that do not give rise to new dependencies but promote long-term independence. In Ghana, we are partnering the drilling of a well, with simultaneous training for local people in developing a water supply for themselves. In Nairobi, Kenya, our African subsidiary Munich Reinsurance Company of Africa Ltd. is sponsoring a school for disadvantaged children as part of a new initiative.

Voluntary work pays

But not only our companies help people in need. Our staff are pulling in the same direction. We are happy to support their initiatives, such as the SOLA relay race in Zurich, where two Munich Re teams ran many miles for a good cause last year. The amount they raised was added to by us, the resultant donation going to the "Münchner Pfennigparade", a rehabilitation centre for the physically disabled. Another example: On the initiative of our Singapore office, staff from throughout the Munich Re Group gave money to support local medical teams in their work for the victims of the flood disaster in South Asia, and we also increased this donation. At our primary insurance subsidiary VICTORIA, staff organise aid for children from war-torn regions. They donate a few cents from their salaries each month and the company doubles this amount.

Practical help through our staff is also the guiding principle of the Dr. Hans-Jürgen Schinzler Foundation, set up last year. Founded from within our company, its objective is to encourage the voluntary work of our staff. It is intended to be a platform for those who help others through private initiative. The foundation is geared to making it easier for them to get in contact with like-minded individuals and to provide mutual support.

Dedicated to culture

People cannot and should not be considered purely in terms of their economic and social needs. Consequently our social commitment also includes culture. We support the Gustav Mahler Jugendorchester, for example, and the Bavarian State Opera. The youth orchestra is giving classical music a new lease of life at a very high level, whilst the traditional opera house is showing unique initiative in the new directions it is taking. We sponsor the Gustav Mahler Jugendorchester in its concert tours, one of which took these highly talented musicians to St. Petersburg last year, for example. In the case of the Bavarian State Opera, we are members of a sponsorship group made up of representatives from trade and industry. Here we want not only to strengthen the exchange between culture and industry but also to develop new opportunities for partnership. Initiatives like that with the State Opera extend our economic activities, underscoring our sustained commitment in another way.

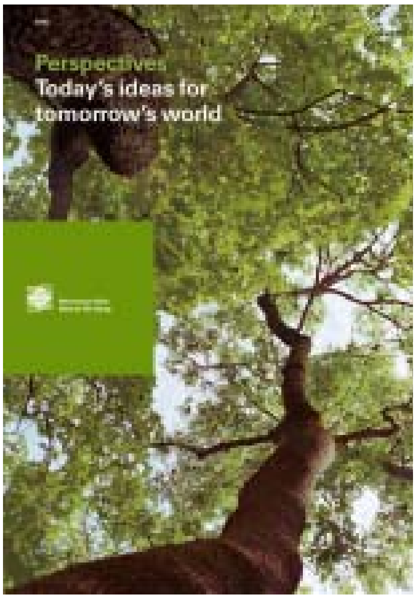
Environment:
Environmental protection firmly anchored in our business

For Munich Re, environmental protection and sustainability are inseparable parts of its business operations. We therefore take account of ecological aspects both in our products and in our internal operating processes. In 2004, one of the main causes we championed in associations and in public was climate protection.

As a service provider, Munich Re puts relatively little strain on the environment. Nevertheless, our business is directly affected by environmental changes, such as the growing number and intensity of weather-related natural catastrophes. We therefore engage in issues of ecology in many ways, using our knowledge to depict environmental risks and advise our primary insurance clients, for example. A particular focal point is our commitment to climate protection.

We are continually improving our efforts in this area, both in our internal operations and in our products and communications. The framework for these activities is our environmental management system based on the European Union's EMAS regulation.

More detailed information on environmental protection and sustainability can be found in our publication "Perspectives".



Conscious of our social responsibility, we draw the public's attention to risks such as climate change, also suggesting solutions and taking the initiative ourselves. In the following, we present a few projects devoted to climate protection from the year 2004 as examples of our environmental commitment as a whole.

Munich Re's specialist knowledge in great demand.

We are a member of numerous organisations and associations that concern themselves with global climate change. Especially important to us is our involvement in the Financial Initiative of the United Nations Environment Programme (UNEP FI). Since December 2003, one of our experts has been head of the Climate Change Working Group. This UNEP FI working group aims to sensitise the financial sector to the issues of climate change. One of its core activities is the publication of CEO briefings on topical issues of climate change, which inform corporate leaders about such matters as emissions trading and renewable energies. For the COP 10 climate conference in Buenos Aires in December 2004, at which Munich Re was represented by several specialists, the Climate Change Working Group published a paper on "Clean Development Mechanism". This concerns the process of allowing industrialised countries to count emission reductions they achieve through climate protection projects in developing countries as part of their own reduction targets.

With new energy for climate protection

At the first International Conference for Renewable Energies (renewables 2004), held in Bonn last June, Munich Re played an active part with its expert knowledge regarding such topics as risk circumstances and relevance for insurance. We made clear in papers, discussions, presentations and our press activities why we support the expansion of renewable energies. These contribute towards reducing emissions of climate-changing greenhouse gases and combating the causes of losses from weather-related extreme events. We see the promotion of renewable energies as a measure of active risk prevention that ultimately also serves to protect our own portfolio. Over decades, we have been observing the dramatic increase in weather-related loss events, such as windstorms, hailstorms and floods, around the world. There will have to be a substantial change in the make-up of the world's energy supply in the foreseeable future. A world population that is continuing to grow will need more energy, but fossil resources are limited and too much strain is already being put on the atmosphere.

The EU has committed all its member states to promote the generation of power from renewable sources. By the year 2010, their share of "renewables" in the production of electricity is to be doubled from its 1997 level. This will require great efforts on the part of industry, with partnership from the insurance sector in covering the risks. In Bonn, Munich Re showed representatives from trade and industry, leading politicians and a whole range of interest groups that it is playing its part with innovative insurance solutions. We also published a brochure for the Bonn conference, comparing the opportunities and risks of alternative and conventional power supply facilities.
www.munichre.com/mr-publications

Heat and electricity from hot water
Renewable energy can be generated by other means than solar, wind or hydraulic power. Experts see considerable potential in geothermal power, i.e. deriving energy from hot water deep below the earth's surface. But the drilling that needs to be performed for this is expensive and economically risky, since it is not certain whether the resources discovered will be sufficient and no loan guarantees are provided by the state for such projects. Munich Re has provided an innovative insurance product for a geothermal drilling project in Unterhaching near Munich, which would otherwise not have been possible. In assessing the risks, Munich Re and its clients benefited from our specialist knowledge in other areas, such as oil drilling. This is a good example of Munich Re also contributing to sustainability with its insurance products (cf. page 14).

2004 also saw a fresh breeze blowing in the wind energy market, not least in Canada and the USA. Munich Re's competence was in demand in several cases to devise reinsurance solutions for major wind park projects. High investment in wind energy is to be expected in both countries.

In Germany, a number of prototypes for a new generation of high-performance wind power plants were erected in 2004. The five-megawatt wind turbines being tested are three times more powerful than the current turbines customarily in use on land. Munich Re is also keeping a close eye on this segment of the wind energy sector. We expect mounting demand for reinsurance solutions in this area for different risks, be they technical, those arising from guarantee obligations, or weather-related and accumulation risks.

Climate protection in operational practice
Energy performance certificates for buildings will not become compulsory until 2006. They are one of the many tools required worldwide to reduce emissions of greenhouse gases. Munich Re had such certificates issued for two of its buildings already in 2004. "South 1" and the office complex "Am Münchner Tor" are pilot projects with model character. Their certificates show how much energy is assessed as required for heating, electricity, ventilation and other facilities. The Fraunhofer Institute for Building Physics in Stuttgart was the certifier, officially confirming the efficiency of our energy concept for both buildings.

Primary insurers and environmental protection
The primary insurers of the ERGO Group are also keen to avoid negative impacts on the environment and have therefore taken an active stance on environmental protection for many years. VICTORIA, for instance, was the first European insurance company to have its environmental management system audited and certified according to EMAS. In 2004, VICTORIA's offices in Düsseldorf, Berlin, Hamburg and Leipzig also received certificates for their environmental management, and the VICTORIA administrative offices in Mannheim were audited and certified for the first time. More information may be found in VICTORIA's "Umwelterklärung 2003" (Environmental Statement 2003).
www.victoria.de

VICTORIA also helps promote renewable energies. In the past year, it provided support to the engineering insurance section in the Renewable Energy Project Group at the German Insurance Association (GDV). It contributes to climate protection not only through its own energy-saving office buildings but also through publications. Together with the North Rhine-Westphalia energy agency, it brought out a consumer brochure in 2004. This guide to "energy-conscious behaviour and comfortable living" is designed to help make homeowners aware of ecological construction methods and ways of saving energy.

06
Financial report

Our hard work has been rewarded. Thanks to our strict underwriting policy and the dedication of our staff, we have succeeded in publishing the best result in our history.

125 years
Advancing innovation
We know what counts

In its first business year 1880/81, Munich Re concluded 33 reinsurance agreements with 27 cedants. Premium income: 1.05m marks. In 2004, with a premium volume of €38.1bn from reinsurance and primary insurance business, we achieved a profit for the year of €1.8bn – the best result in our 125-year history.

Management report

Consolidated financial statements

Notes to the consolidated financial statements

Assets

Equity and liabilities

Notes to the consolidated balance sheet – Assets

Notes to the consolidated balance sheet – Equity and liabilities

Notes to the consolidated income statement

Other information

Management report
Key parameters

The overall economic situation for the insurance industry improved significantly last year. Monetary and fiscal stimuli supported the positive trend in the world economy. However, global growth in the second half of the year lost some of its vigour, one of the reasons being the strong rise in the prices of important commodities.

The main stock markets moved more or less sideways in 2004. Long-term interest rates on the bond markets climbed until the middle of the year but fell again in the second half.

Economy

In 2004, the pace of growth of the world economy was the strongest it had been since the end of the 1980s, although it decelerated again by the end of the year. Healthy growth rates were achieved by the USA, but also by many Asian countries, particularly China.

In the USA, the economic upswing accelerated, thanks to an expansive monetary and fiscal policy. Especially consumer spending but also corporate investment contributed to the strong real growth in GDP, which totalled 4.4% according to initial estimates. In the second half of 2004, however, economic expansion slowed appreciably. This was attributable to a weakening of the impulses from government spending, rising short-term interest rates, high energy prices, and an only marginal improvement in the US labour market.

Japan grew by 2.6% in real terms in 2004, following 1.4% in the previous year. At the beginning of 2004, exports provided for strong growth, but in the course of the year real GDP growth slowed again. Consumer prices showed a downward trend.

In the eurozone, economic development was robust, particularly in the first half of the year. Worldwide economic growth boosted exports, whereas domestic demand made only a limited contribution to growth. But there were noticeable differences between the member states. In France and Spain, for instance, private consumption rose considerably as compared with the other countries in the eurozone.

With the global economy slowing down in the second half of the year, growth in the eurozone also decelerated, a trend that could not be prevented by the gradual recovery in domestic demand. Altogether, GDP in the eurozone improved by 2% according to preliminary official estimates, a substantial rise compared with the 0.5% increase of the previous year. Nevertheless, growth once again lagged behind that in the USA.

According to provisional estimates, GDP in the United Kingdom grew by 3.1% in real terms, buoyed by strong consumer demand and corporate investment.

In Germany, the generally relatively robust economy was sustained by the export industry in the first two quarters of 2004. As exports declined, growth slowed appreciably. GDP for the year as a whole was 1.6% higher than in the previous year, a fact that was partly attributable to the higher number of working days. Despite the economic recovery, unemployment remained stubbornly high. At the end of the year, 4.5 million people were out of work and the unemployment rate averaged 10.5%. The important reform measures taken in 2004, such as the Hartz IV reforms, had not yet brought about any noticeable improvement.

The emerging markets benefited from the global economic upswing, especially through exports. Oil-exporting countries (e.g. Russia and the countries in the Middle East) additionally gained from the high oil prices. In the emerging markets of Asia, with their strong exports, growth was especially vigorous. Although the Chinese government made every effort to cool its economy, the increase in GDP remained high at 9.5%. Central and eastern Europe profited from strong domestic demand, while Turkey experienced an investment boom. The economies in Latin America also profited from the global growth dynamic and the high commodity prices, with the upswing in Brazil and Mexico especially pronounced. Argentina showed strong growth as well, but an agreement on its defaulted foreign debt still has to be reached with private creditors.

Owing to high demand and geopolitical uncertainties, the oil price climbed steeply during the year, rising beyond US$ 50 per barrel (Brent) in October. By the end of the year, prices had levelled out again. Given the strong economic expansion and rising commodity prices, inflation rates were up worldwide in 2004. For the first time since mid-2000, the US Federal Reserve therefore raised interest rates, increasing them in five stages of 25 basis points each to 2.25%. The European Central Bank, by contrast, retained its key interest rate at 2.00%.

Capital markets

Despite the favourable development of the economy, prices on the international stock markets only maintained the upward trend of 2003 in a weakened form. The good corporate profits in the USA and the eurozone contrasted with higher commodity prices. Important European indices achieved a slight rise in 2004, in particular thanks to a strong performance from mid-August on. At the end of the year, the EURO STOXX 50 closed 7%, the DAX 7% and the FTSE 100 8% up on the previous year.

Yields on ten-year US and German government bonds initially declined in the first quarter but then increased up to the middle of the year because of concerns about rising inflation and short-term interest rates. With economic expectations again becoming bleaker, the yield on German government bonds fell in the last quarter, finishing the year at 3.7%, whilst the yield on US government bonds closed at 4.2%.

Development of the US$/€ exchange rate from January to December 2004

The year was turbulent for the US dollar too. Following a marginal appreciation in the first few months of the year, it lost considerable ground against the euro in the fourth quarter, not least because of the USA's twin deficit involving both the current and fiscal account. The US dollar also weakened against many Asian currencies. At US$ 1.36/€, the euro reached an all-time high against the US currency on 30 December. The year-end exchange rate of the Japanese yen was ¥103/US$, about 4% higher than its closing rate in the previous year.

Insurance industry

The reinsurance markets remained focused on risk-adequate prices for reinsurance covers. In the renewals at the beginning of the year and at 1 April and 1 July, almost all market players showed that they continued to give priority to selective and profit-oriented underwriting.

There were further price improvements in liability insurance, especially for major industrial risks and in special lines of business such as directors' and officers' liability and professional liability. Although the signs are that rates for reinsurance cover in most other business segments passed their cyclical peak in 2004, prices did stabilise at a risk-adequate level.

Good technical results and the capital markets' tendency to move sideways were a key feature in improving capitalisation in the insurance industry. However, in autumn 2004, a number of extremely strong windstorms in the North Atlantic (notably hurricanes Charley, Frances, Ivan and Jeanne) and in the Pacific led to major insurance losses. By contrast, the insured losses arising from the tsunami triggered by the earthquake off Indonesia were limited compared with the human cost of this terrible catastrophe, because insurance penetration on the coasts affected is generally low.

Life reinsurance continued to benefit from the long-term trend towards increased private provision for old age. The worldwide ageing of society and the pressure on social security systems are causing private life insurance to grow more strongly than the overall economy. Market concentration increased as a result of consolidation. The health reinsurance market also developed positively.

Important insurance markets

The global economic upswing was beneficial to premium growth in most insurance markets in 2004.

With insurance rates remaining largely stable and strong economic growth, non-life premium income in the USA continued to rise. The more favourable conditions enabled insurers to improve their technical results, a fact that was reflected in higher profitability. The industry was able to successfully withstand the losses caused by the hurricanes in the third quarter, not least thanks to the support of reinsurers.

The European insurance and reinsurance markets were also characterised by improved prices and conditions. According to first estimates, growth in life insurance in France was particularly pronounced at 13%. Based on an estimate for the first three quarters, health and personal accident insurance also recorded a significant rise, whereas the growth rates in property-casualty insurance were more moderate. In Spain, on the other hand, initial estimates on the basis of the first nine months indicate that non-life insurance, which showed nearly double-digit growth, expanded more strongly than life business.

In 2004, premium income in the German insurance industry grew about as strongly as the overall economy. Gross premiums climbed by a total 3.5%, according to first estimates. There was expansion above all in private health insurance, where premium income recorded a significant increase of 6.9%. Given the substantial raising of the earnings ceiling for compulsory public health insurance at 1 January 2003, the rise in the number of policyholders with comprehensive private health cover was again lower, but the number of policyholders with supplementary private insurance cover increased significantly. The discussions about a long-term reform of the health insurance system, in particular the idea of a "citizens' insurance scheme" and "flat-rate health contributions" have not yet produced any concrete results. Premium income in life insurance climbed only slightly by 3.5% for the full year 2004. Rising only marginally in the first nine months of the year, premium volume benefited in the last few months of 2004 from a run on endowment insurance policies and annuity insurance covers with a lump-sum option in anticipation of the new German Retirement Income Act, which entered into force at the beginning of 2005. Gross premium income in property-casualty insurance was up by 2% and the combined ratio was approximately the same as in 2003.

In Japan, property-casualty business was affected by exceptionally high losses from natural catastrophes (particularly typhoons) in summer and autumn 2004. Overall, Japanese insurers continued to benefit from an improved situation on the domestic capital markets.

The greatest increases in premium income last year were again recorded in the emerging markets, which profited not only from the generally stronger overall economic situation but also from a growing awareness of the need for insurance. China in particular achieved further significant increases in premium income.

Management report
Business performance: Overview and important key figures

		2004	2003	2002	2001	2000
Gross premiums written	€bn	**38.1**	40.4	40.0	36.1	31.1
Combined ratio – Reinsurance non-life	%	**98.9**	96.7	122.4	135.1	115.3
– Primary insurance property-casualty	%	**93.0**	96.4	99.9	101.4	97.2
Group result	€m	**1,833**	–434	288	250	1,750

In the past year, we successfully implemented our "profit before growth" strategy, thereby achieving the best result in Munich Re's history.

In reinsurance we were hit in the second half of the year by an unprecedented series of severe natural catastrophes involving claims expenditure of more than €700m overall. The tsunami triggered by an earthquake off Sumatra on 26 December caused immeasurable human suffering in the coastal regions affected. However, our burden from this tragic event was far exceeded by the claims costs incurred for the cyclones that raged over the Atlantic and Pacific in late summer and in autumn. 2004 demonstrated with terrible clarity that despite all the technical progress made, the vulnerability to devastating natural disasters has substantially increased, on the one hand because of disquieting climatic developments and on the other because human settlements are spreading further and further into exposed zones. This makes it all the more important to strengthen and concentrate efforts worldwide towards achieving sustainable and ecologically sound development.

Apart from these natural catastrophes, we were also burdened by a strengthening of loss provisions by US$ 482m at our US subsidiary American Re. These increases mainly involved liability business for the accident years 1997–2001 and reserves for asbestosis claims. Given the pleasing improvement in our investment result and, above all, our very successful profit-oriented underwriting, we nevertheless achieved a very good reinsurance underwriting result. Where conditions did not meet our requirements, we refrained from writing the business. At the renewal dates, we improved prices and conditions for the third time in succession.

In primary insurance, our Group companies are successfully back on track. The fiscal changes affecting life insurance policies in Germany from the beginning of 2005 fuelled new business in 2004. VICTORIA Leben was given a capital injection of €500m from Group funds, which will allow it to further enhance its level of security. Over and beyond this, we used the last year to realign our organisation. At the beginning of 2005, a new management structure was introduced in the ERGO Insurance Group, which provides for central and uniform Group-wide accountability in the individual business segments.

In private health insurance, modern case and healthcare management is gaining in importance. With increasing frequency, our clients are demanding an integrated range of financial security, extensive services and medical care. We are responding to these mounting requirements by offering appropriate solutions in primary insurance and reinsurance, which we are continuing to expand. In short, there has been a move away from pure cost reimbursement towards active healthcare management.

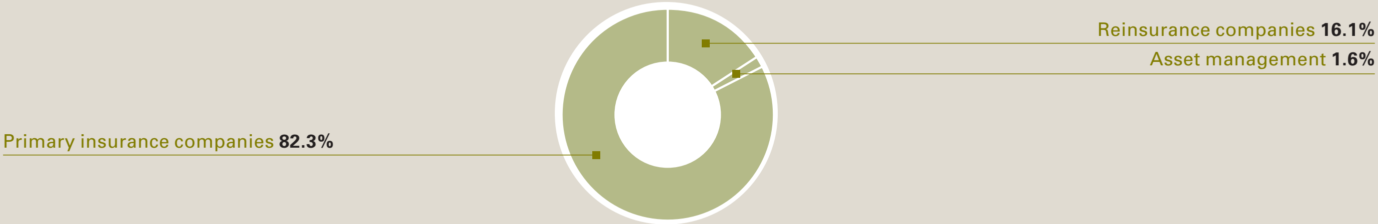
Employees

On 31 December 2004, the Munich Re Group employed 40,962 (41,431) staff worldwide, 6,612 (6,445) in reinsurance, 33,703 (34,360) in primary insurance and 647 (626) in asset management.

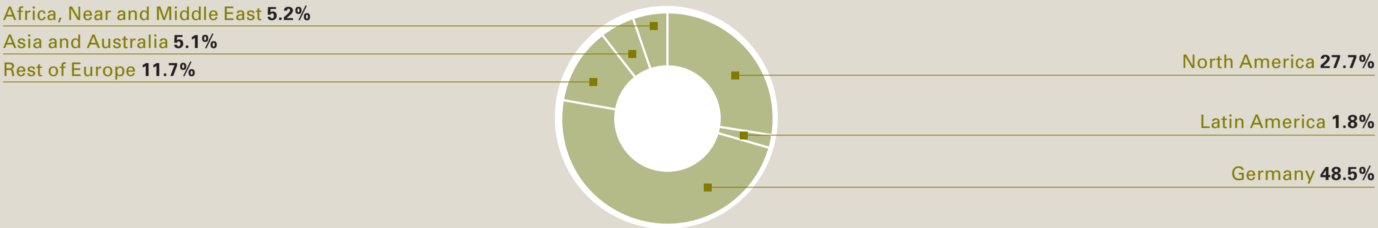
The total number of staff remained virtually constant compared with the previous year. Staff numbers increased slightly by 2.6% and 3.4% in reinsurance and asset management respectively. The decrease of 1.9% at the primary insurance companies is attributable to cost-saving programmes. For the most part, the employees concerned either found new jobs in the Group or took advantage of other options such as semi-retirement, sabbaticals and the conversion of special payments into free time.

For the reporting on individual fields of business, the following principle applies: volumes and results that come from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included in the data. Where the information relates to national accounting law, this is mentioned specifically. As from year-end 2004, "other tax" is included in "other expenses". The item designations and the previous year's figures have been adjusted accordingly throughout our reporting.

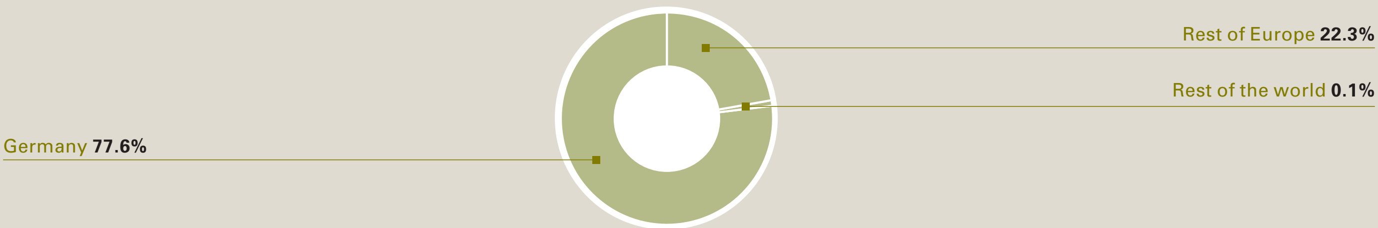
Munich Re Group staff



Reinsurance – Staff by region



Primary insurance and asset management – Staff by region



Result

In the year under review, the Group result showed a significant improvement on 2003 in nearly all segments. With a profit of €1,833m (–434m), we almost achieved our target of approximately €2bn after taxes on income, despite the exceptionally high claims burden from natural catastrophes. The result before amortisation of goodwill climbed from €1,971m to €2,948m, mainly due to a much better investment result. We made particularly marked progress in the primary insurance segment life and health. Here, both the underwriting result and the Group result are in the black again.

Group result

All figures in €m	**2004**	2003	2002	2001	2000
Result before amortisation of goodwill	**2,948**	1,971	–20	–445	2,595
Operating result before taxes on income	**2,604**	1,284	–391	–675	2,450
Group result	**1,833**	–434	288	250	1,750

The Group's result for 2004 was affected in particular by the following factors:

- Owing to our selective underwriting policy, premiums in reinsurance declined by 9.7% (2.6%). Changes in exchange rates also had an adverse effect on gross premiums. However, at €22.4bn they are still at a high level.
- Losses from natural catastrophes (in particular the cyclones) impacted the operating result before taxes on income with about €715m (290m). A combined ratio of 94.4% (95.1%), adjusted to eliminate natural catastrophe losses, shows that our portfolio is in good shape, in particular considering the fact that this figure includes 2.5 percentage points for the strengthening of our US claims provisions for accident years prior to 2002. The unadjusted combined ratio was 98.9% (96.7%). At €1,201m (1,054m) before tax, claims costs for major losses were at the same level as in the previous year.
- In primary insurance, we recorded marginal growth in premiums of 0.6% (–6.3%) and a pleasingly low claims burden in property-casualty. Moreover, our programme for increasing efficiency and lowering costs already had a positive impact on the result in 2004.
- The investment result increased significantly. As stock markets were more stable, we were noticeably less affected by writedowns on securities than in the previous year. However, downward real estate prices necessitated writedowns of €217m on our real estate.
- We further reduced our equity holdings in the banking and insurance sector, our stakes in Allianz and HypoVereinsbank being lowered to 9.0% and 18.4% respectively. At –€331m, the proportionate annual result from associated enterprises was clearly negative, in particular because of the special writedowns totalling €2.5bn made by HypoVereinsbank at the end of the year. After deduction of provisions for deferred premium refunds, however, the impact on our Group result was considerably lower at –€180m.
- Our effective income tax rate returned to normal and declined from 136% in 2003 to 27%.

Balance sheet structure

All figures in €m	31.12.2004	Prev. year
ASSETS		
Intangible assets	4,387	4,940
Investments	178,132	171,881
Ceded share of underwriting provisions	6,964	8,038
Other assets	25,308	24,525
Total assets	**214,791**	**209,384**
EQUITY AND LIABILITIES		
Shareholders' equity	20,196	18,899
Minority interests	541	483
Underwriting provisions (gross)	161,291	155,514
Other liabilities	32,763	34,488
Total equity and liabilities	**214,791**	**209,384**

Valuation reserves

The difference between the fair value of our assets and their balance sheet value developed very positively as a whole:

Valuation reserves not recognised in the balance sheet

All figures in €m	Valuation reserves 31.12.2004	Fair value 31.12.2004	Carrying amount 31.12.2004	Valuation reserves Prev. year	Fair value Prev. year	Carrying amount Prev. year
Real estate	1,768	11,497	9,729	1,555	11,630	10,075
Associated enterprises	466	4,191	3,725	400	4,596	4,196
Loans	949	21,259	20,310	–170	15,876	16,046
Other securities	30	592	562	28	775	747
Total	**3,213**	**37,539**	**34,326**	1,813	32,877	31,064

The rise in the fair value of the already significantly larger portfolio of loans was mainly due to falling interest rates.

Information on the valuation reserves recognised in the balance sheet is provided on page 177.

Premium

We earned 54% (56%) of our Group premium income from reinsurance and 46% (44%) from primary insurance.

In reinsurance, premium income fell by 9.7% to €22,397m (24,795m) because of the volume-curbing effect of a strong euro and our strictly risk-adequate underwriting policy. The strong demand for private-provision products gave rise to robust growth in the life and health segment.

At €17,526m (17,640m), premium in primary insurance remained fairly constant. Allowing for the changes in the consolidation group from the acquisition or sale of companies, growth was 0.4%. Changes in exchange rates do not play a significant role in primary insurance.

Group premium income

All figures in €bn	2004	2003	2002	2001	2000
Reinsurance	22.4	24.8	25.4	22.2	18.3
Primary insurance	17.5	17.6	16.6	15.7	14.4
Consolidation	–1.8	–2.0	–2.0	–1.8	–1.6
Total	**38.1**	**40.4**	**40.0**	**36.1**	**31.1**

Equity capital and financing

We continually monitor the capitalisation of the Munich Re Group and the insurance companies belonging to it with due regard to the requirements of insurance supervisory authorities and the criteria of the leading rating agencies. An important role is played by our internal risk model (see page 44 ff.), which we use to determine the capital requirements of individual business units, taking into account fluctuations in results and risk exposure.

In the year under review, our shareholders' equity increased by €1,297m (4,951m) (for details see page 147). The valuation reserves for assets not accounted for at fair value are given on page 98.

Group shareholders' equity

All figures in €bn	31.12.2004	31.12.2003	31.12.2002	31.12.2001	31.12.2000
Group shareholders' equity	20.2	18.9	13.9	19.4	23.6
Valuation reserves not recognised in the balance sheet, including those apportionable to minority interests and policyholders (before tax)	3.2	1.8	1.1	16.4	21.9

The causes of the most important changes in shareholders' equity were as follows:

- The Group profit of €1.8bn was responsible for the major portion of the increase, the previous year's loss of €434m and the dividend payment for 2003 of €286m having been offset against the revenue reserves.
- Net unrealised gains rose by €110m compared with the position at the beginning of the year. The reason for this was the good development in the value of fixed-interest securities owing to the decline in interest rates, which more than offset the reduction in net unrealised gains in the equity portfolio primarily due to realisations.
- In some cases, exchange rates underwent significant changes compared with the beginning of the year. Especially the appreciation of the euro against the US dollar was responsible for a reduction of €275m in the reserve for currency translation, where we recognise the effects of changes in exchange rates arising from the translation of our foreign subsidiaries' assets and liabilities.

Liquidity

In the year under review, the liquidity of Munich Re and its subsidiaries continued to be assured at all times. Our cash flow from operating activities amounted to €5,308m (3,145m). Details are provided in the cash flow statement on page 148. How we safeguard our liquidity and hedge against foreign currency risks is described in the risk report (see page 133 ff.).

Business performance: Reinsurance

The Munich Re Group operates in virtually all classes of reinsurance. We offer a full range of products – from traditional reinsurance to alternative risk financing and risk transfer structures.

Our reinsurance business is divided between seven divisions (see page 55 f.): Life and Health; Europe 1; Europe 2 and Latin America; Asia, Australasia, Africa; North America; Corporate Underwriting/Global Clients; and Special and Financial Risks.

Marketing

As reinsurers, we write our business predominantly in direct collaboration with the primary insurers but also via brokers. The latter includes business offered to us by industrial clients through their captives or risk retention groups (alternative market business), which we accept via Munich-American RiskPartners (MARP).

Overview and important key figures

Last year business again developed very satisfactorily. Cyclones on the coasts of the Atlantic and Pacific, as well as the tsunami triggered by the severe earthquake in the Indian Ocean, significantly burdened the combined ratio with 4.5 percentage points. Nevertheless, it remained below 99% for reinsurance as a whole.

		2004	2003	2002	2001	2000
Gross premiums written in property-casualty	€m	**14,857**	17,919	18,884	16,296	13,624
Loss ratio non-life	%	**71.0**	69.6	95.8	104.5	85.0
Thereof natural catastrophes	Percentage points	**4.5**	1.6	3.3	1.5	2.0
Expense ratio non-life	%	**27.9**	27.1	26.6	30.6	30.3
Combined ratio non-life	%	**98.9**	96.7	122.4	135.1	115.3
Group result in property-casualty	€m	**1,229**	1,370	788	–1,203	464

In 2004, we adhered to our strictly profit-oriented underwriting policy. In property reinsurance, prices stabilised at a risk-adequate level, whilst in liability business they even continued to rise in some areas. All in all, we again improved the risk profile of our portfolio.

The first part-decision regarding the terrorist attack on the World Trade Center was in line with our expectations. In accordance with the applicable treaty conditions, it presupposed one loss event rather than two. In a second part-decision, however, the jurors based their verdict on divergent treaty conditions and determined that the attack constituted two events. Since in establishing our reserves for the consequences of the terrorist attack we had made sufficient provision for claims not yet reported or not reported enough, we do not need to strengthen our reserves further.

The global standardisation of our business processes and data resources on the new reinsurance platform Global Reinsurance Application (GLORIA) is making excellent progress. The test phase, which is scheduled to take one year, began in autumn 2004; it will be followed by the implementation in Munich of the first productive version of the SAP-supported IT system tailored to our requirements. Once the system is finally established, the internationally integrated data resources will allow us to analyse, manage and control our reinsurance business even better.

Please see page 141 for information on the investigations in the USA in connection with placement service agreements (PSAs) and inquiries by the US Securities and Exchange Commission (SEC) into certain financial reinsurance products.

Result

Our two reinsurance segments property-casualty and life and health accounted for €1,661m (1,632m) of the Group profit. The segment result is thus 1.8% higher than in the previous year, although compared to 2003 our burden from natural catastrophes was much greater. At €2,381m (2,711m), the result before amortisation of goodwill fell short of the previous year's level.

Reinsurance result

All figures in €m	**2004**	2003	2002	2001	2000
Result before amortisation of goodwill	**2,381**	2,711	1,768	–697	1,518
Operating result before taxes on income	**2,281**	2,606	1,639	–834	1,386
Group result	**1,661**	1,632	2,336	–52	1,321

Several cyclones left their mark on the combined ratios, in particular in the divisions Europe 2 and Latin America; Asia, Australasia, Africa; North America; and Corporate Underwriting/Global Clients.

Combined ratio by division

in %	**2004**	2003	2002	2001
Life and Health*	**98.9**	97.8	104.4	113.9
Europe 1	**89.1**	96.5	117.7	106.7
Europe 2 and Latin America	**98.5**	96.6	96.4	115.3
Asia, Australasia, Africa	**102.3**	91.8	86.8	112.5
North America	**119.3**	99.1	168.1	156.8
Corporate Underwriting/Global Clients	**94.0**	98.0	120.8	160.4
Special and Financial Risks	**78.9**	92.9	116.5	140.9

*Figures for health reinsurance only.

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

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

Premium

Premium income fell by 9.7% to €22,397m (24,795m). Around 2.8 percentage points of the decrease were attributable to changes in exchange rates. Our reporting currency, the euro, rose against most other important currencies in the past business year. The development in the exchange rates of the US dollar and pound sterling have a particularly significant influence on our business. The premium written in these two currencies accounts for about €11bn or 49%; 34% of our premium was transacted in euros, the remainder in other currencies. These proportions are more or less equivalent to our premium breakdown by country: about 33% derives from the eurozone, 22% from the USA and 21% from the UK. Treaties in the other regions are largely written in local currencies or in US dollars.

Another reason for the decline in premium income was our strictly risk-adequate underwriting policy. Where prices or conditions were not commensurate with the risks, we refrained from renewing treaties or writing new business. In addition, a slight trend away from proportional business towards non-proportional forms of cover also had a reducing effect on premium income.

About 34% of our total premium income was attributable to life and health reinsurance and 66% to the property-casualty segment. Whilst our selective underwriting policy adversely affected premium income particularly in property-casualty insurance, we grew substantially in the life and health segment, despite our high-level profitability requirements. This growth was largely due to the strong demand for private-provision products worldwide.

Gross premiums by segment

All figures in €m	2004	2003	2002	2001
Life and health	7,540	6,876	6,561	5,900
Property-casualty	14,857	17,919	18,884	16,296
Total	**22,397**	**24,795**	**25,445**	**22,196**

Life and health

Life reinsurance again showing strong growth in premium income and result
Premiums and result in health reinsurance slightly above last year's level

Responsible for: Life and health reinsurance business worldwide		2004	2003	2002	2001
Life					
Gross premiums written	€m	6,119	5,461	5,277	4,769
Health					
Gross premiums written	€m	1,421	1,415	1,284	1,131
Combined ratio	%	98.9	97.8	104.4	113.9

Thanks to the good development of our business, we increased our premium income in life and health reinsurance by 9.7% to €7.5bn. Moreover, we achieved a good result before amortisation of goodwill totalling €598m and a segment profit of €432m.

Life

The growth in life reinsurance is essentially attributable to two developments: on the one hand to demographic trends and the continuing tendency to transfer cover formerly provided by social security systems to the private insurance industry and on the other hand to the possibility for our clients to adjust their equity capital requirements through reinsurance.

In life reinsurance, premiums climbed by 12.0% to €6,119m. The increase stemmed for the most part from large treaties covering mortality and morbidity risks in the USA, Canada and the UK. We were able to strengthen our leading position in these countries. The very satisfactory bottom-line result reflects our solid pricing approach and prudent selection of risks.

In our home market, Germany, our premium income totalled €1,687m (1,800m). We benefited from, among other things, the positive new business development among our clients, which was largely due to the change in the fiscal treatment of life insurance products. Besides this, the demand for disability and annuity covers continues to be high. Munich Re is the market leader in the reinsurance of these products. The reinsurance of life annuities, on the other hand, is not yet very widespread on the German market.

Our life subsidiary in the USA, Munich American Reassurance Company (MARC), continued to show solid organic growth. With premium income totalling US$ 1,287m (1,136m), MARC maintained its position as a leading provider. As the market consolidated, the business opportunities available to it increased. The annual result of US$ 35.1m (35.7m) thus reached the planned level.

Munich American Reassurance Company*

		2004	Prev. year
Gross premiums written	US$ m	1,287	1,136
Net earned premiums	US$ m	724	663
Result for the year	US$ m	35.1	35.7
Investments	US$ m	3,183	2,704

*Financial statements according to national accounting law.

With Munich Reinsurance Company Canada Branch (Life), whose gross premiums totalled €1,335m (954m), we remained the dominant life reinsurer in Canada. Owing to the still strong organic growth of more than 40%, we were able to expand our very high market share further. This success can be attributed to our outstanding ability to design unique products in a highly regulated environment. In connection with the Canadian market's consolidation, we were able to assist our clients in achieving their strategic goals by using innovative reinsurance solutions.

With €1,051m (983m), we were again able to increase our volume of business in the United Kingdom compared with the previous year – despite declining premiums for risk products in primary insurance and a decreasing need for endowment insurance policies in association with real estate financing. Measured in terms of overall new premiums, our branch ranks second among the UK life reinsurers. Excluding guaranteed-premium critical illness business, a segment that the branch office avoids on principle, it even holds the leading position. Profit margins remained stable, in spite of significant competition.

In our core markets in the rest of Europe, i.e. the Netherlands, France, Italy and Spain, and in the major Asian markets Japan and Korea, premium income and results developed favourably. We were able to maintain and in part strengthen our position in these markets. This was also confirmed by the Flaspöhler study, a European client survey on the quality of reinsurers: Munich Re was nominated the best life reinsurer overall (see page 56).

The positive economic development in central and eastern European countries and an increasing public awareness of gaps in the social security systems indicate that our life reinsurance business will continue to develop very positively in this region.

In the Asian markets China and India, where we see significant growth potential, we are now represented by fully operational and strong local offices. Although current premium volumes are still limited, we see ourselves well positioned to benefit from business opportunities. These will arise from the need of established primary insurers for product innovations and the demand from foreign primary insurers for the in-depth market knowledge of a reinsurer. We are currently trying to obtain a branch licence in India for all classes of insurance.

Health

The global healthcare market with its segments "financial security", "health services" and "benefits" will provide significant growth opportunities for health reinsurance in coming years. Our core field of business, in which we as reinsurers provide financial cover for medical care, offers particularly good opportunities. Two main factors are stimulating visibly higher demand: the rising importance of healthcare in general and a trend towards greater liberalisation and privatisation of healthcare systems. The USA remains the largest market for this, but strong growth impulses are also being generated by markets outside the USA and Europe. As the world's leading provider with an approach that integrates reinsurance products and services, Munich Re is well prepared for these developments (see page 68 ff.).

Although we had significantly restructured our portfolio in 2003 and terminated a number of unprofitable accounts, premiums in the year under review remained largely stable at €1,421m (1,415m) thanks to attractive new business.

As the combined ratio rose only minimally to 98.9% (97.8%) and the investment result improved significantly, the overall result reached nearly the same very good level as in the previous year, which had been influenced by positive one-off effects. The good results were mainly due to the pleasing performance of major business acquired in 2003 and existing European and US business.

Contributing approximately 32% of our health reinsurance premium, the USA is not only our most important but also our most profitable market. It continues to offer risk-adequate prices, so that we will be stepping up our activities here. In the coming years, there will be dynamic growth especially in the innovative product segments such as health saving accounts (health insurance products with savings components) and disease management – a concept for patient care optimisation. By building up skills in these specific areas and suitably adapting our organisation, we have created the platform for further profitable growth.

In the year under review, business with our major clients in the United Kingdom again made a positive contribution to our result. This trend is likely to continue in coming years. The UK's share of overall business was around 19% in 2004.

In Germany, the number of claims involving exceptionally high costs is rising, a trend that is mainly attributable to cost-intensive treatments using state-of-the-art medical technology. A significant share of overall costs incurred is thus spent on a small number of policyholders. Health insurers' demand for reinsurance solutions for such costly claims has therefore increased. This enabled us to record slightly higher premiums and also a better result in the year just ended, and we expect a positive trend in future in this very important market for us. Premium volume in the year under review totalled €249m (247m).

China currently holds a minor share of less than 1% of the Group's overall health insurance business, but it is still considered one of the most promising markets for the future. Tangible proof of this trend is provided by the specialised health insurance companies that have recently been established. Also, China is opening its market further to foreign investors and pursuing its privatisation programme. The reinsurance licence we obtained in 2003 is also a key component for consolidating our position in health reinsurance business in the Chinese market.

Munich Re sees strong growth potential in the area of health insurance in India as well. So far, at less than 1%, the share in the Group's overall health reinsurance business is relatively low. We are confident, however, that by improving the quality of our range of products and strengthening our ties with clients, we will assume a significant role in the reinsurance market. Our local service company is supporting us in these endeavours.

Beyond this, a number of other markets are also responsible for the good overall picture in the health segment. All in all, contributions to our premium and result are regionally diversified, so that our risk is broadly spread.

Property-casualty
Risk-commensurate underwriting strengthens profitability
Natural catastrophes impact result with around €715m
Nevertheless, combined ratio of not more than 98.9%

Two topics dominated property-casualty reinsurance in the past year: the development of prices and conditions and the severe natural catastrophes in America and Asia.

In our renewal negotiations for 2004, we largely obtained the prices and conditions we sought. We consistently held back in cases where, given the prevailing market conditions, we would have had to accept business at insufficient conditions not commensurate with the risk.

Consequently, at €14.9bn, premium was 17.1% below the previous year's high level. Approximately 2.8 percentage points of this decline were attributable to the development of foreign exchange rates, which negatively affected all divisions with the exception of Europe 1.

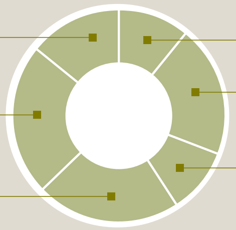
The reduction of premium in liability, motor and fire was particularly marked, mainly due to lower shares or termination of large-volume business.

Gross premiums by class of insurance

in €m	2004	2003	2002	2001
Liability	**2,606**	3,444	3,514	2,402
Personal accident	**1,080**	1,293	1,302	1,213
Motor	**2,890**	3,186	3,337	3,448
Marine, aviation, space	**1,609**	1,742	1,896	1,398
Fire	**3,775**	4,874	5,294	4,481
Engineering	**1,281**	1,393	1,443	1,449
Other classes of business	**1,616**	1,987	2,098	1,905
Total	**14,857**	17,919	18,884	16,296

The breakdown of gross premiums by property-casualty division presents the following picture:

Gross premiums by property-casualty division 2004



We continued to be very restrictive about granting terrorism covers. We participate in terrorism pools where possible and conducive to the limitation of our liability. In particularly exposed regions, we have incorporated exclusions or liability limits for epidemics in our treaties. We increasingly wrote large industrial risks on a facultative basis. The improvements in conditions and limitations of liability introduced in previous years were maintained. Altogether, these measures have substantially improved the risk exposure of our portfolio, although they often do not make themselves felt until a catastrophe strikes, when they minimise losses.

In property reinsurance, prices stabilised at a risk-adequate level. The favourable claims experience in the previous two years put pressure on rates up to the middle of the year. Especially the prices for natural hazards covers declined somewhat. This trend was broken, however, following the cyclones in August and September. The series of severe natural catastrophes in 2004, whose tragic culmination was the tsunami of 26 December, emphatically confirmed the dramatic increase in exposure. The greatest insured losses were due to the considerable rise in extreme weather events. There are many indications that human activity is one of the causes of this increase, underlining the fact that reasonable limitations of liability are needed in order to cover the risks reliably.

The same, of course, also applies to liability insurance. The need for urgent improvements, at least in some markets, is evidenced by the USA, where claims provisions for previous years had to be increased yet again. In negotiating and structuring our treaties, we have succeeded in obtaining even greater transparency with regard to the loss exposure involved. We have clearly defined the scope of cover and have done away with unlimited liability in motor liability insurance as far as possible. Moreover, we have managed to raise prices further, in particular for large industrial risks and professional indemnity. Terms of trade improved for both proportional and non-proportional covers.

In marine insurance, the price level was generally risk-adequate, with primary insurers able to raise prices in most classes of business. Our treaty conditions have been supplemented by various risk-limiting clauses, in particular with regard to hazards such as biochemical or radioactive contamination.

The year 2004 was the most expensive year in the history of natural catastrophe insurance. The severest disaster was the tsunami following an earthquake, which caused immeasurable human suffering, leaving in its wake more than 180,000 fatalities, over 100,000 missing people, and countless persons injured and homeless. The economic loss to the regions affected is estimated at over US$ 10bn. The loss to the insurance industry (US$ 1–2bn) will – given the extent of the tragedy – be manageable, as insurance penetration in the coastal areas affected is relatively low. The burden from this event for the Munich Re Group is likely to total less than €100m. Given the vast geographical extent of the regions hit, the loss estimate is still uncertain.

For the insurance industry and Munich Re, the cyclones over the Atlantic and Pacific in August and September gave rise to significantly higher expenditure than the tsunami in Asia. Hurricane Charley swept across Florida on 13 and 14 August, moving from west to east and reaching maximum gust speeds of over 240 km/h. Hurricane Frances hit Florida on 5 September, causing severe damage. Hurricane Ivan was the third severe tropical storm within six weeks to strike the USA and the Caribbean. Attaining an intensity of 4–5 on the five-category Saffir-Simpson Hurricane Scale, it raged over several Caribbean islands – also in the first days of September – and wreaked major devastation, in particular on Grenada, Jamaica and the Cayman Islands. In marine insurance and offshore energy insurance, Hurricane Ivan became the greatest loss event worldwide, currently estimated at US$ 2.5bn. Hurricane Jeanne cut a path of destruction on Haiti, killing over 2,000 people before reaching Florida as a Category 3 hurricane on 15 September (see also page 62 f.).

We anticipate about €66m in loss expenditure for Charley, around €97m for Frances and approximately €221m for Ivan. Jeanne is likely to cost us €64m. The Pacific typhoons Songda and Tokage will lead to a claims burden of about €165m for the Munich Re Group.

The total insured losses from these natural catastrophes are likely to amount to about US$ 44bn. The Munich Re Group incurred claims expenses of about €715m before taxes on income, the divisions mainly affected being: Europe 2 and Latin America; Asia, Australasia, Africa; North America; and Corporate Underwriting/Global Clients. This accounts for about 4.5 percentage points of the combined ratio of 98.9% (96.5%) in property-casualty.

Following a good start in the first six months of the year, the second half of 2004 was thus marked by an accumulation of natural hazard events that were highly unusual both in terms of their number and severity. These events had a significant impact on our result, despite the many measures taken to limit liability in the past few years. However, it should not be overlooked that the result without this random exceptional burden was excellent. At 94.4%, the combined ratio without natural catastrophes was at an all-time low. The improvement in portfolio quality that we have achieved over several years is thus proving to be increasingly sustainable. In spite of the numerous natural catastrophes, our closing figures for the property-casualty segment were therefore a good result of €1,783m before amortisation of goodwill and a Group profit totalling €1,229m.

Europe 1
Result target surpassed despite decline in premium
No severe natural catastrophes in the year under review

Responsible for: Germany, Austria, Switzerland, eastern Europe, Greece, Turkey		2004	2003	2002	2001
Gross premiums written	€m	1,666	2,056	2,161	2,151
Combined ratio	%	89.1	96.5	117.7	106.7

The division Europe 1 was spared losses from severe natural catastrophes in 2004, and other major losses were less frequent than in the past. The combined ratio improved to a very satisfactory 89.1% (96.5%). We thus clearly surpassed our result target for 2004, partly owing to the exceptionally favourable experience in the area of natural catastrophes. At €1,666m, premium income in the division was 19.0% lower than in 2003. Nearly half of the decrease was attributable to expiring business written by the former VICTORIA Re.

With premium totalling €1,173m or 70.4% of the division's aggregate premium income, Germany is Europe 1's most important market. The premium volume of the German reinsurance market as a whole shrank in 2004. As we also terminated treaties that no longer met our profitability requirements, premiums decreased to €1,173m (1,284m). Nevertheless, we consider that our home market offers interesting medium-term growth opportunities.

We have optimised the risk structure of our German portfolio. For instance, we have limited the scope of natural hazard covers and have excluded asbestos risks in industrial and commercial liability business.

Given the favourable claims experience in primary insurance and our selective underwriting policy, our combined ratio was very satisfactory. Expenditure for large losses amounted to only €49m.

Austria, which accounts for 9.0% of overall business, is the division's second-largest market. Our insistence on risk-adequate prices caused premiums to fall by about 17% to €150m. The result was clearly positive. Since Austrian primary insurers are also actively and successfully cultivating business in the neighbouring eastern European states, Austria remains an attractive market for Munich Re.

Premiums in Switzerland were stable at €94m (81m), and the result was positive.

We write eastern European business from Munich, with the support of our offices in Warsaw and Moscow. The individual countries and regions of eastern Europe are very heterogeneous and development therefore varied. Poland and the Czech Republic continue to be the two markets in which premium income is highest. Russia, with its tremendous growth opportunities, is also a very interesting market for us (see page 64 f.).

Eastern Europe as a whole has huge growth potential, as industrial plants are being privatised and modernised, the prosperity of a growing percentage of the population is rising, insurance penetration is low and the countries' infrastructures still require some updating.

Business performance in Greece and Turkey was satisfactory. Premiums fell by 5.1%, totalling €111m. In the year under review, we were involved in insurance programmes for the Olympics in Greece where we mainly wrote engineering and CAR insurances for sports facilities and infrastructural measures. We did not participate in cancellation-of-events insurance and terrorism covers, however.

Europe 2 and Latin America
Leading market position defended
Increase in overall claims amount
More demand for innovative reinsurance solutions

Responsible for: Northern, western and southern Europe; Latin America		2004	2003	2002	2001
Gross premiums written	€m	**2,873**	3,193	2,952	2,883
Combined ratio	%	**98.5**	96.6	96.4	115.3

In our core markets, we continue to hold a leading position.

Prices in the markets relevant to us were generally stable. However, the development in the exchange rates of the US dollar and pound sterling had a negative influence on our premium income. Altogether, premiums fell by 10.0% to €2,873m (3,193m). Claims expenditure rose noticeably over 2003. The higher combined ratio of 98.5% (96.6%) was attributable not only to a gas explosion on an industrial estate in Belgium but in particular also to the hurricanes in the Caribbean and the need for increased reserves for motor liability business. Hence the overall result did not fully come up to expectations.

The demand for non-traditional forms of reinsurance and non-proportional treaties grew in Europe 2 and Latin America in the past year.

The United Kingdom remains the largest individual market, with a premium income of €984m (1,051m), representing 34.2% of the division's total premium volume. Since we opted not to renew a number of proportional treaties because of the unsatisfactory prices and conditions, premium volume shrank by 6.4% compared with 2003. We did not have to cope with significant major claims or natural catastrophe losses. The combined ratio thus again reached a pleasing level – and this despite reserve strengthening for non-proportional motor liability business written in prior years.

In France and Belgium premium was down by 7.4%, with premiums written totalling €239m (258m). The result is characterised by countervailing trends. In property business, we repeated the success of previous years, whereas our motor liability business did not perform satisfactorily. Here, French court rulings and above all the development of long term care costs have led to a significant rise in the costs of bodily injury claims over the past few years. This made it necessary to strengthen our loss reserves for motor liability business.

In 2004, the premium volume of our subsidiary in Italy, which operates in life and non-life business, declined marginally by 2.0% to €635m (648m). The losses of premium that the subsidiary had been prepared to accept in property-casualty and health insurance were largely compensated for by increases in the life segment. The consolidation of primary insurers in the Italian market intensified over the course of the year, reducing the amount of premium ceded to the reinsurance market. Münchener Rück Italia's result was impacted by one-off effects from writedowns and by the fact that additional provisions for outstanding liability claims were posted for covers that have meanwhile largely been terminated.

Münchener Rück Italia

		2004	Prev. year
Gross premiums written	€m	**635**	648
– Life and health	€m	**139**	119
– Property-casualty	€m	**496**	529
Net earned premiums	€m	**353**	358
– Life and health	€m	**103**	77
– Property-casualty	€m	**250**	281
Loss ratio non-life	%	**86.6**	70.8
Expense ratio non-life	%	**22.8**	33.9
Combined ratio non-life	%	**109.4**	104.7
Result for the year	€m	**–47.1**	4.7
Investments	€m	**1,406**	1,410

In the Netherlands, the demand for traditional reinsurance decreased. Although premium income fell by 9.6% to €160m (177m), we maintained our leading position in the market. The result developed very satisfactorily. For the future, we see good opportunities for marketing further innovative reinsurance solutions.

Northern Europe is for the most part a saturated market. We were therefore not able to make up for the decline in premium triggered by the termination of individual, unprofitable treaties with sufficiently attractive new business. Hence, our premium volume fell by 14.0% to €222m (258m). Thanks to the low claims burden and our profit-oriented business policy, the result was nevertheless clearly in the black.

We were not quite able to maintain our gratifyingly high premium level in Spain, where premium volume totalled €408m (429m). Scheduled individual reductions in treaty participations were in part offset by new business and higher prices for business in force. Given the business potential and our outstanding market position, we still see opportunities for growth.

Portugal is also an attractive market for us. With premiums of €54m (49m), we recorded growth of 10.2% in 2004. Moreover, we continued to make good progress in restructuring covers with exposure to earthquake.

In Latin America, the economy in individual countries improved appreciably. Original rates fell further on most insurance markets. Nevertheless, we largely managed to keep prices at a risk-commensurate level, thanks to the extensive services provided by our local representative offices. All in all, premiums declined by 12.0% to €316m (359m), with developments varying in the individual countries. Many treaties in this region are written in US dollars, which had a lowering effect on our premium income translated into euros. The hurricanes in the Caribbean impacted us with around €166m before taxes on income.

Asia, Australasia, Africa
High losses caused by cyclones
Decline in premium partly due to exchange rates

Responsible for: Middle East, Africa, Asia, Australasia, Greater China, Southeast Asia		2004	2003	2002	2001
Gross premiums written	€m	**1,510**	1,676	1,619	1,487
Combined ratio	%	**102.3**	91.8	86.8	112.5

Asia was hit particularly badly by natural catastrophes in 2004. Starting in September, an unusually high number of typhoons swept over Japan. Along with the earthquake in October 2004, these gave rise to economic losses in Japan running into billions. The severest event by far, in terms of both human and economic losses, was the tsunami triggered by an earthquake off Sumatra on 26 December, by which the inhabitants of the coastal areas of the Indian Ocean were worst affected. For the division Asia, Australasia, Africa, we expect claims burdens from natural catastrophes of around €205m overall before taxes on income.

Compared with the previous year, premium fell by 9.9% to €1,510m (1,676m). This decrease can largely be put down to the strength of the euro against the local currencies and the US dollar. Japan and Australia, with a total share of more than 50% of premium income, are the division's largest markets.

On balance, premium fell marginally in Japan by 3.3% to €234m (242m) in the past year. Premiums were down compared with the previous year, since we partially withdrew from windstorm business and our treaties provided for higher cedant retentions. In marine reinsurance, we improved conditions following the major losses in 2002 and 2003. At the same time, we were able to maintain our good market position as the leading foreign non-life reinsurer.

The number of typhoons over Japan last year was several times higher than in previous years. 2004 was a record year with a total of ten tropical storms: the average annual number of tropical cyclones making landfall in Japan since 1950 had been 2.7. In September and October, typhoons Songda and Tokage alone impacted the division's result with about €165m before taxes on income (see page 62).

In Korea, we expanded our business through new participations in direct insurers selling motor cover. We remain the leading foreign non-life reinsurer.

In Australia and New Zealand, we are represented in non-life and life business by our subsidiary Munich Reinsurance Company of Australasia (MRA), which is the leader in both markets. The progressive concentration of the non-life market and several years of favourable claims experience have led to higher retentions. Therefore, we did not record premium growth in the property-casualty segment. Business in life and health reinsurance is also experiencing a phase of consolidation, since the primary insurance market is stagnating. Pressure on prices in the primary insurance and reinsurance market rose distinctly.

Munich Reinsurance Company of Australasia*

		2004	Prev. year
Gross premiums written	A$ m	**882**	933
– Life and health	A$ m	**234**	215
– Property-casualty	A$ m	**648**	718
Net earned premiums	A$ m	**243**	237
– Life and health	A$ m	**136**	130
– Property-casualty	A$ m	**107**	107
Loss ratio non-life	%	**76.3**	76.4
Expense ratio non-life	%	**10.2**	26.4
Combined ratio non-life	%	**86.5**	102.8
Result for the year	A$ m	**54.3**	20.8
Investments	A$ m	**709**	988

*Financial statements according to national accounting law.

The picture for Greater China is as follows: in 2003, Munich Re became the first foreign reinsurer to obtain a licence for various lines of property-casualty business for the whole People's Republic of China.

Owing to this advantage, we successfully expanded our business in China in 2004. In Taiwan, we achieved risk-adequate prices despite keener competition and extended our position in the market. As a whole, the result for Greater China was gratifying thanks to lower costs for major losses. In Southeast Asia, we also made steady and pleasing progress with the consolidation of our portfolio as regards both premium income and result. The tsunami losses at the end of the year did not significantly impact the satisfactory overall result.

India is another of the markets with great potential. In Mumbai, we set up MR India Services (MRIS), a local service company focusing on life reinsurance. Low insurance penetration, a fast-growing middle class and necessary investments in infrastructure are indicative of the great potential also existing in all classes of property-casualty insurance. We are doing what we can to encourage an adjustment of the legal framework so that we can obtain a licence as a local reinsurer for property-casualty business in India, too. Having taken measures to remediate the business, we are now expanding our activities particularly in the liability and property classes. We are cooperating with newly established private primary insurers and with the state insurance sector.

In Africa our subsidiary, Munich Reinsurance Company of Africa (MRoA), covers the entire geographical area south of the Sahara and operates in 45 countries. We continue to regard ourselves as the leading reinsurer in the main market of South Africa and in the remaining African markets.

In 2004, premiums on the African continent were down by 21.0% to R 2,394m (3.032m) as a result of our systematically applied risk-adequate underwriting policy. A major loss in engineering business had a negative impact on the result but, apart from this, business performance was very pleasing.

Munich Reinsurance Company of Africa

		2004	Prev. year
Gross premiums written	R m	**2,394**	3,032
– Life and health	R m	**554**	553
– Property-casualty	R m	**1,840**	2,479
Net earned premiums	R m	**1,148**	1,368
– Life and health	R m	**548**	427
– Property-casualty	R m	**600**	941
Loss ratio non-life	%	**55.6**	63.6
Expense ratio non-life	%	**28.6**	24.8
Combined ratio non-life	%	**84.2**	88.4
Result for the year	R m	**257.8**	178.8
Investments	R m	**2,760**	2,817

Premium in the countries of North Africa and the Near and Middle East maintained approximately the previous year's level.

The result allowed us to earn the required margins. With a view to limiting our liability accumulations from natural hazards, we agreed event limits under proportional reinsurance treaties with our clients in Jordan and Lebanon.

Although premiums on the Israeli market fell appreciably, above all in property-casualty insurance, we were largely able to keep our prices stable. Where this was not possible, we withdrew from the business in question. As a consequence, and because of changes in exchange rates, premium income was down by about 20%.

The increasing unrest in the region does not directly affect our business, as we grant terrorism covers only selectively and to a limited extent. These covers, which are reviewed by Munich Re specialists, are based on a clearly defined scope of cover and provide low liability limits against payment of extra premiums.

North America
Canadian units meet objectives
Tropical cyclones and reserve strengthening affect American Re's result

Responsible for: American Re-Insurance Company, Munich Reinsurance Company of Canada		2004	2003	2002	2001
Gross premiums written	€m	**3,178**	3,987	4,968	4,373
Combined ratio	%	**119.3**	99.1	168.1	156.8

In 2004, the gross premiums written by the division amounted to €3,178m (3,987m), a decrease of 20.3% on the previous year. This decline is for the most part due to the expected premium reduction in US dollars at American Re; MROC on the other hand increased its premium in original currency.

The division's combined ratio deteriorated by 20.2 percentage points to 119.3%. The hurricanes in the Atlantic (see also page 62 f.) affected only American Re, having no impact on MROC's results. Furthermore, claims provisions for previous years were strengthened by US$ 482m.

In the year under review, American Re's gross written premiums of US$ 4,206m were 8.8% down on 2003, in line with expectations. We consistently withdrew from treaties that did not meet our strict underwriting and premium requirements. Over and above this, higher client retentions and the ongoing run-off of international and credit enhancement business, which we stopped writing in 2003, had a lowering effect on premium volume.

In just a six-week period in September and October 2004, four severe storms made landfall in the state of Florida. American Re's losses from these storms before taxes on income came to US$ 202m. The burden would have been greater were it not for the stringent acceptance policy with which we measure and control accumulation risks in property-casualty insurance.

At US$ 78.9m (262.1m), the annual result under IFRS was lower than planned, not only because of the hurricanes. Long-tail losses from previous years also had a negative influence. For asbestos-related claims, further reserves of US$ 180m were posted. Moreover, in the course of the year, the reserves for liability and workers' compensation business written in the years 1997 to 2001 proved to be inadequate and had to be strengthened by US$ 302m. Long-tail claims reported by under treaties involving this period of market-wide losses again exceeded previous expectations.

American Re

		2004	Prev. year
Gross premiums written	US$ m	4,206	4,611
– Life and health	US$ m	563	380
– Property-casualty	US$ m	3,643	4,231
Net earned premiums	US$ m	1,803	1,603
– Life and health	US$ m	295	37
– Property-casualty	US$ m	1,508	1,566
Loss ratio non-life	%	95.1	87.0
Expense ratio non-life	%	26.9	15.6
Combined ratio non-life	%	122.0	102.6
Result for the year	US$ m	78.9	262.1
Investments	US$ m	13,917	14,169

At the initiative of the Board of Management, a team of experts from Munich and Princeton examined in detail the factors influencing US liability business. The outcome of the analysis clearly shows that its segments need to be treated in a differentiated manner with regard to their profitability, despite their many common parameters, and that a correspondingly selective approach must be taken in writing the business. Our current underwriting, reserving and claims settlement guidelines reflect the findings of this study in their application to US business.

With a profit for the year of Can$ 47.5m (4.8m) and a combined ratio of 96.5% (111.8%), Munich Reinsurance Company of Canada (MROC) performed very well and achieved its objectives for 2004.

Gross premiums written were increased as planned by 15.9% to Can$ 445m (384m). There were only few major losses in 2004, and claims expenditure in general was within the expected range. MROC continues to maintain its leading position in the Canadian market.

Munich Reinsurance Company of Canada*

		2004	Prev. year
Gross premiums written	Can$ m	445	384
– Property-casualty	Can$ m	445	384
Net earned premiums	Can$ m	338	120
– Property-casualty	Can$ m	338	120
Loss ratio non-life	%	66.5	85.1
Expense ratio non-life	%	30.0	26.7
Combined ratio non-life	%	96.5	111.8
Result for the year	Can$ m	47.5	4.8
Investments	Can$ m	1,161	1,056

*Financial statements according to national accounting law.

Corporate Underwriting/Global Clients
Premium income lower than in previous year
New services very well received

Responsible for: Globally operating clients, agricultural risks, workers' compensation business, loss portfolios, Lloyd's/US business

		2004	2003	2002	2001
Gross premiums written	€m	**3,464**	4,552	4,699	3,615
Combined ratio	%	**94.0**	98.0	120.8	160.4

In the past business year, the division's premium was again strongly influenced by the original business development of our global clients. Our premium volume in 2004 declined by 23.9% to €3,464m (4,552m). This was due to the fact that we reduced shares and terminated treaties because of unacceptable conditions. There were also scheduled treaty reductions. Thus the scaling back of a quota share treaty with a large British insurance group alone led to a decrease of €509m.

In spite of the hurricanes in the Carribbean, we reduced our combined ratio by 4.0 percentage points to 94.0%.

Global clients
We consolidated our position among global clients and even extended it in certain areas. We took advantage of every opportunity to put cooperation on an even broader footing.

Lloyd's/US business
As we continued to focus on profitable business in this market, we again remediated and improved the quality of our portfolio. Premium income was reduced in partial segments, and we recorded a positive result.

Agricultural insurance
Our premium rose and we achieved a good result. There were no major losses like the disastrous drought that affected large parts of Europe in 2003. Our agricultural business stems mainly from the USA and mostly derives from federal-supported multi-peril crop insurance.

Workers' compensation
In the year under review, we succeeded in reducing underwriting losses from business in force. Back in 1998, we set up a centre of competence for this difficult business. This bundles our expertise in a central unit and enjoys international recognition. Besides writing profitable new business, the centre of competence also released a number of publications on specific issues of workers' compensation insurance in 2004. And for the second time we staged an international symposium that mainly served as a forum for exchanging views and comparing workers' compensation systems in the private sector.

Customised portfolio solutions
In this highly specialised segment, we offer our clients worldwide tailor-made reinsurance solutions for claims portfolios (see also page 67). We continue to see attractive business opportunities in this area in the long term.

Corporate underwriting
Besides underwriting business, the division performs a number of additional Group-wide corporate underwriting functions. It sets quality standards for underwriting and claims management in the reinsurance group and makes sure they are complied with. The basis for new products and services is dialogue with clients. This allows us to carry out needs-based research and development, to draw up suitable underwriting guidelines and to design customised services and training programmes.

Research and development

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

In our Geo Risks Research Centre of Competence, more than 20 experts from all pertinent disciplines investigate natural hazards worldwide, in particular the striking increase in losses arising from weather-related natural catastrophes. The record number of hurricanes in Florida and typhoons in Japan in the business year under review are a current example. Another important topic is the tsunami in South Asia in December 2004, one of the greatest natural catastrophes in human memory; the potential exposure of other regions to such events is also being investigated. Our experts analyse the causes and effects of catastrophes, assess the results with respect to our underwriting policy, and offer our clients comprehensive service.

We maintain close contact with scientific institutions around the world and with domestic and foreign media in order to contribute our point of view to the public debate. Our experts are highly sought-after as partners in such discussions.

The calculation of loss reserves using suitable actuarial methods is of essential importance for reinsurers. Not only do we apply such methods; we are also continually refining them. In 2004, the German Association of Actuaries awarded one of our experts the Gauß Prize for developing an innovative reserving method (see page 3 ff.).

Special and Financial Risks
Strong position expanded in new and attractive markets
Aviation and space continue to grow

Responsible for: Aviation and space, credit and bonding, entreprise and contingency risks, retrocession, Munich-American RiskPartners, New Re Geneva, Great Lakes UK, Munich American Capital Markets		2004	2003	2002	2001
Gross premiums written	€m	**2,044**	2,284	2,485	1,787
Combined ratio	%	**78.9**	92.9	116.5	140.9

We made a number of changes in the division's responsibilities in the past business year: Australian alternative market business was shifted to our division Asia, Australasia, Africa; enterprise and contingency risks were taken over from Corporate Underwriting/Global Clients and combined in one SFR unit together with capital market products.

This reallocation of some units to other divisions as well as changes in exchange rates were the reasons why the premiums written in Special and Financial Risks declined by 10.5% to €2,044m (2.284m). Some 55% of the business is written in US dollars.

Although we recorded major losses in industrial oil and gas business totalling approximately €72m and had to bear a proportionate burden from the cyclones in the Caribbean and USA of about €23m before taxes on income, our result was nevertheless again exceptionally good. All areas contributed to the profit. Approximately 3.3 (9.0) percentage points of the combined ratio of 78.9% (92.9%) were attributable to expenditure for retrocession cover for the whole reinsurance group, which we account for in Special and Financial Risks.

Aviation and space

With premiums of approximately €850m, aviation and space is the largest business field in the division. The rise in gross premiums written is partly due to the fact that Munich Re increased its share in Global Aerospace Underwriting Managers Ltd., the world's largest underwriter of aviation risks. We thus further extended our leading position in aviation and space business.

Given the favourable claims experience, rates in the main segment (airline insurance) fell by about 10% on average. For business written by us, however, prices continued to be adequate. Thanks to our adherence to risk-adequate prices and conditions, we achieved another highly satisfactory result.

Owing to the rise in the number of satellite launches, premiums in space insurance climbed significantly. Prices remained stable after the increases in recent years. There were no unexpectedly high claims and the result was again well into the black.

Credit and bonding

In this field of business, we insure default risks related to the sale of goods and services. Business was adversely affected by the fact that the economy in our most important market, Europe, was very sluggish and the number of insolvencies increased. Hence, at €574m (620m) premiums did not reach last year's level. Given our strictly profit-oriented underwriting policy, however, the result again showed a considerable improvement compared with the previous year.

Capital market solutions

In this field, Munich Re operates as an alternative risk carrier and potential risk provider, the products being supplements to traditional reinsurance. Through our subsidiary Munich American Capital Markets, we are active in this segment, too, transferring risks both to and from the capital markets (see pages 65f.). The targeted expansion of this field of business underlines our strategy of also doing business as a global risk carrier in this highly innovative segment.

Enterprise, contingency and political risks

In this area, we offer a wide range of reinsurance solutions such as cancellation-of-events, film, residual value and prize indemnity insurance. However, there is also increasing demand for innovative forms of cover such as insurance for geological risk in geothermal projects (see page 17). In this novel sector for us, we take great care that the risks are balanced by correspondingly high earnings potential. Despite still relatively low premium income, we achieved an exceptionally good result last year.

Alternative markets

The alternative markets business segment is handled by our subsidiary Munich-American RiskPartners, which has offices in Munich and London. Our clients are large industrial firms that generally offer their business either direct or via captives, i.e. insurance companies belonging to an industrial group. In the year under review, we were able to write new business at risk-commensurate prices, but premium income shrank nonetheless, as we turned down more business due to the effects of ever greater competition, in particular in the energy sector, and to increasingly inadequate conditions.

Our disciplined and selective underwriting strategy contributed to the positive result of €130m, despite substantial expenditure for major oil and gas losses and the US hurricanes.

New Re

In the year under review, Munich Re's subsidiary in Switzerland pushed ahead with the strategic reorientation it had begun in the previous year. This realignment focused on writing non-proportional reinsurance in Europe. Although premium thereby declined as planned by 13.9% to Sfr 630m (732m), the impact on the result was nevertheless positive. The profit for the year rose to Sfr 85.9m.

New Reinsurance Company*

		2004	Prev. year
Gross premiums written	Sfr m	630	732
– Life and health	Sfr m	240	217
– Property-casualty	Sfr m	390	515
Net earned premiums	Sfr m	693	678
– Life and health	Sfr m	298	146
– Property-casualty	Sfr m	395	532
Loss ratio non-life	%	75.7	86.3
Expense ratio non-life	%	21.3	19.5
Combined ratio non-life	%	97.0	105.8
Result for the year	Sfr m	85.9	55.0
Investments	Sfr m	2,876	2,607

*Financial statements according to national accounting law.

Retrocession

Our own reinsurance protection is an important instrument of our risk and capital management. The Special and Financial Risks Division manages and optimises the retrocession cover for the whole reinsurance group. This cover centres on protection against major losses from natural catastrophes.

Business performance: Primary insurance

The primary insurers in the Munich Re Group essentially comprise the ERGO Insurance Group, the Karlsruher Insurance Group, Europäische Reiseversicherung and the Watkins Syndicate, which operates within Lloyd's and belongs to Munich Re Underwriting Ltd. They write nearly all classes of life, health, property and casualty insurance. Some 81% (83%) of their premium stems from Germany and the remaining 19% (17%) derives mainly from other European countries. The bulk of business is therefore transacted in euros.

Overview and important figures

		2004	2003	2002	2001	2000
Gross premiums written	€m	**17,526**	17,640	16,593	15,715	14,474
Loss ratio*	%	**58.1**	60.0	62.4	64.9	60.6
Expense ratio*	%	**34.9**	36.4	37.5	36.5	36.6
Combined ratio*	%	**93.0**	96.4	99.9	101.4	97.2
Group result	€m	**261**	–1,091	–939	561	624

*Property-casualty including legal expenses insurance.

Our primary insurers are well on the way to recovering their former strength. The negative exceptional effects of recent years have been almost fully absorbed, and underwriting business performed distinctly better than in 2003. As a consequence, the result before amortisation of goodwill totalled more than €615m (212m). The contribution to Group profit after amortisation of goodwill, taxes on income, and minority interests in earnings, was €261m, following a deficit of €1,091m in the previous year. The result in 2003 had been distorted by tax expenditure, write-downs of goodwill and the poor performance of the stock markets in prior years.

Development of premium income in the individual classes of business varied. All in all, gross premiums written decreased marginally by 0.6% to €17,526m (17,640m).

Result

The investment result increased from €4,209m to €4,587m in the year under review. Net expenses for claims and benefits decreased to €15,214m (15,888m). This was mainly attributable to appreciably lower allocations to the provision for premium refunds over the year, namely €1,035m (2,158m), of which €468m (1,282m) was apportionable to the provision for deferred premium refunds.

The trend on the claims side was also positive. In the health segment, the loss burden improved, partly owing to our efforts in claims management. In property-casualty insurance, the combined ratio of 93.0% (96.4%) remained at an excellent level, unaffected by major losses.

Premium

Development of premium income in the various classes of business differed. While the life and health insurers suffered marginal losses, premium income increased in property-casualty business. Overall, gross premiums written in primary insurance fell by 0.6% to €17,526m (17,640m). This represents a share of 46% (44%) of the Munich Re Group's total premium.

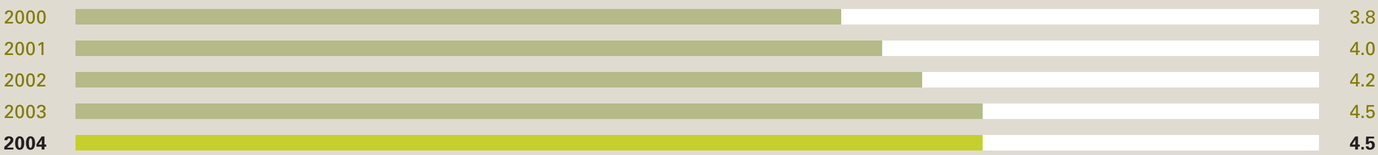
Gross premiums overall in €bn

In 2004, the life insurers recorded premium income of €7,787m (8,011m) – a modest decrease of 2.8%. The reasons for this were lower single premiums and a higher number of normal policy expiries. In German new business, the forthcoming amendments to the fiscal treatment of endowment insurance policies did not trigger strong impulses until the fourth quarter. Overall, new business in 2004 remained below the very good previous year's level. In terms of total premiums, an indicator that is of greater relevance for analysis, there was clear growth.

Gross premiums in the life segment in €bn

On account of disinvestments abroad (see page 122), our health insurers' premiums of €4,537m were 0.2% down on the previous year. Adjusted for these sales of consolidated companies, premiums climbed. In Germany, new business was expanded appreciably, with double-digit growth rates. Widening gaps in public health insurance coverage boosted business with supplementary benefits covers.

Gross premiums in the health segment in €bn



In property-casualty insurance, including legal expenses insurance, our premiums grew by 2.4% to €5,202m. Personal lines business expanded especially in liability and homeowners' insurance. Commercial and industrial property insurance, which we write very selectively, also increased.

Gross premiums in the property-casualty segment in €bn

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

ERGO Insurance Group
Significant turnaround achieved
New management structure ensures greater efficiency
Capital injection for VICTORIA Leben

		2004	2003	2002	2001
Gross premiums written	€m	**15,569**	15,566	14,775	13,922
Net earned premiums	€m	**13,736**	13,700	12,954	11,976
Combined ratio	%	**90.1**	89.7	97.6	98.2
Group result	€m	**202**	–1,431	–1,212	655
Investments	€m	**97,001**	91,370	87,012	89,271

In the year under review, the ERGO Insurance Group reorganised its management structure. The objective was to bring the Group closer together. This was achieved by placing each of the individual classes of primary insurance business under uniform Group-wide management and accountability. At holding company level, there is one member of the Board of Management responsible for each of the divisions life, health and property-casualty (including legal expenses), who manages the Group companies in the respective line and, in the case of large companies, is the Chairman of their Board. In addition to the existing central divisions Accounting, Finance and Foreign Business Operations, two new areas of responsibility have been created on the ERGO Board of Management with Group-wide scope. These comprise "Customer Service, Company Organisation and IT" and "Human Resources and General Services". The proven multi-brand and multi-channel distribution strategies have been retained.

The new structure will make the ERGO Group more cohesive and effective. With management for each line of business in one pair of hands, ERGO will be able to exploit market opportunities and synergies even more consistently. For more information on the general structure of the primary insurance group see page 57 f.

In 2004, VICTORIA Lebensversicherung AG was given a capital injection of €500m by ERGO Versicherungsgruppe AG. Munich Re made €400m available to the ERGO Insurance Group, mainly in the form of a subordinated loan. The remainder was provided by ERGO.

The new funds were used to further strengthen the capital base of VICTORIA Leben. In 2003, the company had already used valuation reserves to reduce the hidden negative valuation differences resulting from the decline in prices on the stock exchanges. In addition, it had strengthened its reserves in accordance with German accounting law to allow for the introduction of new mortality tables. Furthermore, premium calculation and policyholder bonuses were adapted to the altered market-interest landscape to prevent the reserves from being burdened further and to increase profitability.

This capital injection will allow VICTORIA Leben, as a safe and reliable partner for old-age provision, to actively take advantage of the opportunities provided by a changing marketplace and to benefit from its great strength in the company pensions sector.

The joint IT application platform was launched successfully at D.A.S. Rechtsschutz on 8 August 2004. In July 2003, the Hamburg-Mannheimer companies had been included in the new system. The teething troubles have been overcome in the meantime (see risk report on page 140). Since October 2002, the staff at the VICTORIA companies and of D.A.S. Versicherung have been using a uniform IT platform. The next to be integrated are the health insurers. With this uniform and modern platform, we will be able to significantly reduce IT costs and further improve ERGO's competitiveness in the long term.

Marketing

The ERGO Group stands for great franchise strength. Its strategy consists in accessing clients via multiple sales channels. ERGO has over 22,000 self-employed insurance agents and also works with brokers and strong partners. Its exclusive cooperation with HypoVereinsbank generated €334m (400m) in new business volume in 2004, even though norisbank AG now no longer belongs to the HVB Group. The joint-venture KarstadtQuelle Finanz Service continued to develop positively, with new business totalling €87m.

Result

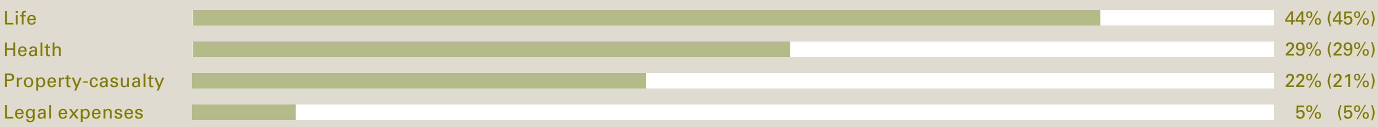
Compared with the previous year, the ERGO Insurance Group notably improved both its operating result before taxes on income and its consolidated profit, reflecting the measures taken to enhance profitability. These include the cost reduction programmes with an overall volume of €300m annually from 2005, of which considerably more than the planned two-thirds had already been achieved at the end of the year under review. The result before amortisation of goodwill rose to €529m (7m). ERGO earned a consolidated profit of €202m, a substantial improvement over the previous year (–€1,431m). The Group profit was influenced by special effects that offset each other and, all in all, had a negative impact of €65m on the result. These special effects mainly involved changes in the calculation of deferred taxes on segregated funds and an amendment to Italian tax law, along with the fact that provisions for deferred premium refunds were taken into account in the amortisation of goodwill of associated companies. Effects from the amortisation of goodwill, the same-phase reporting of special writedowns made by HypoVereinsbank in the fourth quarter 2004 and the remediation of a shareholding had a countervailing impact.

The investment result of €4,283m (4,330m) nearly reached the previous year's level. The combined ratio amounted to an outstanding 90.1% (89.7%) in property-casualty business and fell further to 98.9% (99.2%) in legal expenses insurance.

Premium

As was the case in the whole primary insurance group, ERGO's premium income in the individual classes was varied. Altogether, gross premiums written totalled €15,569m (15,566m).

Gross premiums by segment



ERGO gross premiums

All figures in €m	2004	2003	2002	2001	2000
Life	6,768	6,954	6,443	6,029	5,385
Health	4,537	4,547	4,238	4,010	3,833
Property-casualty	3,420	3,278	3,352	3,160	2,756
Legal expenses	844	787	742	723	695
Total	**15,569**	**15,566**	**14,775**	**13,922**	**12,669**

Life insurance generated premiums of €6,768m (6,954m), a decrease of 2.7%. This especially reflects lower single premiums in Germany and a higher number of normal policy expiries. New business rose significantly in the fourth quarter, but for the year as a whole it remained 8.0% below the excellent previous year. However, in 2003 various special factors had an exceptionally positive influence: there had not only been a high automatic adjustment of premiums but also the very successful sale of a capitalisation product, which was no longer actively offered in the year under review. The significant adjustment of policyholders' bonuses to take account of the low level of interest rates, especially at VICTORIA Leben, had a negative impact on new business. Moreover, prices for annuity insurance, in contrast to those of competitors, were raised to reflect the higher life expectancy and to increase profitability. Total new business premiums are of greater informational value for a balanced assessment of growth. These rose significantly, given that the structure of new business has changed towards longer-term annuity insurance business with annual premiums. The performance of company pension business remained satisfactory.

Premium income in the health segment was 0.2% lower than in the previous year. German business grew by 4.8%, while foreign business declined by 26.4%, noticeably affected by the sale of the Dutch health insurer DKV Nederland N.V. Adjusted to eliminate the effect of changes in the consolidated group, growth totalled 10.5% in foreign business and 3.7% overall. In Germany, there was double-digit growth in new business, which was largely attributable to good sales of supplementary insurances. Partnerships with public health insurers supported this positive development. In addition, Globale Krankenversicherung and Zürich Krankenversicherung were acquired. As a consequence, we agreed long-term and promising cooperations with the marketing departments of Zurich Group Germany, the Gerling Group and Deutsche Bank.

In property-casualty insurance, gross premiums rose by 4.3% to €3,420m (3,278m), despite the sale of our Belgian property insurance activities. In Germany, the growth of 4.0% was above the market average. Here we were able to expand personal lines business and, on a selective basis, commercial and industrial business. In legal expenses insurance, gross premiums climbed by 7.3% to €844m (787m). This increase mainly derived from foreign business, which grew by 15.2%.

Karlsruher Insurance Group
Boost in new life business in the fourth quarter
Clear increase in the consolidated profit

		2004	2003	2002	2001
Gross premiums written	€m	**1,285**	1,328	1,346	1,350
Net earned premiums	€m	**1,028**	1,056	1,082	1,278
Combined ratio	%	**101.5**	104.9	112.3	104.3
Group result	€m	**21.2**	1.0	17.9	–18.0
Investments	€m	**12,320**	11,810	12,368	12,153

Marketing
The Karlsruher Insurance Group markets its products via an exclusive Germany-wide sales organisation and via brokers. Another supporting pillar of its marketing is its close cooperation with banks that sell life insurance products through their branches. In the year under review, this cooperation, which focuses on southwestern Germany, was again extremely successful and contributed significantly to the group's success.

Result
In 2004, the Karlsruher Insurance Group profited from its extensive range of products and targeted marketing approach in life insurance. Clients responded very favourably in particular to a new annuity product introduced at the beginning of the year which can be tailored flexibly to a policyholder's demands. In property-casualty business and in legal expenses insurance, the combined ratio improved to 101.5% (104.9%). The result was positively influenced by the cost-reduction programme introduced in 2002 for all companies of the Karlsruher Insurance Group. Group-wide savings thus far total approximately €28.9m.

The performance of the Karlsruher Insurance Group's investments benefited from the stable performance of the capital markets. The investment result improved by 20.6% to €579m (480m).

Altogether, the consolidated result improved from €1.0m to €21.2m.

Premium
At €1,285m (1,328m), gross premiums written showed a decrease overall.

In life insurance, premiums fell to €1,020m (1,056m). This was attributable to weaker business in the single-premium sector as well as numerous normal policy expiries. Of decisive importance, however, was the fact that the boost in new business did not occur until the fourth quarter, so that the clear rise in regular new business premiums has not yet fully been reflected. The true marketing strength of the Karlsruher Insurance Group is best seen from the total new business premiums in relation to the overall term of insurance. These rose by 36.9% to €2.69bn (1.97bn).

In property-casualty business, we consistently maintained our course of putting profits before growth. In line with this business strategy, gross premiums fell by 2.7% to €249m (256m). With new business remaining stable and premium adjustments to business in force, premiums for legal expenses insurance grew by 6.2%.

Europäische Reiseversicherung
Significant improvement in group result
EUROPÄISCHE involved in crisis management following tsunami in Asia

		2004	2003	2002	2001
Gross premiums written	€m	**316**	305	307	309
Net earned premiums	€m	**267**	255	260	272
Combined ratio	%	**96.0**	93.9	101.5	106.5
Group result	€m	**10.8**	5.0	–4.5	–16.1
Investments	€m	**179**	156	148	159

Marketing
Europäische Reiseversicherung is the market leader in travel insurance business in Germany, its most important market, where it cooperates with over 17,000 partners in the tourist industry, including major groups as well as individual travel agents. The group headed by Europäische Reiseversicherung, the European Travel Insurance Group, is represented in all the main European countries through its international network of subsidiaries and affiliated enterprises. It accompanies its marketing partners in their expansion throughout Europe.

In order to be able to react to frequent changes in travel behaviour, EUROPÄISCHE sells products specially tailored to low-cost travel, city trips, package tours, study tours and cruises.

EUROPÄISCHE further expanded the young field of business travel insurance in Germany. It developed products for groups of companies, small- and medium-sized enterprises and single travellers and successfully launched them on the market. EUROPÄISCHE is now also recognised, beyond the area of classic travel agency marketing, as a specialist and partner for insurance, assistance and information services in the area of business travel. Outside Germany, in particular in the Nordic countries, EUROPÄISCHE is the market leader in this field and earns more than 50% of gross premiums written in Sweden and Denmark.

Result
The cost-saving measures begun in the previous year allowed Europäische Reiseversicherung to stabilise its expense ratio in 2004. For almost the whole year, the development of EUROPÄISCHE 's result was characterised by a further decrease in claims expenditure. This trend was not broken until the tsunami disaster in South Asia in the last week of 2004. Together with its partners in the travel industry, EUROPÄISCHE showed its competence in coping with this crisis situation. Overall, the combined ratio was 96.0% (93.9%). The consolidated profit in the year under review climbed to €10.8m (5.0m). The very positive performance overall is also reflected in the development of investments, which rose by 15% to €179m (156m) as a consequence of the positive cash flow.

Premium
Although in 2004 the travel industry was not affected by exceptional events like the respiratory disease SARS and the war in Iraq, premium development in Germany was strongly curbed by the Germans' reluctance to travel. Nevertheless, EUROPÄISCHE successfully adhered to its agency remediation programme, through which it integrates its sales partners more strongly in its sales and result management. Over a period of up to five years, the economic developments at its agencies can be analysed and corresponding measures taken to improve sales and results in the event of adverse trends.

By stepping up its activities in Poland and the UK, EUROPÄISCHE was able to increase its share of premium from foreign business to about 47% (44%). The group's gross premiums totalled €316m (305m).

Watkins Syndicate

Hurricanes cause the greatest-ever loss in the history of marine insurance
Syndicate's return targets surpassed despite the natural catastrophes

		2004	2003	2002	2001
Gross premiums written*	£m	**208**	229	208	172
Net earned premiums*	£m	**172**	162	103	98
Combined ratio*	%	**83.5**	87.2	93.3	124.8
Result for the year*	£m	**33**	23	10	–23
Investments*	£m	**378**	282	187	99

*Financial statements according to national accounting law.

Marketing
Operating within Lloyd's of London, the Watkins Syndicate is a primary insurer specialising in international marine business.

For Munich Re, the market leader in global marine business, the syndicate is an integral part of our corporate strategy and helps us maintain close contact with Lloyd's, which remains the world's most important marine market.

A valuable knowledge carrier in primary marine insurance, the syndicate also plays a key role in the Munich Re Group's knowledge management network.

In addition to its presence at Lloyd's, the syndicate has developed a wide and efficient distribution network through its branch offices in Hong Kong and Singapore as well as through its subsidiaries Northern Marine Underwriters Ltd. and Groves John & Westrup Ltd., specialising in marine cargo and pleasure craft hull insurance.

Result
The syndicate writes business in the main marine classes, excluding ocean hull business, from which it withdrew in 2000 due to inadequate profitability expectations. It currently focuses on the areas of offshore energy, cargo and marine liability, in which it can draw upon sound underwriting expertise and high professional competence. Its strategic objectives are organic growth and controlled portfolio expansion instead of short-term increases with disproportionately higher risk.

This solid business strategy is reflected in the results: despite the devastating hurricanes in Florida and the Caribbean – a region with a high concentration of insured marine risks – the syndicate recorded an annual result of £33m (23m) and a combined ratio of 83.5% (87.2%).

Premium
The favourable market cycle in past years was systematically used to achieve selective growth. Gross premium volume, which in 1997 totalled £63m, was increased to £208m in 2004.

Thanks to this development, the company has secured an outstanding position among the market leaders in its special field. To consolidate this position, the syndicate has in recent years improved its risk profile through diversification into other markets, complementing traditional Lloyd's business with a balanced portfolio with broad market penetration and less volatility.

The decrease in gross premiums written in the year under review was attributable in particular to the weaker dollar and targeted selection of risks.

Business performance: Asset management

Reduction of shareholdings in the banking and insurance sector consistently pursued
Target for institutional third-party business surpassed

In this section, we report on the performance of our Group's own investments, which derive almost entirely from our core business fields of reinsurance and insurance. Besides this, we provide information on third-party business, where we manage the assets of institutional investors not belonging to the Group and those of private investors.

Marketing
Retail and segregated funds for private and institutional investors are offered directly by MEAG. However, investment products are also becoming an increasingly established part of ERGO's insurance marketing. Given the growing importance of private provision for old age, this trend is likely to intensify. In the past business year, MEAG won new mandates from significant corporate pension schemes in the hard-fought market for company retirement provision and thus consolidated its position further in this especially promising field of business.

Overview and important figures

		2004	2003
Volume of Group's own investments under management	€bn	158.4	147.4
Volume of third-party business	€bn	13.2	11.7
Group result	€bn	–42	20

The vast majority of the Munich Re Group's investments are managed by MEAG MUNICH ERGO AssetManagement GmbH, a 100% subsidiary of Munich Re and ERGO. As at 31 December 2004, investments amounted to €142.2bn (131.3bn). The Group's other investments are managed by Munich Re Capital Management, Munich Re Asia Capital Management, ERGO Trust GmbH and the Munich Re Group insurance companies.

The concentration of asset management provides the basis for optimising our Group's investment result. At the same time, we also make available the competence derived from managing assets for the Munich Re Group to third parties, thus tapping additional sources of earnings. Assets managed for third parties by MEAG, ERGO Trust and Munich Re Capital Management in the Munich Re Group totalled €13.2bn (11.7bn) as at 31 December 2004.

The result of the asset management segment decreased to –€42m (20m) because of the remediation of the *IDEEN*KAPITAL Group.

Investments of the Munich Re Group

Investment principles
In the investment sector, we follow a number of principles. We only make investments in assets from which we expect an appropriate return, at the same time attaching great importance to security. We reduce currency risks to a great extent by matching our expected liabilities with assets in the same or correlated currencies. Besides this, we always keep sufficiently liquid funds available in order to meet our payment obligations at all times. Altogether, we endeavour in our asset-liability management to strike a good balance between earnings opportunities and risks. How we counter the various investment risks is described in detail in the risk report on page 133.

Munich Re's investment strategy also takes account of sustainability criteria. One of the goals we have set ourselves is to ensure that 80% of our equities and corporate bonds are included in recognised sustainability indices.

Performance and structure of investments
As at 31 December 2004, the Munich Re Group's investments amounted to €178.1bn (171.9bn), up 3.6% on the previous year. The growth was due primarily to capital gains on existing securities items and to the pleasing performance of our underwriting business.

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

Investment mix

	31.12.2004 €m	%	Prev. year €m	%	Change in %
Real estate	9,046	5.1	10,075	5.9	–10.2
Investments in affiliated and associated enterprises	3,883	2.2	4,353	2.5	–10.8
Loans	20,310	11.4	16,046	9.3	26.6
Shares and equity funds	20,864	11.7	21,633	12.6	–3.6
Fixed-interest securities	103,216	57.9	99,886	58.1	3.3
Deposits retained on assumed reinsurance business, and other investments	19,494	10.9	18,879	11.0	3.3
	176,813	99.2	170,872	99.4	3.5
Investments for unit-linked life insurance	1,319	0.8	1,009	0.6	30.7
Total	**178,132**	**100.0**	**171,881**	**100.0**	**3.6**

The structure of our investments has changed only slightly compared with the previous year. As a consequence of price gains on bonds and new investments made, the portion of interest-sensitive items ("fixed-interest securities" and "loans") increased from 67.4% to 69.3%. To protect our portfolio more effectively against fluctuations on the stock markets and to further streamline our shareholdings, we have reduced the percentage of investments in affiliated and associated enterprises and in equities and equity funds from 15.1% to 13.9%.

The derivatives in our portfolio at the end of the year are largely employed to protect equity investments against losses in market value and to hedge our regular income against falling interest rates.

Real estate

Our investment strategy is geared to optimising the return and risk profile of our real estate investments. We continually monitor existing items with regard to their long-term profitability and potential future exposure to risks. Our aim is to generate a real estate investment result that is largely predictable and can be planned.

We are continually rejuvenating the portfolio in order to spread opportunities and risks appropriately. To provide for a greater regional diversification, we are selling directly held property in Germany and investing instead in top-class real estate primarily located in major European cities. In some cases we also invest in Asia and the USA to give the portfolio a more international spread.

In making our investment decisions, we take account of market size and liquidity. Tenants' demands are rising and changing at an increasing pace because of altering requirements. This is leading to a reduction in amortisation periods. Making flexible use of floor space and mapping out suitable withdrawal strategies in the case of new investments is becoming more significant, as is active leasing management which allows real estate to be used efficiently.

In 2004, the properties sold were primarily mixed residential/commercial items which had reached a point in their life cycles where their development in value was only likely to be below average in relation to the risks involved.

Shareholdings in insurance companies and other financial services providers

In the past business year, it was again our objective to further diversify our investment portfolio. That is why we consistently reduced our shareholdings in the banking and insurance sector. In this context, we cut back our stake in Allianz from 12.2% to 9.0%.

We did not take part in HypoVereinsbank AG's capital increase in spring 2004, thereby reducing our stake in HypoVereinsbank from 25.7% to 18.4%. We also pruned back smaller holdings in insurance companies that are no longer of strategic importance for us.

Fixed-interest securities

In our asset-liability management, we generally adjust the terms to maturity in our bond portfolios to match the patterns of our liabilities as far as possible. In the year under review, we slightly increased the duration, i.e. average capital commitment, of our bond portfolios to 6.2 years. In particular, the primary insurance companies in the Munich Re Group are concentrating in their investment policy, in the interests of policyholders, on achieving a competitive net return. In order to earn sufficient regular income for this, they have invested in securities with longer terms to maturity and correspondingly higher coupon rates.

Equities and equity funds

The portfolio of equities and equity funds shown at fair value in the balance sheet was reduced in the business year 2004. We are continuing with our strategy of diversifying our equity portfolio more strongly. In our fine-tuning, we took advantage of the low volatility of the equity markets to hedge parts of the portfolio cost-effectively using derivative financial instruments. After taking account of hedging transactions, the ratio of equities to total investments – on a market value basis – fell from 14.5% to 13.4%.

Result

Prices on the international stock markets continued the upward trend that began in 2003 and closed with marked gains after their year-end rally. The German bond markets recorded an annual low of 3.7% for yields on ten-year government bonds, whilst the yield on US government bonds fell to a low of 4.2%.

A detailed report on the development of the capital markets can be found in the section "Key parameters" on page 94.

Our investment result in the year under review totalled €8.0bn (7.1bn), an increase of 12.8% over the previous year.

Investment result

All figures in €m	2004	2003	2002	2001	2000
Regular income	7,498	7,328	7,778	9,654	8,652
Write-ups/writedowns	–775	–1,177	–6,004	–324	–82
Net realised capital gains	2,339	2,484	5,853	1,765	4,072
Other income/expenses	–1,021	–1,504	–2,692	–675	–476
Total	**8,041**	7,131	4,935	10,420	12,166

The investment result for the business year includes writedowns of about €217m for impairments of real estate. Given the persistently tight economic situation in the real estate sector, we revalued our buildings, above all in Germany. Owing to the positive trend on the equities markets, we had to make writedowns of only €0.4bn (0.8bn) on our securities available for sale. Other income and expenses includes a profit contribution of –€337m from the at-equity valuation of HypoVereinsbank AG.

The table on the right shows the investment result for 2004 broken down by type of investment:

Investment result by type of investment

	2004 €m	Prev. year €m	Change in %
Real estate	194	370	–47.6
Investments in affiliated enterprises	–36	23	–
Investments in associated enterprises	–331	–853	61.2
Mortgage loans and other loans	1,009	886	13.9
Other securities	7,154	6,698	6.8
Other investments	575	551	4.4
Expenses for the management of investments and other expenses	524	544	–3.7
Total	**8,041**	**7,131**	**12.8**

Third-party investments

In the past year, private investors were reluctant to make new investments in retail funds, given the economic environment in Germany and increasing fears of unemployment. The stock markets did not provide any clear impulses for investment decisions. Moreover, given the fact that the tax privileges on life insurance policies were coming to an end, the main focus of insurance marketing was not on new business in investment funds. Despite these adverse circumstances, MEAG's retail funds recorded net inflows of €134m in 2004, with notable amounts achieved by equity funds, in particular the European equity fund MEAG Euro-Invest, which attracted the investors' interest thanks to its top rankings by leading rating agencies. The inflows and outflows in money market funds and bond funds remained at a high level and more or less balanced each other out throughout the year.

In institutional third-party business, MEAG surpassed its targets in the year under review. As at 31 December 2004, it had assets under management of €2.3bn for institutional investors outside the Munich Re Group. The relations with existing clients from the core target group of insurers and pensions funds were expanded and intensified. Tailor-made solutions are a critical success factor for these clients in particular. Consulting services – for instance with regard to investment strategy or risk management – are gaining importance among institutional investors. Here, MEAG has secured a good position for itself early on. In addition, associations and industrial enterprises with great business potential have been won as clients. MEAG thus continues to market the competence it has developed for the Munich Re Group to third-party clients.

Management report
Prospects

There is a growing tendency among some capital market players to sue companies in connection with statements they publish on future development, a trend that involves considerable loss potential for the companies concerned and for their other shareholders. This practice inevitably affects transparency, as many companies are reticent about the information they give on future business performance and disclose only what is required by law.

For this reason we, too, wish to emphasise the following: predictions about the forthcoming development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of the Munich Re Group's development merely reflects our incomplete assumptions and subjective views. It follows that we cannot accept any responsibility or liability for the event that they are not realised either in part or in full.

For information on the risks emanating from our business, please consult page 133 ff.

Overview

Macroeconomic parameters and the situation on the capital markets are not quite as bright as in 2004. A largely stable pricing level for reinsurance covers characterised the renewals at the turn of the year. It is in the common interests of end-clients, primary insurers and reinsurers to continue focusing on risk-adequate prices and conditions. In primary insurance in Germany, marketing will concentrate on the changes in the fiscal treatment of life insurance products (see page 72). The debates on a reform of the German healthcare system are continuing.

Low investment returns will require profitable underwriting in reinsurance and primary insurance also in 2005, as well as moderate bonuses for life insurance policyholders. Our actions will be determined not only by adequate prices and conditions but also by the further integration of the various modules of our risk management and the introduction of an enhanced process and system landscape.

The year 2004 has shown that we are on the right track with our business policy; profitability will therefore again take precedence over growth. Our objectives for 2005 are challenging but realistic. We aim for a return on equity of 12% for 2005 after taxes on income – assuming that there are no exceptional events.

Overall economy

The slowing of worldwide economic growth that began in the second half of 2004 is likely to continue in 2005. Especially in the USA, waning monetary and fiscal policy impulses are weakening the dynamics of consumer and investment activity. In addition to persistently high commodity prices, there is growing concern about the rising imbalance in the US current and fiscal account, which could affect the exchange rate.

The Japanese economy should pick up, but the annual growth rate is expected to be lower than in 2004. The chances that consumer prices will rise again have increased.

In the eurozone, the outlook for export industries has clouded compared to one year ago. This should be compensated for by a gradual improvement in domestic demand. Nevertheless, in 2005, macroeconomic growth is likely to again lag behind that of the USA. In Germany, economic stimuli will probably be generated not only by the export industries but also increasingly by consumer demand; however, growth in Europe seems set to remain below average in 2005. We anticipate that there will also be a slowdown in the strong growth dynamics in the UK.

Decelerating global growth will probably also make itself felt in most emerging markets in 2005. The export-oriented Asian markets in particular could suffer if economic growth weakens in the USA and slows down in China as expected. The economies in Latin America are likely to see some cooling down, too. For central and eastern Europe, we anticipate that there will be continued solid growth.

For the global economy, the main risk factors will continue to be geopolitical uncertainties, in particular in the Middle East and the Gulf region, as well as the continuing risk of large-scale terrorist attacks. Another major risk is that economic growth in China, and thus for Asia as a whole, will decelerate more sharply than expected. A further decline in the US dollar, in particular as a result of the US twin deficit (current and fiscal account) would affect export dynamics and thus growth in the eurozone.

Capital markets
Developments on the capital markets in 2005 are likely to be determined by the macroeconomic environment of an expected economic slowdown and comparatively high commodity prices. In view of this, the performance of the stock markets will tend to be moderate. Despite possible changes in key interest rates by the central banks, we anticipate that there will be only limited scope for higher long-term interest rates on the bond markets.

Insurance industry
In the face of dampened economic expectations for 2005, we nevertheless expect robust overall growth for the global insurance industry. We anticipate a continued increase in the requirement for insurance cover, in particular in the emerging markets. In the industrial countries, a growing need for private provision will continue to fuel the demand for life and health insurance. On the reinsurance markets, writing business at risk-commensurate prices and conditions should again be the focal issue. We do not anticipate that there will be a decline in prices but rather a differentiated sideways movement.

In Germany, economic development is likely to provide only limited impulses for demand in property-casualty insurance. The Retirement Income Act, which has been in force since 1 January 2005, involves new challenges and opportunities for the insurance industry. Not only will there be a gradual transition to the taxation of life and annuity insurance policies at the benefits stage, but income from newly concluded endowment insurance policies will also be taxable in future (see page 72). In the long term, the state social security systems' withdrawal from this area will increase demand for private insurance products, as can be seen from development in other industrial countries. For private health insurance, we anticipate that the rising need for more personal provision will again lead to strong growth, although the political debate on long-term, viable financing models is still open. In our view private health insurance, which is currently the only form of cover with a solid capital base, should be given an even stronger role in the future healthcare landscape, rather than being eroded.

Development of the Munich Re Group

Asset management
In 2004, we already extended the periods to redemption in our bond portfolios, thereby achieving correspondingly higher returns. If interest rates remain low, however, interest-bearing securities will not earn the same regular income achieved in previous years. It will therefore be difficult to emulate last year's investment result.

We consider the risk of losses in market value due to a rise in interest rates to be low, especially as such losses would not be recognised in income and we assess any effects on equity primarily from the perspective of asset-liability management. More importantly, the economic value of our liabilities would show a corresponding fall.

Given the risks described, we will continue to closely monitor the assets side of our balance sheet and further reduce our equity exposure as required.

Reinsurance
The renewals at 1 January 2005 did not result in any major changes in prices and conditions. The market remained largely disciplined. In certain segments, stronger competitive pressure has set in, particularly since capacities in the market as a whole have increased. We offered our capacities only at risk-adequate conditions and realised the required margins; our superior reinsurance expertise and capital strength were again in great demand.

In property insurance, prices for natural hazard covers in regions affected by losses rose again in some cases. In other property covers, developments remained basically stable, as expected, although claims-free treaties were again subject to pressure on prices. In liability, personal accident and marine insurance, prices were also largely unchanged, whereas in aviation, they fell marginally as anticipated but were still at a risk-adequate level.

Against this background, we anticipate a premium volume of about €22.1bn in reinsurance, which would represent a marginal decline of approximately 1.4%. Provided there are no exceptional developments as regards natural catastrophes and major losses, we aim for a combined ratio of 97%, which – with normal investment returns – would allow us to post a very good reinsurance result in 2005 as well.

The property-casualty business of our subsidiary Munich Reinsurance Company of Australasia (MRA) has been transferred to our Australian and New Zealand branch with effect from 1 January 2005. Organisationally, New Zealand will continue to be serviced by our Australian unit. This reorganisation has optimised our capital structure. For life insurance business, the legal status of a subsidiary (MRA) will be retained, as this is prescribed by the local regulatory authority.

Primary insurance

The German Retirement Income Act, which entered into force on 1 January 2005, will worsen Germany's fiscal conditions for endowment policies and annuity covers with a lump-sum option. It was therefore precisely these products that were in especially great demand at the end of 2004. As a result, there will initially be a significant market-wide decline in new business in 2005, especially since there is no time pressure on clients wanting to conclude private provision covers and many policies were taken out in 2004. For the medium and long term, we expect sustained growth impulses from changes relating to company pension business. This area will continue to gain in significance. Thanks to the reduced taxation on the income content of annuity policies, traditional annuity insurance will become increasingly popular. In addition, the new type of pension insurance on a funded basis, included in the "basic pension" category, can and will constitute an interesting supplementary provision for old age. A number of amendments have made the so-called "Riester pension" more attractive and will give this product a second chance in the market.

For primary insurance as a whole, we anticipate growth of approximately 4.0% in gross premiums written, which would mean a premium volume of €18.2bn.

We will rigorously pursue the measures taken to increase profitability. A combined ratio of 95% is our goal in primary insurance.

Result and premium

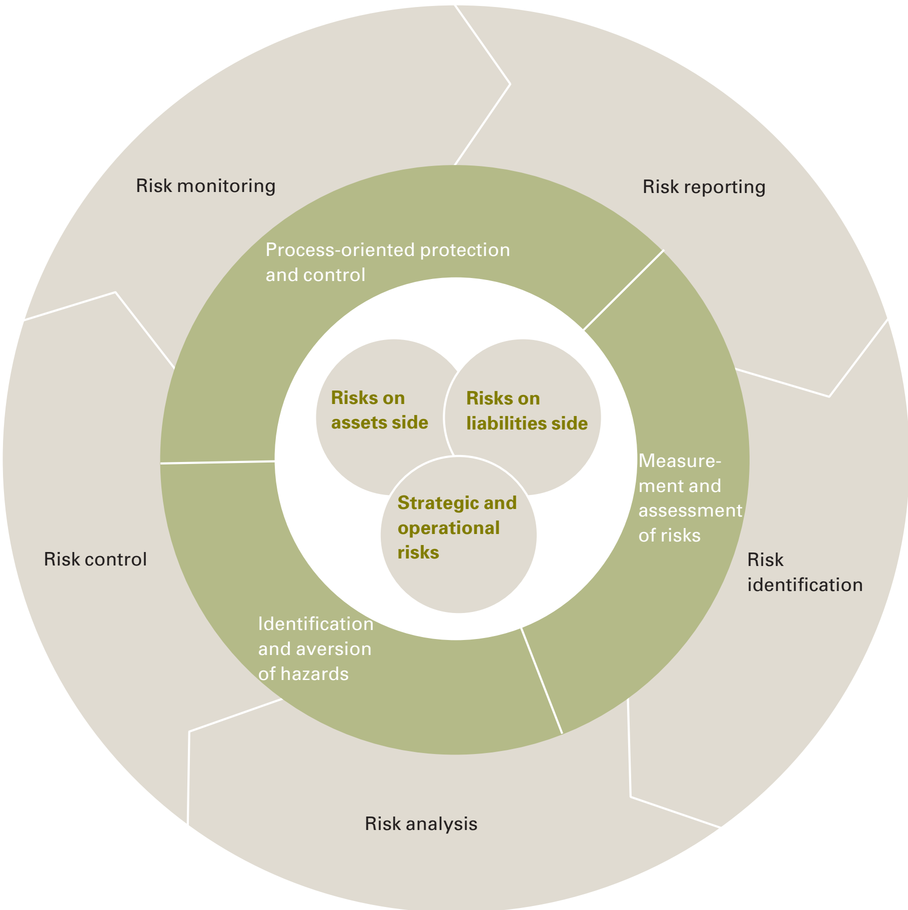
All in all, we expect Group premium income in reinsurance and primary insurance to total €38.5bn, disregarding the effects of changes in exchange rates. This would amount to growth of approximately 1.0%. With our Group result, we aim to achieve a return of 12% after taxes on income, based on our average shareholders' equity, including minority interests, at the beginning of the year (€20.7bn) and at year-end. We intend to let our shareholders participate in this result by pursuing a dividend policy geared even more strongly than before to our earnings situation and capitalisation, naturally taking into account the requirements of financial supervision and the rating agencies.

Management report
Risk report

Recent years have shown that the Munich Re Group's risk landscape can change quickly and unexpectedly owing to a wide range of events or influences. We are constantly refining the tools with which we monitor and manage risks, so that in our view they have now reached a high degree of maturity. We are in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which we operate means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential.

Following a short description of the functions, organisation and important tools of risk monitoring and risk control – based on German Accounting Standard DRS 5–20 – we focus in this report on the main risks and important risk management measures. At the end of the report, we evaluate the risk position of the Munich Re Group as a whole.

Functions, organisation and important tools of risk monitoring and control
We adopt a holistic approach, solidly based on our internal risk model. The main objective is to analyse, regulate and control the interdependencies between risks on the asset and liability sides, and strategic and operational risks. This means considering endogenic and exogenic economic parameters as well as the requirements and expectations of our clients, our shareholders, the supervisory authorities and the rating agencies.



Responsibility for holistically analysing, regulating and controlling the risks on the asset and liability sides in the Munich Re Group is located centrally with Integrated Risk Management. Here, we have combined important instruments such as asset-liability management, active capital management and capital modelling. We gear our business portfolios to the requirements set by management, allocating risk capital on the basis of our internally developed risk model and the risk and return expectations derived from it. Thus, for example, mismatch risks between assets and liabilities are significantly diminished by means of appropriate investment and hedging strategies, reducing the risk capital required and improving capital productivity.

In day-to-day business, responsibility for systematically handling individual risks in insurance and reinsurance lies with executives in their function as risk managers. They identify, analyse, monitor and manage the risks on an ongoing basis with support from the risk controllers. Processes, tools and systems – including appropriate controls – are in place throughout the Group to measure and assess the risks as far as possible and to identify, avert and protect against potential hazards. The basis for the permanent and systematic handling of risks is formed by management requirements and decisions on risk tolerance, which are derived from the Group's risk strategy and risk policy and are geared to capitalisation and liquidity. This process includes examining what claims burdens can be borne or are still tolerable. We also use simulations of pre-defined catastrophe scenarios to ensure that events whose occurrence appears less probable are also considered in our planning and decisions.

Central Risk Controlling coordinates regular risk assessments. Besides a standardised risk survey among the risk managers, relevant risks and risk fields are looked at in more depth with the respective experts and are evaluated in workshops together with the insurance and reinsurance risk controllers responsible in order to assess the risk situation holistically.

The risk assessments have different focal points. In the annual risk assessment, the inventory and comprehensive analysis of risks are to the fore. The business-plan risk assessment, on the other hand, concentrates on comparing the results from the risk assessment process with the contents of the operative strategic planning; we ensure that each risk identified as significant is matched by an adequate risk-reducing measure. Ad-hoc risk assessments are triggered by risks or hazards that suddenly emerge.

Central Risk Controlling sets standards and develops the systems further; the decentralised risk controllers in the units throughout the Group adjust these to the current situation where necessary. Risk management and risk controlling are functionally separate. The related functions and responsibilities of all participants, such as the Board of Management, risk managers, decentralised risk controllers and central risk controllers, are clearly defined. Central Risk Controlling is also responsible for reporting to management about the current risk situation – on an ad-hoc basis if required – and for checking measures relating to risk policy and proposing new ones where necessary.

The Munich Re Group complies both with the German Law on Corporate Control and Transparency and with the local regulations on risk management in the different countries in which it operates. The risk management system is regularly examined independently, both by internal auditing units at the individual Group companies and by the external auditor as part of the annual audit.

Main strategic risks

Strategic risks arise if our strategy is not compatible with market or client requirements and expectations or with economic parameters, these disparities not being recognised, and our objectives and initiatives not taking sufficient account of such a development. In our strategic planning process, we carefully analyse the strategic risks, which are evaluated in individual projects (e.g. investment or market-entry projects) using scenarios (correlations, effects, occurrence probability, etc.). In addition, we systematically perform "SWOT analyses" (strengths, weaknesses, opportunities, threats) and define the required action in the course of our balanced scorecard process.

One of the main risks for any company is being too conservative and failing to recognise new business opportunities. We counter this danger by, among other things, integrating innovation teams into our operative reinsurance units in order to tap into new product and client segments at an early stage. This approach is also designed to ensure that we identify and work on current market and client issues, as well as fields of knowledge that are of critical importance for the future.

Main underwriting risks

One of the risks relevant for insurance business is the risk of change. By this we mean that changing risk parameters and unforeseen factors may result in unexpectedly large claims. Often the risk of change coincides with the risk of random fluctuations, making it more difficult to identify and quantify the risk potential. To take an example: the exceptional hurricane season in 2004 coincides with a trend towards greater frequency of severe weather catastrophes due to global warming. Furthermore, we are witnessing an increasing regional concentration of insured values, especially in highly exposed regions. Only extensive know-how, well-maintained data resources and selective underwriting based on this information can produce risk-adequate prices and conditions in these circumstances. Our Geo Risks Research unit obtains the necessary findings used in underwriting from current geoscientific research, far-reaching proprietary loss analyses and models, and benchmarking of our models against external calculations. The effects of the risk of change influence both our premium calculations and our reserves. Through selective underwriting, client-focused claims handling and state-of-the-art reserving methods, we endeavour to minimise risks resulting from the risk of change.

Our combined ratios, which in addition to other key indicators are important to us in monitoring the premium/claims risk in non-life (re)insurance, have developed as follows over the last ten years:

Combined ratios	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Including natural catastrophes	98.9	96.7	122.4**	135.1*	115.3	118.9	105.7	100.0	98.3	99.6
Excluding natural catastrophes	94.4	95.1	119.1**	133.6*	113.3	108.2	101.7	99.1	98.2	98.7

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

In life insurance and reinsurance the biometric risk, the lapse risk and the interest-guarantee risk are especially relevant. The calculation of underwriting provisions in primary insurance is based on "biometric" calculation tables, i.e. on assumptions with regard to mortality and disablement. These assumptions are checked by the supervisory authorities or by institutes of actuaries every few years, depending on the specific national regulations. The checking of mortality and the appropriateness of trend assumptions may result in a need for additional reserving (e.g. if actual life expectancy has not been sufficiently taken into account) or alternatively in the reversal of reserves that have been posted. For the provision for future policy benefits in annuity insurance, the longevity risk is of particular importance. On the basis of the current mortality table drawn up by the German Association of Actuaries (DAV) and published in June 2004, we have revalued our provisions for future policy benefits in annuity business. This has involved allocating additional amounts to the provisions posted in our life insurers' German Commercial Code financial statements, in order to take account of the expected marked increase in life expectancy. In addition, we are further expanding the safety margins in our biometric calculation bases.

In reinsurance, we calculate the biometric risk on the basis of "best estimates", which 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 reduced in insurance and reinsurance by means of suitable product and contract design. The residual lapse risk is estimated by means of product-specific portfolio analyses and taken into account in the pricing.

As far as the interest-guarantee risk in primary insurance is concerned, the guaranteed actuarial interest rate applicable at the time a policy is effected is used in calculating the actuarial reserve for that policy. The life insurers in the Munich Re Group have a substantial portfolio of policies with guaranteed minimum interest rates, both in Germany and abroad. These include annuity and endowment policies. In order to earn the guaranteed minimum interest rate, we are particularly dependent on investment returns. As a rule, the investments have a shorter duration than the insurance commitments, which means there is a reinvestment risk. For premiums yet to be received, the new investment of these amounts involves a certain amount of risk as well. Should capital market interest rates fall to a very low level for a prolonged period, our life, health and personal accident insurers might not be able to earn the required guaranteed interest rate.In reinsurance, we exclude the interest-guarantee risk in many cases by means of suitable treaty design. Furthermore, as a matter of principle, we use prudent assumptions regarding the probable interest rate when fixing the actuarial interest rate in the calculation of premiums and reserves.

Risk control measures

In the Munich Re Group, binding underwriting guidelines and limits and clear underwriting authorities precisely regulate who is authorised and accountable for concluding insurance and reinsurance contracts and at what conditions. 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 underwriting guidelines if required. As a general rule, our treaties and the original business ceded to us contain clear liability limits, since unlimited covers are ultimately not calculable either in insurance or reinsurance. Accidents like the one that occurred on the German Wiehltal bridge in August 2004 strengthen our resolve to continue working for the general abolition of unlimited covers in the insurance industry worldwide. Despite the implementation of our restrictive underwriting policy with regard to unlimited covers, such risks will continue to feature in our portfolio in the foreseeable future, as insurers do not convert their original in-force policies immediately.

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

An excellent tool for risk prevention, and thus for risk controlling, is careful reserving to cover future claims and losses which have been incurred but not yet reported or not reported enough. Hence we generally establish provisions for uncertain liabilities using actuarial methods. In addition, where required under national rules of insurance supervision and accounting, we post provisions for fluctuations in claims experience, although these are not included as such in our IFRS consolidated financial statements. Claims provisions for all classes of business and at all companies are regularly checked by means of internal reviews and audits to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, scientists of various disciplines, underwriters and accounting experts. Whenever possible, we also refer to external statistics and documents (e.g. certified biometric calculation bases in life and health insurance) and, where necessary, appropriate adjustments are made to the provisions posted. Owing to the particular uncertainties involved, however, there is a substantial risk of misestimates in establishing reserving requirements. Thus, as in the previous years, we had to substantially strengthen reserves for losses from business written in the past. Particularly in US liability insurance business, the damages awarded by courts – to asbestosis claimants, for instance – recurrently exceed even the most pessimistic assumptions. This also means that further, possibly considerable, increases in the loss reserves from this and other liability complexes cannot be ruled out in the future either.

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 reinsurance and retrocession.

All our companies have appropriate intra-Group and external reinsurance and retrocession cover. The core component of Munich Re's retrocession is an accumulation excess-of-loss cover, which provides protection against losses from natural catastrophes. The dimensions of this cover are based on analyses of our accumulation budgets in those 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 retrocessionaires and reinsurers on the basis of a range of criteria. The minimum requirement for participating in one of our retrocession or reinsurance treaties is a rating of A– from S&P or A. M. Best.

Risks from defaults on receivables from underwriting business

6.9% 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 3.8%. As at 31 December 2004, nearly 81% of our accounts receivable on ceded business were from companies with an investment-grade rating from S&P (AAA to BBB).

Main investment risks

The market value of our fixed-interest securities as at 31 December 2004 totalled €103.2bn, representing 56.8% of the market value of the Munich Re Group's investments as a whole. These securities thus make up the largest portion of our investments available for sale and investments held to maturity.

Fixed-interest investments are exposed to an interest-rate risk. Falling interest rates result in increases in the market value of fixed-interest securities, and rising interest rates to reductions in their market value. In order to match investments even more closely with the liabilities to be covered, the primary insurers in the Munich Re Group gave preference in 2004 to securities with longer terms. Looked at only in relation to the portfolio of fixed-interest securities, this increases the risk of losses in market value, but these reductions would be balanced by similar changes in value, at least to some extent, among the underwriting liabilities.

The market value of our equity investments, including participating interests, amounted to €25.3bn at 31 December 2004. We aim to spread equity risks by means of systematic diversification in different sectors and regions. In the year under review, companies in the Munich Re Group also made use of derivative financial instruments for hedging purposes. We continued to systematically reduce the historically evolved overweight of our equity investments in the banking and insurance sectors. This included cutting back our stake in the Allianz Group further and refraining from participation in Bayerische Hypo- und Vereinsbank's capital increase. Such measures are geared to achieving a progressive reduction in our concentration risks and optimising our portfolio structure from the risk and earnings point of view.

Besides addressing the internal structure of our equity portfolio, we have also taken a close look at the share of equities in our overall portfolio, with the aim of further reducing and flexibilising the proportion of equities held. As at 31 December 2004, on a market value basis and taking hedging transactions into account, the ratio of equities to total investments amounted to approximately 13.4% (31 December 2003: 14.5%).

With a view to optimising our investment portfolio from the earnings and risk standpoint, companies of the Munich Re Group hold investments in real estate, which are subject to market price risks. The market value of our real estate, including buildings on land owned by third parties, amounted to €10.7bn at 31 December 2004. The risk of losses in value manifested itself in the year under review in the case of various properties (including amortisation, we had to make writedowns of €555m that were recognised in income).

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

The following sensitivity analyses for market-price risks serve to estimate potential changes in the value of investments under hypothetically possible market scenarios. The basis for the review are the other-than-trading holdings of the Munich Re Group at 31 December 2004.

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

Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	+€4.859bn
Increase of 10%	+€2.427bn
Fall of 10%	–€2.417bn
Fall of 20%	–€4.816bn
Market values at 31.12.2004	€25.213bn

Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP	–€12.359bn
Increase of 100 BP	–€6.424bn
Fall of 100 BP	+€6.875bn
Fall of 200 BP	+€14.229bn
Market values at 31.12.2004	€124.505bn

Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	+€4.303bn
Fall of 10%	–€4.303bn
Market values at 31.12.2004	€43.031bn

The changes in market value shown in the table can only be taken as rough indicators of the actual market value losses that might occur in the future, as they do not consider any counteractive measures. Moreover, the effects on the Group's annual results and shareholders' equity would be reduced as a consequence of the policyholders' shares and the tax consequences.

Credit assessment is of central importance for the management of credit risks relating to fixed-interest securities. The main factor here is the quality of the issuer or the respective issue, as primarily reflected – according to the investment principles of the Munich Re Group – in the ratings of international rating agencies: 94.0% of our investments in fixed-interest securities at 31 December 2004 had a rating of A or better (according to Standard & Poor's rating classification). The majority of fixed-interest securities in our portfolio have been issued by governments or banks with excellent ratings or top security, e.g. German government bonds, US Treasuries, or mortgage-backed bonds.

Investment principles and risk controlling

In the investment sector, the Munich Re Group is guided by the following principles: only investments are to be made from which an appropriate return can be expected and which offer a high degree of security, as reflected in high-quality ratings of the relevant issuers and counterparties, for example. Also important is sufficient liquidity at all times to cover obligations from underwriting business and a targeted diversification in terms of region and type of investment.

The investment process for the Group's own investments is controlled by the individual companies in the Munich Re Group themselves, with asset-liability management forming the basis for their investment strategy. In other words, besides return and risk aspects, the companies 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 already carried out at micro level when the product is being designed. This is especially the case with long-tail business, owing to the high interest-rate risk.

The companies entrusted with our asset management, in particular MEAG, are given mandates by the insurance and reinsurance companies in the Munich Re Group, based on uniform investment criteria. The status of the individual mandates is continually monitored on the basis of various key risk and earnings figures as part of a Group-wide early-warning system for investments. This is designed to ensure the achievement of result targets, the fulfilment of solvency requirements and sufficient equity capital protection at individual company level. At all companies, we have established asset-liability teams that advise on and monitor strategic decisions relating to investments. This has enabled us to standardise the Munich Re Group's risk management activities in the investment sector. In the asset management units of the Group, we pursue a policy of clear functional separation between portfolio management, trading and risk controlling at all hierarchical levels, in line with the requirements of banking supervision.

Market-price risks in investments are measured and limited using the value-at-risk approach, which is also employed in our strategic investment planning to model the optimum investment portfolio according to risk preference. Using stress tests, sensitivity analyses and duration analyses, we also simulate market fluctuations and devise strategies for countering them where necessary. How we additionally deal with the market-price risks from real estate is described in detail on page 127.

We only run currency risks to a very small extent in the Munich Re Group, since we practise a policy of currency matching. This means that for the main currency liabilities in underwriting business, appropriate matching items are established on the assets side. We use derivative financial instruments to hedge parts of the portfolio, to optimise earnings and to implement planned purchases and sales. Our Group companies act as end-users of derivatives; in addition, they engage in limited trading in these instruments with a view to profit-making. Particular care is paid to limiting risks, choosing top-quality business partners and strictly monitoring adherence to specifications in mandates and investment guidelines. The volumes involved are shown on page 172 f.

Credit risks in the investment portfolio are measured and limited using the credit-value-at-risk approach. The main elements for measuring the credit risk are the investment volume, the term of the investment, the quality of the collateralisation, and the default probability of the individual issuers in the portfolio.

Our counterparty system with which we restrict default risks in respect of individual issuers considers a whole range of factors. These include the issuer's individual rating, its capitalisation as a basis for covering the liability, the quality of the collateralisation and the respective issue, the sector concerned, and our internally defined risk tolerance.

Credit derivatives are only employed in our investment portfolio for hedging credit risks. The notional principal amounts of open positions had a volume of €10m at 31 December 2004, with a fair value of –€1m. Regular watch-lists with critical cases are prepared in order to monitor individual issuers. Thus, as in previous years, Munich Re's investments were only affected to a very slight extent by defaults.

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

Main operational risks

Operational risks are risks whose origins lie in processes, people, technology or external events and which could lead to unexpected losses. These include criminal acts, inadequate controls, organisational deficiencies (e.g. inadequate reporting) or events that may result in claims for damages from third parties.

We minimise such risks, which may be connected with any type of corporate activity, our staff or technical systems, through a wide range of specific risk management measures. In two major projects, for instance, we are creating a comprehensive and consistent data basis for the reinsurance group and for ERGO respectively. Beyond this, it is our declared corporate aim to sensitise employees to possible risks and to establish an appropriate risk culture. This includes the chance and the willingness to learn from mistakes and to recognise and grasp opportunities for change and improvement. To this end, we organise seminars and information events, support open communication in the field of risk management and give thorough consideration to constructive criticism.

Risks in the area of information technology and project risks

Munich Re's global business requires a networking of our business units and systems worldwide, both organisationally and technically. The consequence of this is a growing dependency on electronic communications technology, the complexity of which is continually increasing. The value of the processed information is also growing. Consequently, the organisational and technical measures needed to protect the confidentiality, availability and integrity of these data and systems are acquiring ever-greater importance. We are also exposed to IT risks such as breakdowns and outages, disruptions due to viruses, attacks by hackers and theft of data, including misuse by our own staff.

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

The dependence on central IT systems requires that, in the event of failure or outage of computer centres, the most important systems and applications can be restored as quickly as possible. At Munich Reinsurance Company, an enhanced contingency and disaster recovery concept has been in place since the IT Division moved to its new premises "Am Münchner Tor". This concept makes it possible to limit the restart time for all relevant core systems to a maximum of 48 hours across all locations. For this purpose, for example, we have distributed all the relevant electronically stored business data and the IT infrastructure between two locations and, if disaster strikes, can be online again without undue delay.

Major projects are currently being realised in our primary insurance and reinsurance business in a multi-project landscape that will, among other things, develop integrated information architecture in the back-office area. In order to assess project interdependencies better, Munich Re's project landscape will be made more transparent using multi-project management, which will take existing management processes as its starting point.

The aim of our GLORIA project is to unify the entire reinsurance group's IT and process landscape on the basis of an SAP standard product. The size and complexity of the undertaking naturally harbour project risks. Risk management and problem-handling are therefore central tasks of the project management. Now that we have successfully put the first major module into operation, the development of the basic system is scheduled to be concluded in the course of 2005.

After systems had for the most part been successfully converged in ERGO's project for IT systems and IT processes (ESPRIT), deficiencies in service readiness and inefficiencies in the procedural organisation became apparent. Supplementary functions are being developed and introduced to effectively prevent disruptions in client-related processes.

The ERGO-wide reorganisation project VEKTOR has created the organisational foundations for a uniform group-wide management organisation geared to classes of insurance. When distributions of tasks, allocations of functions and processes are changed, this may cause short-term "friction losses", but these should be manageable, given that we have prepared ourselves thoroughly for the systematic implementation of the new structure and given close advance consideration to potential risks.

Risks in the human resources sector

The companies in the Munich Re Group have binding rules setting out minimum standards of corporate integrity for conduct within the companies themselves, their business transactions and other relationships with external parties. These standards, tailored to the special features of each company, also serve to prevent conflicts of interest for staff, in order to ensure that we use only fair and legal means of competition. The clear separation of management and control functions limits the risk of internal and external regulations being breached.

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

The main human resources risks are shortages of qualified personnel, insufficient adaptation, demotivation and loss of staff. We identify these risks by means of appropriate indicators and metrics. With targeted personnel marketing measures, potential assessment schemes and systematic succession planning, we counter the risk of shortages in qualified staff. Individual development planning and suitable training offers enable our staff to adapt to current market requirements. Modern management tools and adequate monetary and non-monetary incentives ensure high motivation. Our human resources tools as a whole serve to strengthen our staff's ties with the Group and consequently to safeguard our business knowledge (see also page 85).

Legal risks

Legal risks may arise on the one hand from court decisions and legislation (changes in legal parameters) and on the other from legal disputes and arbitration proceedings in which we as an international insurance group are involved, especially in the area of claims settlement.

We counter risks from changes in legislation and court decisions by constantly monitoring current developments and by actively participating in relevant bodies and associations in order to contribute our views.

The following are examples of currently relevant legal risks:

– Last April, New York Attorney General Eliot Spitzer started an investigation into the use of Placement or Market Service Agreements in the insurance industry. Several other US state regulators subsequently commenced similar probes into this matter. Entities of the Munich Re organisation have received requests to provide information in connection with these investigations and are cooperating fully with the authorities. Entities of the Munich Re organisation, together with several other insurers and brokers, have been named defendants in several PSA-related class actions by US policyholders. Munich Re will defend itself vigorously.
– The ongoing discussion about the reform of the social security systems in Germany harbours substantial risks for the health insurers in the ERGO Insurance Group. As the reform proposals are not yet sufficiently concrete, the perspective for private health insurance in Germany is currently unclear. In the most extreme case, the long-term existence of the private health insurance model would be in jeopardy.
– In the USA, the Fairness in Asbestos Injury Resolution Act 2004 is currently going through the federal legislative procedure. A decision on the bill, which envisages the formation of a privately financed fund to compensate asbestos victims, will be taken in 2005 at the earliest. What consequences this proposed legislation will have for our companies in the USA and to what extent the burden may exceed our current provisions depends on how the individual regulations are framed.

– There are currently uncertainties regarding the size of our final claims burden in connection with the attack on the World Trade Center of 11 September 2001. A portion of the claims resulting from this event are the subject of pending cases concerning the amount and scope of the claims filed. In the case of the Wilprop policy underwritten by us, the courts in question take the view that only one loss event was involved. The remaining uncertainties are, however, covered by sufficient provisions for not yet reported claims.

Supervisory risks

As a result of our global activities, we are subject to a large number of supervisory regulations in different countries.

At the moment, for example, antitrust proceedings are being conducted against VICTORIA Versicherung AG on the grounds of alleged collusion in restraint of competition in industrial insurance business. The outcome is uncertain at present. Furthermore, after the considerable losses in assets suffered by our primary insurers in the weak capital markets of recent years, the resultant supervisory requirements for these companies' investments could also entail risks for the Munich Re Group.

Currently the US Securities and Exchange Commission (SEC) and New York Attorney General (NYAG) are making inquiries with respect to "certain loss mitigation insurance products". Munich Re has received requests from both to produce information and material, and is cooperating fully in this regard.

Macroeconomic and geopolitical risks

As insurers and reinsurers, we are dependent on economic and political parameters in the different markets in which we operate, as well as on the macroeconomic and geopolitical situation. The development of the economy not only affects our insurance business but also influences the capital market. An economic downturn can lead to payment defaults and credit-rating downgradings among our debtors, which may require writedowns in our books.

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

For this reason, our economists study and monitor the economic and political situation of our main markets and inform the Board of Management without delay about relevant developments so that, if necessary, suitable risk minimisation measures can be taken. Possible scenarios are also discussed and coordinated with our asset management company MEAG to enable us to react appropriately at any time on the investment side as well.

Outlook

The accounting and insurance supervision landscape faces substantial changes as a result of IFRS, Solvency II and numerous supranational and national reform initiatives. This will place additional demands on companies' reporting and control mechanisms and especially their risk management.

In view of the European Commission's Solvency II project, Munich Re has set up working groups to ensure the transfer of know-how on this issue within the Group. In addition, they are examining how changes to the relevant parameters may affect our product portfolios and those of our clients. Besides this, we are involved in shaping the Solvency II provisions at European and national level through participation in working groups and projects of actuarial associations (Groupe Consultatif, DAV) and industry associations (CEA, GDV).

Within a system that permeates the whole Group, we are intensifying and systematising risk management and controlling at our individual companies and at Group level. We are devoting particular attention to linking integrated risk management, risk controlling and capital planning even more closely.

By implementing systematic asset-liability management, we aim to holistically optimise our portfolio in terms of underwriting and investment and to make accumulations between underwriting risks and investment risks more transparent.

Summary of the risk position

We see ourselves on course for sustained profitability and evaluate the Munich Re Group's risk situation as controlled and viable. We have identified a need for action in certain areas and have initiated the necessary measures.

With our risk management instruments, we will systematically control the risks in reinsurance and ensure that we firmly adhere to our policy of risk-adequate prices and conditions (e.g. exclusions), even if this means having to refrain from participating in some business. Beyond this, we will focus on especially important sub-aspects of sensible risk limitation, such as strict liability caps in motor insurance or basic prerequisites for the insurability of natural catastrophes. A particular cause of concern to us continues to be the growth in liability claims from prior accident years in the USA. We are keeping a close eye on developments and will adjust our balance sheet reserves where necessary. We will decisively minimise the risk of insufficient data availability and not yet fully consistent data resources when the integrated IT and process architecture provided for in the GLORIA project has been implemented. In our primary insurance business, we have moved back into the profit zone. The reorganisation project VEKTOR in the ERGO Group is designed to create synergies and opportunities which will far outweigh possible risks associated with changes in existing distributions of tasks, allocations of functions and processes.

Through an extensive programme of measures and the strengthening of VICTORIA Leben's capital base, we have regained room for manoeuvre and have improved risk-bearing capacity. At all companies in our Group, we have ensured that there is both sufficient coverage of the reserves with assets and capital well in excess of the minimum solvency requirements.

The above examples demonstrate how we concern ourselves with the whole of the Munich Re Group's risk landscape and consider all the facets of possible and necessary control measures.

According to our assessment, there are no risks which could have a significant and lasting adverse effect on the assets, liabilities, financial position and results of our Group.

Consolidated financial statements
Consolidated balance sheet as at 31 December 2004

Assets	Notes	€m	€m	€m	Prev. year €m	€m	Change %
A. Intangible assets							
I. Goodwill	(1)		3,144		3,568	–424	–11.9
II. Other intangible assets	(2)		1,243		1,372	–129	–9.4
				4,387	4,940	–553	–11.2
B. Investments							
I. Real estate	(3)		9,046		10,075	–1,029	–10.2
II. Investments in affiliated enterprises and associated enterprises	(4)		3,883		4,353	–470	–10.8
III. Loans	(5)		20,310		16,046	4,264	26.6
IV. Other securities							
1. Held to maturity	(6)	562			747	–185	–24.8
2. Available for sale	(7)	124,956			122,367	2,589	2.1
3. Held for trading	(8)	657			548	109	19.9
			126,175		123,662	2,513	2.0
V. Other investments							
1. Deposits retained on assumed reinsurance	(11)	14,530			14,480	50	0.3
2. Miscellaneous	(9)	2,869			2,256	613	27.2
			17,399		16,736	663	4.0
				176,813	170,872	5,941	3.5
C. Investments for the benefit of life insurance policyholders who bear the investment risk				1,319	1,009	310	30.7
D. Ceded share of underwriting provisions	(18–21)			6,964	8,038	–1,074	–13.4
E. Receivables	(10, 11)			8,683	8,175	508	6.2
F. Cash with banks, cheques and cash in hand				2,027	1,884	143	7.6
G. Deferred acquisition costs	(12)			8,396	7,997	399	5.0
H. Deferred tax assets	(13)			4,326	5,140	–814	–15.8
I. Other assets	(14)			1,876	1,329	547	41.2
Total assets				**214,791**	**209,384**	**5,407**	**2.6**

Equity and liabilities	Notes			Prev. year		Change
		€m	€m	€m	€m	%
A. Shareholders' equity	(15)					
I. Issued capital and capital reserve		7,388		7,388	–	–
II. Revenue reserves		7,018		7,823	–805	–10.3
III. Other reserves		3,957		4,122	–165	–4.0
IV. Consolidated profit		1,833		–434	2,267	–
			20,196	18,899	1,297	6.9
B. Minority interests	(16)		541	483	58	12.0
C. Subordinated liabilities	(17)		3,393	3,390	3	0.1
D. Gross underwriting provisions						
I. Unearned premiums	(18)	5,874		6,315	–441	–7.0
II. Provision for future policy benefits	(19)	101,926		98,134	3,792	3.9
III. Provision for outstanding claims	(20)	42,839		42,619	220	0.5
IV. Other underwriting provisions	(21)	9,324		7,488	1,836	24.5
			159,963	154,556	5,407	3.5
E. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders			1,328	958	370	38.6
F. Other accrued liabilities	(22)		3,450	3,577	–127	–3.6
G. Liabilities						
I. Notes and debentures	(23)	2,242		2,209	33	1.5
II. Other liabilities	(11, 24)	16,612		18,098	–1,486	–8.2
			18,854	20,307	–1,453	–7.2
H. Deferred tax liabilities	(13)		7,041	7,159	–118	–1.6
I. Other deferred items	(25)		25	55	–30	–54.5
Total equity and liabilities			**214,791**	**209,384**	**5,407**	**2.6**

Consolidated income statement for the business year 2004

Items	Notes	€m	Prev. year €m	Change €m	%
1. Gross premiums written	(26)	**38,071**	40,431	–2,360	–5.8
2. Net earned premiums	(26)	**36,534**	37,617	–1,083	–2.9
3. Investment result	(27)	**8,041**	7,131	910	12.8
– Thereof income from associated enterprises		**–331**	–853	522	61.2
4. Other income	(28)	**1,116**	1,211	–95	–7.8
Total income (2–4)		**45,691**	45,959	–268	–0.6
5. Net expenses for claims and benefits	(29)	**31,636**	32,487	–851	–2.6
6. Net operating expenses	(30)	**8,847**	8,997	–150	–1.7
7. Other expenses	(31)	**2,260**	2,504*	–244	–9.7
Total expenses (5–7)		**42,743**	43,988*	–1,245	–2.8
8. Result before amortisation of goodwill		**2,948**	1,971*	977	49.6
9. Amortisation of goodwill	(1)	**344**	687	–343	–49.9
10. Operating result before taxes on income*		**2,604**	1,284*	1,320	102.8
11. Taxes on income*	(32)	**712**	1,752*	–1,040	–59.4
12. Minority interests in earnings	(16)	**59**	–34	93	–
13. Profit for the year		**1,833**	–434	2,267	–
	Notes	€	€	€	%
Earnings per share	(44)	**8.01**	–2.25	10.26	–

*As from year-end 2004, "other tax" is included in "other expenses".
Item designations and the previous-year figures have been adjusted accordingly throughout the reporting.

Changes in Group shareholders' equity

All figures in €m	Issued capital	Capital reserve	Revenue reserves		Other reserves			Consolidated result	Shareholders' equity
			Revenue reserves before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges		
Status at 31.12.2002	**457**	**2,990**	**9,046**	**–93**	**1,260**	**–**	**–**	**288**	**13,948**
Restatement of currency translation reserve	–	–	–337	–	–	337	–	–	–
Currency translation	–	–	–	–	–	–736	–	–	–736
Capital increases	131	3,810	–	–	–	–	–	–	3,941
Allocation to revenue reserves	–	–	65	–	–	–	–	–65	–
Change in consolidated group	–	–	–58	–	–294	–	–	–	–352
Change resulting from valuation at equity	–	–	–778	–	–54	–	–	–	–832
Unrealised gains and losses on other securities	–	–	–	–	4,052	–	–	–	4,052
Consolidated result	–	–	–	–	–	–	–	–887	–887
Dividend	–	–	–	–	–	–	–	–223	–223
Other changes	–	–	–8	–14	–	–	10	–	–12
– Associated enterprises	–	–	–	–	101	–	–	–101	–
– Non-fixed-interest securities	–	–	–	–	–554	–	–	554	–
Status at 31.12.2003	**588**	**6,800**	**7,930**	**–107**	**4,511**	**–399**	**10**	**–434**	**18,899**
Currency translation	–	–	–	–	–	–284	–	–	–284
Allocation to revenue reserves	–	–	–720	–	–	–	–	720	–
Change in consolidated group	–	–	–13	–	–	9	–	–	–4
Change resulting from valuation at equity	–	–	–1	–	102	–	–	–	101
Unrealised gains and losses on other securities	–	–	–	–	8	–	–	–	8
Consolidated result	–	–	–	–	–	–	–	1,833	1,833
Dividend	–	–	–	–	–	–	–	–286	–286
Share buy-backs	–	–	–	–51	–	–	–	–	–51
Other changes	–	–	–20	–	–	–	–	–	–20
Status at 31.12.2004	**588**	**6,800**	**7,176**	**–158**	**4,621**	**–674**	**10**	**1,833**	**20,196**

Consolidated cash flow statement for the business year 2004

	€m	Prev. year €m
Consolidated result, including minority interests in earnings	1,892	–468
Net change in underwriting provisions	5,396	5,042
Change in deferred acquisition costs	–407	–489
Change in deposits retained and accounts receivable and payable	–177	–1,921
Change in other receivables and liabilities	–995	1,189
Gains and losses on the disposal of investments	–2,339	–2,484
Change in securities held for trading	–100	632
Change in other balance sheet items	29	482
Other income/expenses without impact on cash flow	–2,009	1,162
I. Cash flows from operating activities	**5,308**	**3,145**
Inflows from the sale of consolidated enterprises	373	–
Outflows from the acquisition of consolidated enterprises	78	88
Change from the acquisition, sale and maturities of other investments	–3,389	–9,677
Change from the acquisition and sale of investments for unit-linked life insurance	–252	–248
Other	–877	–1,198
II. Cash flows from investing activities	**–4,223**	**–11,211**
Inflows from increases in capital	–	3,941
Dividend payments	295	230
Change from other financing activities	–637	3,532
III. Cash flows from financing activities	**–932**	**7,243**
Cash flows for the business year (I + II + III)	**153**	**–823**
Effect of exchange rate changes on cash	–10	–28
Cash at the beginning of the business year	1,884	2,735
Cash at the end of the business year	2,027	1,884
Additional information		
Taxes on income (net)	707	683
Interest paid	644	385

Our reporting on the Group cash flow is based on IAS 7 and the principles of German Accounting Standard No. 2 (DRS 2) issued by the German Standards Board (DSR) for the presentation of cash flow statements. This has been supplemented by the requirements of DRS 2–20, which applies specifically to insurance companies.
In accordance with the recommendations of the DSR for insurance companies, we have applied the indirect presentation method.
The “cash fund” within the meaning of the German Accounting Standard is limited to cash and cash equivalents shown under balance sheet item F “cash with banks, cheques and cash in hand”.

Segment reporting

Assets	Reinsurance			
	Life and health		Property-casualty	
	31.12.2004 €m	Prev. year €m	**31.12.2004 €m**	Prev. year €m
A. Intangible assets	**239**	243	**1,206**	1,370
B. Investments				
I. Real estate	**731**	1,066	**928**	1,430
II. Investments in affiliated enterprises and associated enterprises	**3,449**	3,247	**3,842**	4,011
III. Loans	**244**	63	**258**	63
IV. Other securities				
1. Held to maturity	**–**	–	**–**	–
2. Available for sale	**19,603**	17,926	**30,180**	31,054
3. Held for trading	**54**	65	**61**	133
	19,657	17,991	**30,241**	31,187
V. Other investments	**9,949**	9,362	**11,890**	12,010
	34,030	31,729	**47,159**	48,701
C. Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	–	**–**	–
D. Ceded share of underwriting provisions	**1,403**	1,457	**3,483**	4,359
E. Other segment assets	**4,720**	4,330	**9,173**	9,157
Total segment assets	**40,392**	**37,759**	**61,021**	**63,587**

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

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

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

Goodwill has been allocated to the segment of the respective subsidiary.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2004 €m	Prev. year €m	**31.12.2004 €m**	Prev. year €m	**31.12.2004 €m**	Prev. year €m	**31.12.2004 €m**	Prev. year €m	**31.12.2004 €m**	Prev. year €m
1,961	2,171	**1,014**	1,139	**5**	17	**–38**	–	**4,387**	4,940
6,642	6,866	**710**	714	**43**	7	**–8**	–8	**9,046**	10,075
3,009	3,327	**3,361**	2,800	**119**	112	**–9,897**	–9,144	**3,883**	4,353
20,893	16,921	**1,011**	751	**185**	202	**–2,281**	–1,954	**20,310**	16,046
518	700	**44**	47	**–**	–	**–**	–	**562**	747
68,613	67,258	**6,532**	6,076	**28**	53	**–**	–	**124,956**	122,367
247	128	**295**	221	**–**	1	**–**	–	**657**	548
69,378	68,086	**6,871**	6,344	**28**	54	**–**	–	**126,175**	123,662
1,597	1,181	**390**	251	**373**	302	**–6,800**	–6,370	**17,399**	16,736
101,519	96,381	**12,343**	10,860	**748**	677	**–18,986**	–17,476	**176,813**	170,872
1,319	1,009	**–**	–	**–**	–	**–**	–	**1,319**	1,009
8,756	8,233	**1,529**	1,548	**–**	–	**–8,207**	–7,559	**6,964**	8,038
10,001	10,157	**2,801**	2,931	**183**	186	**–1,570**	–2,236	**25,308**	24,525
123,556	**117,951**	**17,687**	**16,478**	**936**	**880**	**–28,801**	**–27,271**	**214,791**	**209,384**

Segment reporting

Equity and liabilities	Reinsurance			
	Life and health		Property-casualty	
	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m
A. Subordinated liabilities	1,453	1,539	1,587	1,851
B. Gross underwriting provisions				
I. Unearned premiums	230	281	4,571	5,064
II. Provision for future policy benefits	19,468	18,598	642	636
III. Provision for outstanding claims	5,238	4,675	31,988	32,664
IV. Other underwriting provisions	722	371	214	236
	25,658	23,925	37,415	38,600
C. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	–	–	–	–
D. Other accrued liabilities	300	394	785	1,040
E. Other segment liabilities	3,154	3,197	9,337	10,145
Total segment liabilities	30,565	29,055	49,124	51,636

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m
–	–	353	–	–	–	–	–	3,393	3,390
79	79	1,208	1,134	–	–	–214	–243	5,874	6,315
88,155	85,169	278	123	–	–	–6,617	–6,392	101,926	98,134
2,010	1,905	4,637	4,438	–	–	–1,034	–1,063	42,839	42,619
8,604	6,821	108	109	–	–	–324	–49	9,324	7,488
98,848	93,974	6,231	5,804	–	–	–8,189	–7,747	159,963	154,556
1,343	945	–	–	–	–	–15	13	1,328	958
1,024	880	1,287	1,234	84	76	–30	–47	3,450	3,577
17,642	18,017	5,224	5,475	773	656	–10,210	–9,969	25,920	27,521
118,857	113,816	13,095	12,513	857	732	–18,444	–17,750	194,054	190,002
						Shareholders' equity*		20,737	19,382
						Total equity and liabilities		214,791	209,384

*Group shareholders' equity and minority interests.

Segment reporting

Income statement	Reinsurance			
	Life and health		Property-casualty	
	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m
1. Gross premiums written	7,540	6,876	14,857	17,919
Thereof:				
– From insurance transactions with other segments	957	969	869	1,010
– From insurance transactions with external third parties	6,583	5,907	13,988	16,909
2. Net earned premiums	7,294	6,362	14,181	16,289
3. Investment result	1,431	1,361	2,166	2,223
Thereof:				
– Income from associated enterprises	–24	–35	–87	–130
4. Other income	125	112	350	400
Total income (2–4)	8,850	7,835	16,697	18,912
5. Net expenses for claims and benefits	6,244	5,277	10,178	11,308
6. Net operating expenses	1,688	1,819	3,857	4,390
7. Other expenses	320	302	879	940
Total expenses (5–7)	8,252	7,398	14,914	16,638
8. Result before amortisation of goodwill	598	437	1,783	2,274
9. Amortisation of goodwill	6	1	94	104
10. Operating result before taxes on income	592	436	1,689	2,170
11. Taxes on income	160	174	455	810
12. Minority interests in earnings	–	–	5	–10
Profit for the year	432	262	1,229	1,370

The ERGO Insurance Group has concluded profit-transfer agreements with nearly all of its German insurance companies. In our segment reporting, expenditure incurred as a result of profit transfer is deemed appropriation of net income. The segments are thus adjusted to eliminate these expenses, the elimination being carried out in the consolidation column.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2004 €m	Prev. year €m	**31.12.2004 €m**	Prev. year €m	**31.12.2004 €m**	Prev. year €m	**31.12.2004 €m**	Prev. year €m	**31.12.2004 €m**	Prev. year €m
12,324	12,558	**5,202**	5,082	**–**	–	**–1,852**	–2,004	**38,071**	40,431
2	17	**24**	8	**–**	–	**–1,852**	–2,004	**–**	–
12,322	12,541	**5,178**	5,074	**–**	–	**–**	–	**38,071**	40,431
11,121	11,318	**3,938**	3,648	**–**	–	**–**	–	**36,534**	37,617
4,163	3,703	**424**	506	**19**	31	**–162**	–693	**8,041**	7,131
–198	–541	**–28**	–159	**6**	12	**–**	–	**–331**	–853
711	710	**734**	803	**250**	292	**–1,054**	–1,106	**1,116**	1,211
15,995	15,731	**5,096**	4,957	**269**	323	**–1,216**	–1,799	**45,691**	45,959
12,886	13,712	**2,328**	2,176	**–**	–	**–**	14	**31,636**	32,487
1,939	1,387	**1,374**	1,392	**–**	–	**–11**	9	**8,847**	8,997
972	752	**977**	1,057	**271**	284	**–1,159**	–831	**2,260**	2,504
15,797	15,851	**4,679**	4,625	**271**	284	**–1,170**	–808	**42,743**	43,988
198	–120	**417**	332	**–2**	39	**–46**	–991	**2,948**	1,971
167	275	**69**	306	**8**	1	**–**	–	**344**	687
31	–395	**348**	26	**–10**	38	**–46**	–991	**2,604**	1,284
1	610	**56**	144	**35**	14	**5**	–	**712**	1,752
20	–45	**41**	13	**–3**	4	**–4**	4	**59**	–34
10	**–960**	**251**	**–131**	**–42**	**20**	**–47**	**–995**	**1,833**	**–434**

Segment reporting

Investments*	Reinsurers		Primary insurers		Asset management		Total	
	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m	31.12.2004 €m	Prev. year €m
Europe	43,074	43,188	106,802	100,764	515	395	150,391	144,347
North America	21,540	21,609	1,669	1,593	38	49	23,247	23,251
Asia and Australasia	2,517	2,560	625	476	3	21	3,145	3,057
Africa, Near and Middle East	595	507	119	88	–	–	714	595
Latin America	485	462	142	161	8	8	635	631
Total	68,211	68,326	109,357	103,082	564	473	178,132	171,881

*After elimination of intra-Group transactions across segments.

Secondary segmentation is based on the geographical origin of our investments and gross premiums written.

Gross premiums written*	Reinsurers		Primary insurers		Total	
	2004 €m	Prev. year €m	**2004 €m**	Prev. year €m	**2004 €m**	Prev. year €m
Europe						
Germany	**3,275**	3,704	**14,243**	14,553	**17,518**	18,257
France	**351**	432	**28**	36	**379**	468
UK	**4,516**	4,970	**224**	209	**4,740**	5,179
Italy	**549**	794	**720**	656	**1,269**	1,450
Netherlands	**456**	413	**283**	490	**739**	903
Others	**2,108**	2,406	**1,777**	1,386	**3,885**	3,792
	11,255	12,719	**17,275**	17,330	**28,530**	30,049
North America						
USA	**4,969**	5,749	**80**	91	**5,049**	5,840
Canada	**1,842**	1,596	**4**	3	**1,846**	1,599
	6,811	7,345	**84**	94	**6,895**	7,439
Asia and Australasia						
Japan	**288**	305	**3**	4	**291**	309
Australia	**453**	452	**3**	4	**456**	456
Taiwan	**120**	197	**–**	–	**120**	197
Others	**617**	610	**50**	78	**667**	688
	1,478	1,564	**56**	86	**1,534**	1,650
Africa, Near and Middle East						
South Africa	**267**	258	**60**	75	**327**	333
Israel	**136**	181	**1**	–	**137**	181
Others	**164**	243	**15**	21	**179**	264
	567	682	**76**	96	**643**	778
Latin America						
Mexico	**102**	147	**7**	4	**109**	151
Colombia	**47**	51	**–**	–	**47**	51
Others	**311**	308	**2**	5	**313**	313
	460	506	**9**	9	**469**	515
Total	**20,571**	**22,816**	**17,500**	**17,615**	**38,071**	**40,431**

*After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 96).

Notes to the consolidated financial statements

Application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

Munich Re's consolidated financial statements have been prepared in euros (€) in accordance with the standards of the International Accounting Standards Board (IASB) as "exempting" consolidated financial statements in line with Section 292 a of the German Commercial Code. The financial statements comply with the EU directives to which we are subject.

Since 2002, the standards adopted by the IASB have been referred to as "International Financial Reporting Standards (IFRS)"; the standards from previous years continue to bear the name "International Accounting Standards (IAS)". Insofar as we do not explicitly refer to a particular standard, we use the two terms synonymously.

On 31 March 2004, the IASB adopted IFRS 4 Insurance Contracts, which for the first time governs how insurance contracts are to be accounted for and valued. Munich Re will be applying this standard, as prescribed, for accounting periods beginning on or after 1 January 2005. In our consolidated financial statements as at 31 December 2004, the underwriting items are therefore still accounted for and valued in accordance with US GAAP (Generally Accepted Accounting Principles for the United States).

The consolidated financial statements have been prepared in accordance with all IAS/IFRS whose application was obligatory for the business years, as well as with all the interpretations (SIC 1–33) by the International Financial Reporting Interpretations Committee (IFRIC). In addition, we applied the new provisions for the accounting of financial instruments adopted in December 2003 (IAS 32 and 39) already as at 31 December 2003. Both standards were applied retrospectively, the consolidated financial statements for 2003 being presented as if the accounting and valuation methods of IAS 32 (rev. 2003) and IAS 39 (rev. 2003) had always been in use. We have also observed the German accounting standards (DRS) adopted by the DRSC (German Accounting Standards Committee) provided they do not contradict the applicable IFRS.

Declaration of compliance with the German Code of Corporate Governance in accordance with Section 161 of the German Stock Companies Act

In December 2004, the Board of Management and the Supervisory Board of Munich Reinsurance Company and the ERGO Insurance Group 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 internet.

Main differences between IFRS and German Commercial Code

Exemption from consolidated accounting pursuant to commercial law, in accordance with Section 292 a of the German Commercial Code, requires a description of the main differences between IFRS and German Commercial Code accounting, valuation and consolidation methods.

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

- Under IFRS, goodwill is amortised over a maximum period of 20 years with impact on earnings. Goodwill resulting from business combinations agreed to on or after 31 March 2004 is not amortised. In German Commercial Code accounting, there is the option to offset goodwill against the revenue reserves.
- A large portion of the investments are valued at market under IFRS; under the German Commercial Code they are valued at the lower of cost or market.
- The group of associated enterprises valued at equity is considerably larger in IFRS financial statements, because it is no longer relevant whether a significant influence is actually exercised or not. The consolidated profit includes a corresponding portion of the net profit of the enterprises concerned rather than just the dividend distributions.
- As is internationally customary, the ceded share of underwriting provisions is shown on the assets side of the balance sheet.
- The provisions for future policy benefits tend to be higher because, unlike in German Commercial Code accounting, there is no zillmerisation, but capitalisation of the acquisition costs. Besides this, under IFRS, reserves for terminal bonuses in life insurance are shown as part of the provisions for future policy benefits, whereas under the German Commercial Code the terminal bonus fund is part of the provision for premium refunds. A mitigating effect, however, results from cases in which the provisions for future policy benefits have to be discounted with a higher actuarial interest rate under IFRS than under the German Commercial Code.
- The provision for premium refunds is markedly higher than under the German Commercial Code because it also includes the deferred entitlements of policyholders in life and health insurance from the accumulated result differences between IFRS and German Commercial Code and their share of unrealised gains and losses in the investments available for sale.

- The provision for outstanding claims is lower under IFRS, because the actuarial calculations on the basis of partial portfolios generally result in a smaller requirement than the individual valuation of all claims based on the prudence concept, which the German Commercial Code prescribes.
- Claims equalisation provisions as under the German Commercial Code do not constitute liabilities to third parties and are thus not admissible under IFRS; they therefore have to be reversed.
- Provisions for terrorism risks do not constitute liabilities to third parties under IFRS either and are therefore not admissible. They are also reversed.
- Premiums tend to be lower under IFRS. In the case of products which are mainly of an investment character (e.g. financing treaties, unit-linked life insurance) only that portion of the premium used to cover the risk insured and associated costs is treated as premium income. In IFRS financial statements, no "premiums from the provision for policyholders' dividends" are shown. Instead, the relevant amounts are allocated to the provision for future policy benefits, with no impact on income.
- In accordance with IAS 39 (rev. 2003), impairments losses are recognised for financial instruments with an equity character if there is a significant or prolonged decline in the fair value of the investment below its cost. By contrast, under the German Commercial Code, investments which have suffered an impairment in value must be measured at the value to be attributed at the balance sheet date.

Figures for previous years

We have calculated the previous-year figures on the same basis as the figures for the business year 2004.

Consolidation

Consolidated group

In accordance with IAS 27, the consolidated financial statements include Munich Reinsurance Company (the parent company) and all the enterprises in which Munich Re owns, directly or indirectly, the majority of the voting shares or over which it has the factual ability to exercise control (subsidiaries). This applies analogously to the special funds held by Munich Re and its subsidiaries. The only exceptions are subsidiaries and special funds which are determined as being not material for assessing the Group's financial position; insurance and reinsurance companies are consolidated regardless of their size. An overview of the group of consolidated companies and other important shareholdings is provided on page 195.

Consolidated subsidiaries*	Germany	Other countries	Total
31.12.2003	75	160	235
Additions	22	1	23
Reductions	4	20	24
31.12.2004	93	141	234

*In addition, 87 German and 13 non-German investment funds were included in the consolidated group.

In the business year, DKV Deutsche Krankenversicherung acquired 100% of the shares in Globale Krankenversicherungs-AG and Zürich Krankenversicherung AG (Germany) at a total purchase price of €63m.

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

Non-consolidated subsidiaries*	Germany	Other countries	Total
31.12.2003	180	79	259
Additions	51	9	60
Reductions	24	8	32
31.12.2004	207	80	287

These subsidiaries were not consolidated owing to their overall subordinate importance for the Group's assets, liabilities, financial position and results. The aggregate annual result of these companies as a proportion of the Group result for the year is insignificant. Insurance companies have been consolidated regardless of their size.

Consolidation principles

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

We generally consolidate subsidiaries and special funds as soon as the Group holds the majority of the voting shares or has the factual ability to exercise control. In order to determine the equity capital at the time of acquisition, we recognised the assets and liabilities of the subsidiary or special fund at fair value. The equity capital apportionable to the Group is netted against the acquisition costs of the shares (purchase accounting). Any residual amount is capitalised as goodwill and amortised on a straight-line basis. In accordance with IFRS 3, goodwill resulting from business combinations agreed to on or after 31 March 2004 is not amortised, but is tested and written down for impairment if necessary.

The profits earned by the subsidiaries or special funds after their first consolidation are included in the Group shareholders' equity unless they are apportionable to minority interests.

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

Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as being not material. This also applies to gains and losses on intra-Group sales of investments.

Associated enterprises

In accordance with IAS 28, associated enterprises are generally all enterprises which are not subsidiaries but on whose financial and operating policies we as investors can exercise a significant influence. In the case of shareholdings amounting to between 20% and 50% of the voting rights, it is presumed that the enterprises in question are associated enterprises.

Enterprises valued at equity	Germany	Other countries	Total
31.12.2003	27	39	66
Additions	6	6	12
Reductions	–	4	4
31.12.2004	33	41	74

Other associated enterprises	Germany	Other countries	Total
31.12.2003	36	19	55
Additions	7	5	12
Reductions	7	5	12
31.12.2004	36	19	55

Recognition and measurement

The annual financial statements of the consolidated subsidiaries and special funds are subject to uniform accounting and valuation principles. For the annual financial statements of significant associated enterprises we have, in accordance with IAS 28.20 (rev. 2000), made appropriate adjustments for the purposes of the consolidated financial statements. Valuations used in the financial statements of associated enterprises not classified as significant are maintained.

The application of the recognition, measurement and disclosure methods follows the principle that a method once chosen should be applied consistently. We recognise the effects of changes in accounting policies in accordance with IAS 8.

Assets

A Intangible assets

Goodwill resulting from the first-time consolidation of subsidiaries is amortised on a straight-line basis over its useful life – up to 20 years. In accordance with IFRS 3, goodwill resulting from business combinations agreed to on or after 31 March 2004 is not amortised, but tested and written down for impairment if necessary.

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

In addition, other intangible assets include the fair values of acquired life insurance portfolios (PVFP: present value of future profits). These are amortised in accordance with the realisation of the profits underlying the PVFP calculation.

The unamortised balance of intangible assets is reviewed at each balance sheet date and writedowns made for impairments if required.

B Investments

Real estate is carried at cost. Maintenance expenses and repairs are recognised as an expense. Subsequent expenditure that increases the value of real estate is capitalised if it extends the useful life. The capitalised costs of buildings are amortised over 50 years at most, in accordance with their useful lives. If the recoverable amount of land and buildings falls below their carrying amount and the diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognised as an investment expense in the income statement, and any increases in value as investment income.

Investments in affiliated enterprises that we do not consolidate because they are not material are carried at their fair values. If the shares are listed on a stock exchange, we use the share prices at the balance sheet date; for other shares, the fair value is the net asset value based on the German Association of Financial Analysts (DVFA) method or – in the case of new acquisitions – the acquisition cost. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

Investments in associated enterprises are valued by the equity method at the Group's proportionate share of their net assets. The associated enterprise's earnings apportionable to the Group are included in the investment result. As a rule, the most recent individual or consolidated financial statements of the associated enterprise are used; exceptional transactions of material importance for a true and fair picture of the associated enterprise's financial position are taken into account in the same business year. Investments in associated enterprises that are determined as being not material for assessing the Group's financial position are valued at acquisition cost.

Loans are stated at amortised cost, i.e. any premiums or discounts are deducted or added to the acquisition costs according to the effective interest method, with impact on the income statement, until the redemption amount becomes payable. Writedowns for impairments are made in cases where the repayment of a loan can no longer be expected. This item includes promissory notes and registered bonds.

Fixed-interest securities held to maturity are – like loans – stated at amortised cost. The main investments shown here are registered bonds and promissory notes.

Securities available for sale are stated at fair value, with interest deferrals being made as with loans. Unrealised gains or losses are not included in the income statement; rather, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realisation, they are reflected in shareholders' equity (provision for deferred premium refunds). This item also includes registered bonds and promissory notes.

With all fixed-interest and non-fixed-interest securities, impairments in value – in contrast to temporary diminutions – are recognised as an expense in the income statement. IAS 39.59 (rev. 2003) contains a list of factors providing objective evidence that such investments are impaired in value. In addition, IAS 39.61 (rev. 2003) states that for equity investments a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. In the case of an impairment, a writedown is made to the fair value at the balance sheet date, i.e. the publicly listed market price if available.

Securities held for trading comprise all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences; in addition, they include all derivative financial instruments that we have not acquired for hedging purposes. Securities held for trading are stated at the fair value at the balance sheet date. If there are no stock market prices available, these values (particularly with derivatives) are based on recognised valuation methods. All unrealised gains or losses from such valuation are included in the investment result.

Deposits retained on assumed reinsurance are claims which the reinsurers have on their clients for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value. Appropriate allowance is made for credit risks.

Other investments are also stated at face value.

The financial assets in our direct portfolio are generally accounted for at the settlement date. Investments held in special funds are accounted for at the trade date.

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

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

D Ceded share of underwriting provisions

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

E Receivables

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

F Cash with banks, cheques and cash in hand

Cash and cheques are shown at their face value.

G Deferred acquisition costs

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

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

In life primary insurance, the deferred acquisition costs are also capitalised and amortised over the terms of the policies either proportionally to the premium income (FAS 60) or proportionally to the expected profit margins (FAS 97, 120), with the amount of amortisation depending on the gross margins of the respective products calculated for the relevant year of the policy term.

The acquisition costs in health insurance are amortised proportionally to the premium income over the total average policy term, in accordance with FAS 60. The amortisation amount is determined on the basis of the assumptions used for calculating the provision for future policy benefits.

Deferred acquisition costs are regularly reviewed for impairment.

H Deferred tax assets

Under IAS 12, deferred tax assets must be accounted for in cases where asset items have to be valued lower, or liabilities items higher, in the consolidated balance sheet than in the tax balance sheet of the Group company concerned and these differences will even themselves out again with effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. We take into account the tax rates of the countries concerned and the company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries.

Where unrealised losses on securities available for sale are recognised in shareholders' equity (see securities available for sale), the resulting deferred tax assets are recorded but excluded from earnings.

Deferred tax assets are adjusted in value if a realisation of the corresponding receivable is no longer probable.

I Other assets

Other assets are generally stated at amortised cost. Self-occupied real estate is valued as outlined under B. Investments – real estate.

Equity and liabilities

A Shareholders' equity

The item issued capital and capital reserve contains the amounts that the shareholders of the parent company have paid in on shares. The capital reserve is reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects. Under revenue reserves, we show the profits which consolidated companies and special funds have earned and retained since becoming part of the Munich Re Group, and income and expenses resulting from consolidation measures. In addition, the adjustment amount resulting from changes in accounting policies for earlier periods not recognised in the consolidated financial statements is included in the opening balance of the revenue reserves and other reserves for the earliest prior period presented. Unrealised gains and losses resulting from the valuation of securities available for sale at fair value are included in the other reserves; the differences resulting from the currency translation of foreign subsidiaries' figures are also shown in the other reserves. Besides this, write-ups on equity investments available for sale are also recognised in this balance sheet item.

In accordance with IAS 32 (rev. 2003), own shares held by Munich Re at the balance sheet date have been deducted directly from shareholders' equity.

B Minority interests

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

C Subordinated liabilities

Subordinated liabilities are liabilities which, in the event of liquidation or insolvency, are only satisfied after the claims of other creditors. They are valued at amortised cost, i.e. any premiums or discounts are deducted from or added to the acquisition costs according to the effective interest method, with impact on the income statement, until the redemption amount becomes payable.

D Gross underwriting provisions

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

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

The provision for future policy benefits comprises the underwriting reserves for guaranteed entitlements of policyholders in life and personal accident insurance and also the ageing reserves in health insurance.

Provisions for future policy benefits are generally calculated using actuarial methods from the present value of the future benefits payable to policyholders less the present value of the premiums still to be paid by the policyholders; the calculation is based in particular on assumptions relating to mortality, morbidity and interest rate development. The actuarial bases used include an adequate safety margin to take account of the risks of change, error and random fluctuations. They correspond to the actuarial bases employed for the premium calculation and are adjusted if the original safety margins are no longer considered sufficient.

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

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

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

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

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

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

Other underwriting provisions include the provisions for premium refunds.

Provisions for premium refunds are made for obligations involving bonuses and rebates in life and health insurance that are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. The item "other underwriting provisions" also includes amounts apportionable to policyholders from the accumulated valuation differences between IAS and German Commercial Code in the amount of the expected future participation quota (provision for deferred premium refunds). If in this context unrealised gains and losses are recognised directly in equity (see securities available for sale), the resultant provision for deferred premium refunds is also posted without impact on profit or loss.

The underwriting provisions are regularly subjected to a liability adequacy test. Provisions for future policy benefits are adjusted, or provisions for anticipated underwriting losses posted, if a portfolio's future premiums and proportional investment income will probably not be sufficient to cover the expected claims and costs.

E Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders

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

F Other accrued liabilities

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

Under defined contribution plans the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations.

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

If pension obligations are covered by assets held by a legally separate entity (e.g. a fund or a contractual trust agreement in the form of a two-way trust) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets. If the fair value of the plan assets exceeds the related outsourced pension obligations, this repayment claim is shown under "other receivables".

Pension obligations are valued in accordance with IAS 19 (Employee Benefits) using the projected unit credit method and based on actuarial studies. The valuation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development. The interest rate at which the pension obligations are discounted is based on the yields for long-term high-quality bonds (e.g. government bonds).

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

All figures in %	31.12.2004	Prev. year
Discount rate	5.2	5.5
Expected rate of return on fund assets	5.7	5.8
Expected rate of return on reimbursements	4.5	4.0
Future increases in entitlement/salary	3.6	3.7
Future pension increases	1.9	2.1

Actuarial gains or losses from pension obligations and plan assets result from the deviation of actual risk experience from estimated risk experience. They are recognised by means of the corridor method laid down in IAS 19. According to this, actuarial gains or losses are recognised in the income statement if they exceed the higher of the following amounts at the beginning of the business year: 10% of the present value of the vested benefits or 10% of the present value of the plan assets.

Tax provisions for current taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

Other provisions are posted in the amount of the probable requirement; such amounts are not discounted if insignificant.

G Liabilities

The liabilities shown under this item – notes and debentures, accounts payable, deposits retained on ceded business and other liabilities – are stated at the settlement value, except for the option components of the exchangeable bonds of Munich Reinsurance Company and ERGO International AG. The value of the option components is determined as the difference between the market price of the exchangeable bonds and the value of the bond components calculated on the basis of current market yields.

H Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be accounted for if asset items have to be valued higher, or liabilities items lower, in the consolidated balance sheet than in the tax balance sheet of the reporting company and these differences will even themselves out again with impact on taxable income (temporary differences); cf. the remarks on deferred tax assets.

I Other liabilities

The deferred items shown here involve income received before the balance sheet date for a certain period after the balance sheet date. They are calculated pro rata temporis and reversed accordingly.

Foreign currency translation

Munich Re's reporting currency is the euro (€). The balance sheets of foreign subsidiaries whose national currency is not the euro are translated in accordance with the functional currency principle using the year-end exchange rates, and their income statements using quarterly average exchange rates; any translation differences arising in the process are recognised in shareholders' equity (other reserves) and excluded from earnings.

Foreign-currency business is essentially translated into the Group companies' respective national currencies in accordance with IAS 21. In the case of reinsurance, the principle of currency matching also applies. This means that Group companies that write a significant portion of their business in foreign currency generally safeguard themselves against exchange losses by attempting to match assets and liabilities in the same currency. Where exchange gains or losses occur nevertheless in the translation of foreign-currency transactions into the local currencies of the consolidated companies, they are generally accounted for under "other income" and "other expenses" respectively.

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

	Balance sheet		Income statement							
	31.12.2004	Prev. year	**Q4 2004**	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Australian dollar	**1.73395**	1.67410	**1.71287**	1.72222	1.68814	1.63427	1.66285	1.70970	1.77451	1.81064
Canadian dollar	**1.62860**	1.62995	**1.58402**	1.59919	1.63748	1.64815	1.56858	1.55413	1.58798	1.62165
Pound sterling	**0.70795**	0.70460	**0.69539**	0.67228	0.66688	0.68042	0.69783	0.69926	0.70174	0.66948
Rand	**7.65770**	8.41950	**7.83521**	7.79333	7.93235	8.46186	8.02480	8.34545	8.78376	8.95188
Swiss franc	**1.54565**	1.56000	**1.53345**	1.53623	1.53775	1.56825	1.55400	1.54494	1.51717	1.46582
US dollar	**1.35925**	1.26135	**1.29814**	1.22233	1.20494	1.25018	1.19195	1.12636	1.13609	1.07310
Yen	**139.2820**	135.1790	**137.1300**	134.3640	132.1350	134.0120	129.6160	132.2500	134.6170	127.6270

Notes to the consolidated balance sheet – Assets

(1) Goodwill

All figures in €m	2004	2003
Gross amount capitalised at 31.12. previous year	5,398	5,584
Accumulated amortisation at 31.12. previous year	1,830	1,143
Carrying amount at 31.12. previous year	3,568	4,441
Translation differences	–106	–264
Carrying amount at 1.1. business year	3,462	4,177
Additions	30	78
Disposals	4	–
Amortisation	344	687
Carrying amount at 31.12. business year	3,144	3,568
Accumulated amortisation at 31.12. business year	2,172	1,830
Gross amount capitalised at 31.12.business year	5,316	5,398

The goodwill results mainly from the acquisition of American Re in November 1996 and from the acquisition of the additional shares in the ERGO Insurance Group in 2001 and 2002. The additions to goodwill of €30m derive from acquisitions in the ERGO Insurance Group.

The amortisation of €344m includes impairments of €122m resulting mainly from writedowns on goodwill made in the ERGO Insurance Group.

(2) Other intangible assets

All figures in €m	Software	Purchased insurance portfolio	Other	2004	2003
Gross amount capitalised at 31.12. previous year	847	1,036	294	2,177	1,940
Accumulated depreciation at 31.12. previous year	388	205	212	805	604
Carrying amount at 31.12. previous year	459	831	82	1,372	1,336
Translation differences	–	–6	–	–6	–16
Carrying amount at 1.1. business year	459	825	82	1,366	1,320
Change in the consolidated group	2	32	–2	32	–1
Additions	128	18	14	160	299
Disposals	6	–	–	6	31
Depreciation – Amortisation	120	98	20	238	214
– Writedowns for impairments	2	69	–	71	1
Write-ups	–	–	–	–	–
Carrying amount at 31.12. business year	461	708	74	1,243	1,372
Accumulated depreciation at 31.12. business year	497	371	231	1,099	805
Gross amount capitalised at 31.12. business year	958	1,079	305	2,342	2,177

The figures shown under purchased insurance portfolios include amortised carrying amounts of €619m resulting from the acquisition of Bayerische Vita and CNA Financial Corporation's life reinsurance business and from the acquisition of additional shares in the Karlsruher Insurance Group and the ERGO Insurance Group. Writedowns for impairment of €41m and €19m result from the purchased insurance portfolios of Münchener Rück Italia and VICTORIA Leben respectively.

The remaining other intangible assets include rights equivalent to real property amounting to €1m (4m).

(3) Real estate

All figures in €m	2004	2003
Gross amount capitalised at 31.12. previous year	11,200	11,371
Accumulated depreciation at 31.12. previous year	1,125	1,523
Carrying amount at 31.12. previous year	10,075	9,848
Translation differences	–	–21
Carrying amount at 1.1. business year	10,075	9,827
Change in consolidated group	–18	84
Additions	282	1,187
Disposals	59	746
Write-ups	4	–
Depreciation		
– Amortisation	338	99
– Writedowns for impairments	217	178
Reallocation	–683	–
Carrying amount at 31.12. business year	9,046	10,075
Accumulated depreciation at 31.12. business year	1,460	1,125
Gross amount capitalised at 31.12. business year	10,506	11,200

In the business year 2004, real estate occupied by Munich Reinsurance Company was reallocated to the item "other assets".

Real estate pledged as security and other restrictions on title amount to €688m (1,152m). The expenses for investments under construction total €71m (68m) at the balance sheet date. Commitments to acquire real estate amount to €124m (221m).

The fair value of real estate at the balance sheet date totals €11,497m (11,630m). The fair value is determined as follows: For directly held real estate, the capitalised earnings value is calculated by internal experts in accordance with the Statutory Order on Valuation. Sites where the construction project has not yet been completed are valued at cost. The valuation is performed for each site individually as at 31 December 2004 except where valuation units are formed. For real estate held through real estate companies, the fair values are determined in accordance with the statutory regulations by internal or external experts.

The maximum useful life for buildings was reduced in the year under review to 50 years, which resulted in an increase in depreciation of €242m.

(4) Investments in affiliated enterprises and associated enterprises

All figures in €m	31.12.2004	Prev. year
Affiliated enterprises	158	157
Associated enterprises	3,725	4,196
Total	**3,883**	**4,353**

The fair value of investments in associated enterprises, which are mostly valued at equity, amounts to €4,191m (4,596m) at the balance sheet date.

An overview of our most important shareholdings can be found on page 195 ff.

(5) Loans

All figures in €m	Carrying amounts 31.12.2004	Prev. year
Mortgage loans	6,509	6,644
Loans and advance payments on insurance policies	692	721
Other loans	13,109	8,681
Total	**20,310**	**16,046**

The fair values of the loans at the balance sheet date amounted to €21,259m (15,876m). The "other loans" include loans to affiliated enterprises totalling €45m (41m) and loans to associated enterprises totalling €611m (688m).

Contractual period to maturity All figures in €m	Carrying amounts 31.12.2004	Prev. year
Up to one year	1,260	1,361
Over one year and up to two years	956	1,273
Over two years and up to three years	1,179	1,082
Over three years and up to four years	870	1,097
Over four years and up to five years	1,083	1,021
Over five years and up to ten years	9,696	6,563
Over ten years	5,266	3,649
Total	**20,310**	**16,046**

(6) Other securities, held to maturity

Issuers All figures in €m	Carrying amounts 31.12.2004	Prev. year	Fair values 31.12.2004	Prev. year
Government bonds				
– Germany	23	8	23	8
– Rest of EU	14	14	14	14
– Others	–	–	–	–
Corporate bonds	525	634	555	662
Others	–	91	–	91
Total	**562**	**747**	**592**	**775**

Contractual period to maturity All figures in €m	Carrying amounts 31.12.2004	Prev. year	Fair values 31.12.2004	Prev. year
Up to one year	82	125	84	126
Over one year and up to two years	164	109	171	115
Over two years and up to three years	41	93	44	98
Over three years and up to four years	66	94	71	99
Over four years and up to five years	43	87	45	92
Over five years and up to ten years	166	227	177	233
Over ten years	–	12	–	12
Total	**562**	**747**	**592**	**775**

Rating on fair-value basis

All figures in €m	31.12.2004	Prev. year
AAA	23	26
AA	73	99
A	226	251
BBB and lower	74	78
No rating	196	321
Total	**592**	**775**

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

(7) Other securities, available for sale

	Carrying amounts		Unrealised gains/losses		Amortised cost	
All figures in €m	31.12.2004	Prev. year	31.12.2004	Prev. year	31.12.2004	Prev. year
Fixed-interest securities						
– Government bonds						
– Germany	15,478	19,545	507	176	14,971	19,369
– Rest of EU	18,422	14,632	561	182	17,861	14,450
– USA	3,178	3,378	–16	–29	3,194	3,407
– Others	4,290	4,282	259	168	4,031	4,114
– Corporate bonds	35,090	35,575	1,674	1,143	33,416	34,432
– Others	25,812	21,421	779	320	25,033	21,101
	102,270	98,833	3,764	1,960	98,506	96,873
Non-fixed-interest securities						
– Shares	19,950	20,569	4,342	4,627	15,608	15,942
– Investment funds						
– Equity funds	914	802	119	54	795	748
– Bond funds	490	794	26	23	464	771
– Real estate funds	339	391	23	29	316	362
– Others	993	978	166	196	827	782
	22,686	23,534	4,676	4,929	18,010	18,605
Total	**124,956**	**122,367**	**8,440**	**6,889**	**116,516**	**115,478**

The corporate bonds mainly comprise mortgage bonds with a high credit rating.

Items pledged as security and other restrictions on title amount to €6,257m (8,212m).

Measurement at fair value results in valuation reserves of €8,440m (6,889m) in comparison with amortised costs. After deduction of provisions for deferred premium refunds, deferred taxes, minority interests and consolidation effects, we have allocated unrealised gains and losses of €4,441m (4,431m) to shareholders' equity (other reserves).

Disposal proceeds in the business year were as follows:

All figures in €m	2004	Prev. year
Fixed-interest securities	48,994	53,606
Non-fixed-interest securities		
– Listed	11,629	11,188
– Non-listed	990	264
Total	**61,613**	**65,058**

Realised gains and losses

All figures in €m	2004	Prev. year
Gains on disposal	2,835	4,893
– Fixed-interest securities	692	1,738
– Non-fixed-interest securities	2,143	3,155
Losses on disposal	495	1,624
– Fixed-interest securities	149	337
– Non-fixed-interest securities	346	1,287
Total	**2,340**	**3,269**

Contractual period to maturity of fixed-interest securities	Carrying amounts		Amortised cost	
All figures in €m	31.12.2004	Prev. year	31.12.2004	Prev. year
Up to one year	8,460	9,761	8,418	9,696
Over one year and up to two years	6,895	10,817	6,795	10,576
Over two years and up to three years	9,089	9,194	8,875	8,989
Over three years and up to four years	9,592	9,320	9,326	9,112
Over four years and up to five years	9,021	8,677	8,687	8,483
Over five years and up to ten years	34,101	30,968	32,728	30,298
Over ten years	25,112	20,096	23,677	19,719
Total	**102,270**	**98,833**	**98,506**	**96,873**

Rating of fixed-interest securities on fair-value basis

All figures in €m	31.12.2004	Prev. year
AAA	60,524	58,767
AA	27,977	24,364
A	8,137	10,043
BBB	3,973	3,847
Lower	335	274
No rating	1,324	1,538
Total	**102,270**	**98,833**

(8) Other securities, held for trading

The securities held for trading include fixed-interest securities totalling €304m (251m), non-fixed-interest securities totalling €53m (104m) and derivatives totalling €300m (193m).

Derivative financial instruments

Derivative financial instruments (derivatives) are financial instruments whose fair value is derived from one or more underlying assets.

A distinction is made between "over-the-counter" (OTC) products and standardised transactions concluded on the stock exchange.

Derivatives are used at the individual Group companies within the framework of individual supervisory regulations and additional company directives. They are used to optimise investment earnings, with the main focus being on hedging investment portfolios against unfavourable market developments.

The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, in the Munich Re Group, only top-quality counterparties are selected for such transactions.

Altogether, the volume of the transactions concluded in the period under review and of the open positions at the balance sheet date was negligible in relation to the balance sheet total. The fair value of open positions at 31 December 2004 totalled €249m (113m), i.e. less than 1% (1%) of the balance sheet total. The fair value of items used for hedging purposes amounted to €35m and the fair value of pure trading items to €214m.

The fair values shown in the following table are either listed prices or values at the balance sheet date determined using recognised calculation models.

	Open positions								
	Period to maturity								
All figures in €m	Up to 3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	**Total**
OTC products	Fair values								
Cross-currency transactions									
– Forwards	10	–	–	–	–	–	–	–	**10**
Interest-rate transactions									**–**
– Forward transactions	5	1	–	8	9	6	5	77	**111**
– Swaps	–1	–1	1	5	1	1	12	78	**96**
Credit transactions									
– Swaps	–	–	–	–	–	–	–	–1	**–1**
Equity/index transactions									
– Options	–2	–	–	1	–	–	–	–	**–1**
– Other	–	–	–	–	1	–	–	–	**1**
	12	–	1	14	11	7	17	154	**216**
Exchange traded									
Cross-currency transactions									
– Futures	–	–	–	–	3	–	–	–	**3**
Interest-rate transactions									
– Futures	–1	–	–	–	–	–	–	–	**–1**
Equity/index transactions									
– Futures	–3	–	–	–	–	–	–	–	**–3**
– Options	1	–	–	–	–	83	–	–	**84**
– Other	–	–1	–	–	–	–	–	–49	**–50**
	–3	–1	–	–	3	83	–	–49	**33**
Total	**9**	**–1**	**1**	**14**	**14**	**90**	**17**	**105**	**249**

The corresponding notional principal amounts, which show the scope of the underlying assets, had a volume of €8,244m. The following table shows the notional principal amounts, broken down by product type and period to maturity:

	Open positions								
	Period to maturity								
All figures in €m	Up to 3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	**Total**
OTC products	**Nominal values**								
Cross-currency transactions									
– Forwards	1,676	–	–	–	–	–	–	–	**1,676**
Interest-rate transactions									
– Forward transactions	46	350	–	403	409	60	66	1,286	**2,620**
– Swaps	–	–	–	115	23	10	140	1,791	**2,079**
Credit transactions									
– Swaps	–	–	–	–	–	–	–	10	**10**
Equity/index transactions									
– Options	1,021	39	–	149	–	–	–	–	**1,209**
– Other	–	–	–	–	4	–	–	–	**4**
	2,743	389	–	667	436	70	206	3,087	**7,598**
Exchange traded									
Cross-currency transactions									
– Futures	–	–	–	41	–	–	–	–	**41**
Interest-rate									
– Futures	90	–	–	–	–	–	–	–	**90**
Equity/index transactions									
– Futures	404	–	–	–	–	–	–	–	**404**
– Options	3	–	–	–	–	82	–	–	**85**
– Other	–	19	–	–	–	–	7	–	**26**
	497	19	–	41	–	82	7	–	**646**
Total	**3,240**	**408**	**–**	**708**	**436**	**152**	**213**	**3,087**	**8,244**

The products used for hedging can be divided into cash flow hedges and fair value hedges.

Cash flow hedges are used to reduce the risk of fluctuations in future payments, e.g. those expected from planned transactions. The use of cash flow hedges within the Group is mainly concentrated on the management of interest-rate and currency risks. The fair value of these derivatives at the balance sheet date amounted to €27m.

The following table gives the periods to maturity of cash flow hedges at the balance sheet date:

All figures	Up to 3 months	3–6 months	6–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	**Total**
Notional principal amounts	–	–	–	115	26	10	140	264	**555**

Fair value hedges are used to reduce the market-price risk of current investments. Such fair value hedges are employed within the Group for the selected and efficient hedging of parts of the portfolio against interest-rate risks. The fair value of the derivatives used here amounted to –€2m at the balance sheet date.

(9) Miscellaneous other investments

This item includes deposits with banks totalling €2,829m (1,887m).

(10) Receivables

All figures in €m	31.12.2004	Prev. year
Amounts receivable on primary insurance business	1,052	1,002
– From policyholders	627	650
– From intermediaries	425	352
Accounts receivable on reinsurance business	3,710	3,654
Interest and rent	2,050	2,014
Tax	458	281
Other receivables	1,413	1,224
Total	**8,683**	**8,175**

Contractual period to maturity of receivables All figures in €m	Carrying amounts 31.12.2004	Prev. year
Up to one year	8,479	8,050
Over one year and up to two years	37	94
Over two years and up to three years	7	19
Over three years and up to four years	5	–
Over four years and up to five years	2	–
Over five years and up to ten years	140	2
Over ten years	13	10
Total	**8,683**	**8,175**

(11) Receivables and liabilities in respect of affiliated and associated enterprises

All figures in €m	31.12.2004	Affiliated enterprises Prev. year	31.12.2004	Associated enterprises Prev. year
Deposits retained on assumed reinsurance	–	–	147	123
Accounts receivable	–	–	6	3
Other receivables	27	14	12	17
Deposits retained on ceded business	1	1	–	2
Other liabilities	9	15	311	275

(12) Deferred acquisition costs

We have used interest rates of between 3% and 8% for calculating the deferred acquisition costs, in the same way as in the previous year.

The following table shows the distribution of the deferred acquisition costs between the different Group segments:

All figures in €m*	31.12.2004	Prev. year
Reinsurers	2,260	2,734
– Life and health	1,291	1,651
– Property-casualty	969	1,083
Primary insurers	6,136	5,263
– Life and health	5,683	4,849
– Property-casualty	453	414
Total	**8,396**	**7,997**

*After elimination of intra-Group transactions across segments.

(13) Deferred tax

This involves the following items:

All figures in €m	31.12.2004 Assets	31.12.2004 Liabilities	Prev. year Assets	Prev. year Liabilities
Losses carried forward	1,641	–	1,791	–
Intangible assets	14	252	33	248
Real estate	11	466	8	552
Investments	409	1,456	398	1,357
Underwriting provisions	1,934	1,538	2,174	1,708
Pension provisions	130	1	101	3
Claims equalisation provisions	–	2,587	–	2,426
Others	187	741	635	865
Total	**4,326**	**7,041**	**5,140**	**7,159**

(14) Other assets

These mainly comprise self-occupied property totalling €683m (–), plant and equipment and inventories totalling €339m (331m) and deferred items of €392m (409m). The fair value of the real estate at the balance sheet date amounted to €760m. Further information is provided under Note 3.

Notes to the consolidated balance sheet – Equity and liabilities

(15) Shareholders' equity

The total share capital of €587,725,396.48 as at 31 December 2004 is divided into 229,580,233 registered shares, each fully paid up and entitled to one vote.

By resolution of the Annual General Meeting on 11 June 2003, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 11 December 2004. This authorisation was cancelled by the Annual General Meeting on 26 May 2004 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 25 November 2005.

On 31 December 2004, a total of 1,060,826 Munich Re shares with a calculated nominal value of €2,715,714.56 were held by Group companies. This represents 0.46% of the share capital.

10,000 shares were purchased at an average price of €78.64 for the employee share programme set up by Munich Reinsurance Company in 2004. After subscription by the employees in 2004 and taking into account the 1,559 shares left over from the 2002 employee share programme, a total of 1,436 shares remain. In addition, one subsidiary holds 803,269 shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Re executives since 2000.

2,739 shares remained in the portfolio of ERGO Versicherungsgruppe AG from the ERGO Insurance Group's employee share programme in the business year 2002. In the business year 2004, companies of the ERGO Group acquired 1,651 shares at a price of €96.30 each and a further 60,712 shares at a price of €90.03 each to cover future commitments from the long-term incentive plans launched at 1 July in 2004 and 2003. Together with the remaining Munich Re shares acquired to safeguard the stock appreciation rights granted in 2002 and 2003, the ERGO Group has a total portfolio of 251,921 shares.

Europäische Reiseversicherung AG also acquired a further 3,200 Munich Re shares at a price of €91.00 per share in the year under review to safeguard future obligations from the long-term incentive plan it set up on 1 July 2003. As at 31 December 2004, together with the shares acquired in 2003 to safeguard the long-term incentive plans, it had a total portfolio of 4,200 shares.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the business year totalled €157,519,934.32.

On 26 May 2004, the Annual General Meeting voted to replace Authorised Capital Increase 2002, which amounted to €89,662,858.24 following its partial utilisation, by a new amount of €280m (Authorised Capital Increase 2004).

The capital authorised for capital increases is thus as follows:

All figures in €m	31.12.2004
Authorised Capital Increase 2004 (until 25 May 2009)	280.0
Authorised Capital Increase 2001 (until 18 July 2006)	3.8
Total	**283.8**

The contingent capital is as follows:

All figures in €m	31.12.2004
To safeguard subscription rights from exercise of warrants (Contingent Capital Increase 2003 I)	35
To safeguard conversion rights or subcription rights from convertible bonds with warrants (Contingent Capital Increase 2003 II)	100
Total	**135**

Changes in shareholders' equity

The shareholders' equity is made up as follows:

	31.12.2004	Prev. year
Issued capital	588	588
Capital reserves	6,800	6,800
Revenue reserves	7,018	7,823
Other reserves	3,957	4,122
Consolidated profit	1,833	–434
Total shareholders' equity	20,196	18,899

The "other reserves" include €150m (48m) unrealised gains and losses resulting from valuation of associated enterprises at equity and €4,471m (4,463m) unrealised gains and losses on investments in non-consolidated affiliated enterprises and other securities. The unrealised gains and losses apportionable to non-consolidated affiliated enterprises and other securities are distributed between the different items as follows:

Unrealised gains and losses

All figures in €m	31.12.2004	Prev. year
Unconsolidated affiliated enterprises	33	35
Securities available for sale – Fixed-interest	3,764	1,960
– Non-fixed-interest	4,676	4,929
Less: – Provision for deferred premium refunds	3,279	1,924
– Deferred taxes	721	482
– Minority interests	87	61
– Consolidation effects	–85	–6
Total	**4,471**	**4,463**

(16) Minority interests

These are mainly minority interests in the ERGO Insurance Group and the Karlsruher Insurance Group.

All figures in €m	31.12.2004	Prev. year
Unrealised gains and losses	87	62
Consolidated profit	59	–34
Other equity components	395	455
Total	**541**	**483**

(17) Subordinated liabilities

All figures in €m	31.12.2004	Prev. year
Munich Re Finance B.V., Amsterdam, 6.75%, €3,000m, Bonds 2003/2023	2,973	2,969
Munich Re Finance B.V., Amsterdam, 7.625%, £300m, Bonds 2003/2028	420	421
Total	**3,393**	**3,390**

(18) Unearned premiums

All figures in €m	31.12.2004	Prev. year
Gross	5,874	6,315
Ceded share	320	334
Net	5,554	5,981

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

All figures in €m*	31.12.2004	Prev. year
Reinsurers	4,291	4,823
– Life and health	218	275
– Property-casualty	4,073	4,548
Primary insurers	1,263	1,158
– Life and health	80	75
– Property-casualty	1,183	1,083
Total	**5,554**	**5,981**

*After elimination of intra-Group transactions across segments.

(19) Provision for future policy benefits

All figures in €m	31.12.2004	Prev. year
Gross	101,926	98,134
Ceded share	2,782	3,016
Net	99,144	95,118

The provisions for future policy benefits are determined on the basis of prudent assumptions regarding expected mortality and morbidity. In particular, the measurement of the provisions for annuity insurances takes into account the future trend with regard to life expectancy in accordance with accounting regulations.

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

All figures in €m*	31.12.2004	Prev. year
Reinsurers	6,949	6,118
– Life and health	6,317	5,504
– Property-casualty	632	614
Primary insurers	92,195	89,000
– Life and health	92,035	88,868
– Property-casualty	160	132
Total	**99,144**	**95,118**

*After elimination of intra-Group transactions across segments.

In calculating the provision for future policy benefits, interest rates of between 3% and 8% have been used, in the same way as in the previous year.

(20) Provision for outstanding claims

All figures in €m	31.12.2004	Prev. year
Gross	42,839	42,619
Ceded	3,749	4,576
Net	39,090	38,043

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

All figures in €m*	31.12.2004	Prev. year
Reinsurers	32,584	32,179
– Life and health	4,858	4,407
– Property-casualty	27,726	27,772
Primary insurers	6,506	5,864
– Life and health	2,025	1,837
– Property-casualty	4,481	4,027
Total	**39,090**	**38,043**

*After elimination of intra-Group transactions across segments.

The table below shows the provisions for outstanding claims in property-casualty business for the primary insurers and reinsurers for the last ten years. This covers virtually 100% of the total claims provisions of the Group. What the table considers is not the run-off of the provisions for individual accident years, but the run-off of the provision posted at each balance sheet date, which contains the provisions for the respective current accident year and for all previous accident years. The figures for the years 1997 and earlier were determined on the basis of the relevant national accounting regulations; the figures for the years 1998 to the present have been based on International Financial Reporting Standards.

The table illustrates how the estimate of the respective balance sheet provision has changed in the course of time – owing partly to payments made and partly to the re-estimate of the outstanding payments. The net run-off result reflects the difference between the current and original estimate. It is often materially affected by changes in exchange rates. The fluctuations in the value of important foreign currencies for us (mainly the US dollar and the pound sterling) against the euro led to significant changes in the provisions. On the other hand, there have been corresponding changes in the value of investments as a consequence of our consistent currency matching policy. In particular, the strengthening of reserves in our US business at American Re has had a negative impact on the results.

Net claims provisions and their run-off in €m	31.12. 1994	31.12. 1995	31.12. 1996	31.12. 1997	31.12. 1998	31.12. 1999	31.12. 2000	31.12. 2001	31.12. 2002	31.12. 2003	31.12. 2004
Net provision for outstanding claims	15,780	16,855	18,096	19,681	19,546	23,209	24,334	29,665	33,091	31,818	32,201
Aggregate payments for the year concerned and previous year											
One year later	3,474	3,882	4,740	4,305	5,430	7,384	7,381	8,658	7,637	7,053	
Two years later	5,547	6,720	6,833	7,191	9,281	11,685	12,258	13,319	12,067		
Three years later	7,640	8,084	8,694	9,731	11,721	14,987	14,991	16,251			
Four years later	8,591	9,450	10,299	11,242	13,777	16,836	17,062				
Five years later	9,645	10,788	11,589	12,649	15,000	18,289					
Six years later	10,773	11,679	12,686	13,599	15,983						
Seven years later	11,543	12,599	13,496	14,229							
Eight years later	12,358	13,262	13,855								
Nine years later	12,942	13,433									
Ten years later	12,957										
Net provision for the year concerned and previous years, plus payments already made from the original provision	15,780	16,855	18,096	19,681	19,546	23,209	24,334	29,665	33,091	31,818	32,201
One year later	15,173	17,003	18,579	17,883	20,487	24,564	26,589	32,220	31,911	32,268	
Two years later	15,462	17,460	17,451	18,342	21,031	25,666	28,661	32,437	32,158		
Three years later	16,038	16,232	17,759	18,368	21,339	27,225	28,511	32,495			
Four years later	15,258	16,651	17,660	18,509	22,556	26,765	28,980				
Five years later	15,668	16,410	17,774	19,382	21,891	26,972					
Six years later	15,571	16,516	18,421	18,566	22,055						
Seven years later	15,754	16,976	17,755	18,649							
Eight years later	16,079	16,340	17,754								
Nine years later	15,444	16,314									
Ten years later	15,367										
Net run-off result of claims provisions	413	541	342	1,032	–2,509	–3,763	–4,646	–2,830	933	–450	
Thereof: Currency translation differences	–44	–1,152	–1,206	334	–1,316	–689	–161	1,897	2,282	49	
Net run-off result excluding currency translation differences	457	1,693	1,548	698	–1,193	–3,074	–4,485	–4,727	–1,349	–499	

Provisions for asbestos and environmental claims

Since the mid-eighties industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. In particular, these include claims under product liability policies in the USA involving asbestos-related injuries which manifest themselves after a long latency period. There are also potential claims burdens under employers' liability policies, especially in some European countries. In addition, we have posted provisions for claims under old general liability policies which provided cover against environmental liability claims under US law.

We have made timely provision for our share of these losses, continually adjusting our reserves in line with the latest knowledge of the loss potential. In the light of incurred developments, American Re increased its net reserves for asbestos losses in 2004 by US$ 180m.

Altogether, at the present time we believe our provisions for these claims complexes to be adequate.

Nevertheless, further loss burdens – particularly from asbestos-related claims – cannot be ruled out. In view of the unpredictable nature of court decisions in the markets concerned, it continues to be difficult to make reliable estimates of future development.

Provisions for asbestos and environmental claims:*

All figures in €m	31.12.2004 Gross	31.12.2004 Net	31.12.2003 Gross	31.12.2003 Net	31.12.2002 Gross	31.12.2002 Net
Asbestos	1,219	947	1,080	842	1,156	896
Environmental	365	303	400	335	574	505

*The previous years' figures have been adjusted to take account of currency translation differences.

(21) Other underwriting provisions

All figures in €m	31.12.2004 Gross	31.12.2004 Ceded	31.12.2004 Net	Prev. year Gross	Prev. year Ceded	Prev, year Net
Provision for premium refunds	8,528	58	8,470	6,794	67	6,727
Miscellaneous	796	53	743	694	42	652
Total	**9,324**	**111**	**9,213**	**7,488**	**109**	**7,379**

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

All figures in €m	31.12.2004	Prev. year
Primary insurers – Life and health	8,424	6,725
– Property-casualty	46	2
Total	**8,470**	**6,727**

The net provision for premium refunds showed the following development:

All figures in €m	2004	2003
a) Amounts allocated on the basis of national regulations (gross) Status at 1.1. business year	3,004	3,798
Allocations/withdrawals	–287	–794
Status at 31.12. business year	2,717	3,004
b) Provision for deferred premium refunds (gross) Status at 1.1. business year	3,790	3,290
Change resulting from unrealised gains and losses on investments	1,553	–797
Change resulting from revaluations	468	1,297
Status at 31.12. business year	5,811	3,790
Total (gross)	8,528	6,794
Ceded share	58	67
Total (net)	**8,470**	**6,727**

A total of €232m (313m) was credited directly to life insurance policyholders in the business year.

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

All figures in €m*	31.12.2004	Prev. year
Reinsurers	589	525
– Life and health	408	369
– Property-casualty	181	156
Primary insurers	154	127
– Life and health	85	64
– Property-casualty	69	63
Total	**743**	**652**

*After elimination of intra-Group transactions across segments.

(22) Other accrued liabilities

All figures in €m	31.12.2004	Prev. year
Provisions for post-employment benefits	945	879
Tax provisions	1,084	1,319
Other provisions	1,421	1,379
Total	**3,450**	**3,577**

Provisions for post-employment benefits

The companies in the Munich Re Group generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan.

Defined contribution plans

Expenses for defined contribution plans in the year under review totalled €29m (27m).

Defined benefit plans

The financing status of the defined benefit plans is as follows:

Al figures in €m	31.12.2004	Prev. year
– Present value of unfunded obligations	1,030	874
– Present value of funded obligations	729	712
Fair value of plan assets	–609	–553
Actuarial gains/losses not recognised	–249	–211
Past service cost not yet recognised	–2	–1
Other receivables	46	58
Net balance sheet liability	**945**	**879**

There are reinsurances for pension entitlements amounting to €59m (58m) (repayment claims).

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

All figures in €m	2004	Prev. year
Status at 1 January	879	1,138
Translation differences	–6	–20
Expenses (see below)	134	129
Payments	–48	–92
Capital transfer of Munich Reinsurance Company to CTA model	–	–334
Transfer to other receivables	–12	58
Other	–2	–
Status at 31 December	**945**	**879**

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

All figures in €m	2004	Prev. year
Current service cost	67	57
Interest cost	86	80
Expected return on plan assets	31	19
Expected return on reimbursements	2	1
Net actuarial gains/losses recognised in year	8	4
Past service cost	7	12
Other	–1	–4
Total	**134**	**129**

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

Tax provisions

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

Other provisions

All figures in €m	Prev. year	Allocations	Withdrawals	Reversal	Other changes	31.12.2004
Earned commission	183	205	109	21	–3	255
Early-retirement benefits/semi-retirement	135	91	30	24	–	172
Outstanding invoices	126	78	102	21	2	83
Bonuses	55	50	41	7	–	57
Anniversary benefits	52	6	1	5	–	52
Holiday and overtime pay	40	32	29	–	–	43
Miscellaneous	788	319	263	83	–2	759
Total	**1,379**	**781**	**575**	**161**	**–3**	**1,421**

The miscellaneous other provisions comprise a large number of different items, including €36.4m for salary obligations, €26.2m for competitions for sales staff, €16.1m for other remuneration for desk and field staff, €10.2m for financial statement and reporting expenses, €8.4m for social insurance against occupational accidents, and €7.0m for severance pay.

(23) Notes and debentures

All figures in €m	31.12.2004	Prev. year
American Re Corporation, Princeton 7.45%, US$ 500m, Senior Notes 1996/2026	367	396
ERGO International AG, Düsseldorf 2.25%, €345m, Bonds Exchangeable into E.ON AG Shares 2001/2006 0.75%, €345m, Bonds Exchangeable into Aventis AG Shares 2001/2006	652	647
Munich Reinsurance Company, Munich 1.0%, €1,150m, Bonds Exchangeable into Allianz AG Shares 2000/2005	1,223	1,166
Total	**2,242**	**2,209**

The exchangeable bonds of ERGO International AG and Munich Reinsurance Company contain embedded derivatives in the form of conversion options. In accordance with IAS 39 they have each been separated into a derivative component and a liabilities component. Only the liabilities components are shown under "notes and debentures", whilst the derivative components amounting to €16m are included in "other liabilities".

The bonds' ratings are given on page 82.

(24) Other liabilities

All figures in €m	31.12.2004	Prev. year
Deposits retained on ceded business	2,900	4,186
Accounts payable on primary insurance business	5,993	6,111
Accounts payable on reinsurance business	3,243	2,164
Amounts owed to banks	2,519	3,035
Miscellaneous liabilities	1,957	2,602
Total	**16,612**	**18,098**

€197m (185m) of the other liabilities is apportionable to tax liabilities, €39m (41m) to liabilities for social security, and €153m (212m) to liabilities for interest and rent.

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

All figures in €m	31.12.2004	Prev. year
Up to one year	13,077	15,601
Over one year and up to two years	760	245
Over two years and up to three years	70	1,416
Over three years and up to four years	35	120
Over four years and up to five years	305	–
Over five years and up to ten years	572	402
Over ten years	1,793	314
Total	**16,612**	**18,098**

Also included here are the derivative components of the exchangeable bonds of ERGO International AG and Munich Reinsurance Company totalling €16m. Further information on this is provided in Note 23.

(25) Other deferred items

This comprises miscellaneous deferred amounts.

Notes to the consolidated income statement

(26) Premiums

All figures in €m*	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
	2004	Prev. year	2004	Prev. year	2004	Prev. year	2004	Prev. year	2004	Prev. year
Gross premiums written	6,583	5,907	13,988	16,909	12,322	12,541	5,178	5,074	38,071	40,431
Ceded premiums	277	310	939	1,212	231	303	296	307	1,743	2,132
Net premiums written	6,306	5,597	13,049	15,697	12,091	12,238	4,882	4,767	36,328	38,299
Change in unearned premiums – Gross amount	34	–195	245	–373	–6	–2	–56	–45	217	–615
– Ceded share	2	3	–10	–6	–1	–1	–2	–63	–11	–67
– Net amount	36	–192	235	–379	–7	–3	–58	–108	206	–682
Net earned premiums	6,342	5,405	13,284	15,318	12,084	12,235	4,824	4,659	36,534	37,617

*After elimination of intra-Group transactions across segments.

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

(27) Investment result

All figures in €m	2004	Prev. year
Real estate	194	370
Investments in affiliated enterprises	–36	23
Investments in associated enterprises	–331	–853
Mortgage loans and other loans	1,009	886
Other securities held to maturity	36	47
Other securities available for sale – Fixed-interest	4,886	5,497
– Non-fixed-interest	2,143	1,806
Other securities held for trading – Fixed-interest	–2	19
– Non-fixed-interest	1	–368
– Derivatives	90	–303
Other investments	575	551
Expenses for the management of investments, other expenses	524	544
Total	**8,041**	7,131

The real estate result includes rental income of €663m, (769m). The expenses for the management of investments include running costs and expenses for repair and maintenance of real estate totalling €121m (174m).

The result of investments in associated enterprises for 2004 was negatively affected by a gross amount of €459m for our proportionate share of HVB's special writedown of €2.5bn in the fourth quarter 2004, the accounts being drawn up to the same date.

On “loans” and “other securities held to maturity”, we earned interest income of €911m and €36m respectively.

All figures in €m*	Reinsurance Life and health 2004	Prev. year	Property-casualty 2004	Prev. year	Primary insurance Life and health 2004	Prev. year	Property-casualty 2004	Prev. year	Asset management 2004	Prev. year	Total 2004	Prev. year
Investment income Regular income	1,234	1,291	1,507	1,308	4,368	4,392	348	311	41	26	7,498	7,328
Income from write-ups	24	73	105	301	139	156	7	17	–	–	275	547
Gains on the disposal of investments	264	335	1,218	1,520	1,642	3,395	173	141	7	4	3,304	5,395
Other income	12	–	–	1	66	87	2	13	1	5	81	106
	1,534	1,699	2,830	3,130	6,215	8,030	530	482	49	35	11,158	13,376
Investment expenses Writedowns on investments	56	70	323	331	577	1,150	69	173	25	–	1,050	1,724
Losses on the disposal of investments	79	147	205	704	601	1,915	77	144	3	1	965	2,911
Management expenses, interest charges and other expenses	85	80	282	316	671	1,018	54	184	10	12	1,102	1,610
	220	297	810	1,351	1,849	4,083	200	501	38	13	3,117	6,245
Total	**1,314**	1,402	**2,020**	1,779	**4,366**	3,947	**330**	–19	**11**	22	**8,041**	7,131

*After elimination of intra-Group transactions across segments.

Writedowns on investments involve the following categories:

All figures in €m	2004	Prev. year
Category		
Real estate	498	277
Investments in affiliated enterprises	13	20
Investments in associated enterprises	1	18
Loans	11	32
Other securities available for sale	–	2
Other securities held for trading	355	849
Other investments	172	526
Total	**1,050**	**1,724**

(28) Other income

In addition to foreign currency exchange gains of €400m (440m), the other income mainly includes income from services rendered of €283m (306m), interest and similar income of €111m (145m), and income from the reversal/reduction of miscellaneous provisions and adjustments of values for receivables.

(29) Net expenses for claims and benefits

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	2004	Prev. year	2004	Prev. year	2004	Prev. year	2004	Prev. year	2004	Prev. year
Gross										
Claims expenses										
– Claims and benefits paid	3,965	1,871	9,326	10,334	10,387	10,675	2,736	2,802	26,414	25,682
– Change in provision for outstanding claims	478	2,195	710	944	159	447	259	169	1,606	3,755
Change in other underwriting provisions										
– Provision for future policy benefits	656	748	18	4	2,432	1,443	23	27	3,129	2,222
– Other	194	4	69	27	89	57	5	6	357	94
Expenses for premium refunds	–1	–2	1	4	1,023	2,155	17	19	1,040	2,176
Total expenses for claims and benefits	5,292	4,816	10,124	11,313	14,090	14,777	3,040	3,023	32,546	33,929
Ceded share										
Claims expenses										
– Claims and benefits paid	502	155	1,152	1,230	118	162	147	285	1,919	1,832
– Change in provisions for outstanding claims	–175	64	–677	–691	–5	–11	37	41	–820	–597
Change in other underwriting provisions										
– Provisions for future policy benefits	–308	75	–	–8	134	115	–	–	–174	182
– Other	–1	–	–	–3	–13	29	–2	1	–16	27
Expenses for premium refunds	–	–	–1	–4	1	1	1	1	1	–2
Total expenses for claims and benefits	18	294	474	524	235	296	183	328	910	1,442
Net										
Claims expenses										
– Claims and benefits paid	3,463	1,716	8,174	9,104	10,269	10,513	2,589	2,517	24,495	23,850
– Change in provisions for outstanding claims	653	2,131	1,387	1,635	164	458	222	128	2,426	4,352
Change in other underwriting provisions										
– Provision for future policy benefits	964	673	18	12	2,298	1,328	23	27	3,303	2,040
– Other	195	4	69	30	102	28	7	5	373	67
Expenses for premium refunds	–1	–2	2	8	1,022	2,154	16	18	1,039	2,178
Total expenses for claims and benefits	**5,274**	**4,522**	**9,650**	**10,789**	**13,855**	**14,481**	**2,857**	**2,695**	**31,636**	**32,487**

*After elimination of intra-Group transactions across segments.

(30) Net operating expenses

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	2004	Prev. year	2004	Prev. year	2004	Prev. year	2004	Prev. year	2004	Prev. year
Acquisition costs										
– Amounts paid	1,663	1,562	3,040	3,749	1,840	1,697	1,014	974	7,557	7,982
– Change in deferred acquisition costs (gross)	–230	–110	22	–18	–281	–549	–16	–12	–505	–689
	1,433	1,452	3,062	3,731	1,559	1,148	998	962	7,052	7,293
Management expenses	229	202	715	660	516	524	700	705	2,160	2,091
Amortisation PVFP	4	3	–	–	96	40	–	–	100	43
Gross operating expenses	1,666	1,657	3,777	4,391	2,171	1,712	1,698	1,667	9,312	9,427
Ceded share	141	53	197	198	63	106	64	73	465	430
Net operating expenses	1,525	1,604	3,580	4,193	2,108	1,606	1,634	1,594	8,847	8,997

*After elimination of intra-Group transactions across segments.

(31) Other expenses

In addition to foreign currency exchange losses of €589m (727m), the other expenses mainly include expenses for services rendered of €183m (238m), interest and similar expenses of €622m (562m), writedowns of €209m (84m), and other tax of €37m (41m).

(32) Taxes on income

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

Taxes on income are made up as follows:

All figures in €m	2004	Prev. year
Current tax	389	683
Germany	191	530
Other countries	198	153
Deferred tax	323	1,069
Germany	350	992
Other countries	–27	77
Taxes on income	712	1,752

The current and deferred taxes on income mainly result from the following:

All figures in €m	2004	Prev. year
Current tax for business year	544	595
Current tax for other periods	–155	88
Deferred tax resulting from the occurrence or reversal of temporary differences	265	993
Deferred tax resulting from the occurrence or reversal of loss carry-forwards	165	–316
Effects of changes in tax rates on deferred tax	–107	392
Taxes on income	712	1,752

The current tax is derived from the tax results of the business year, to which the local tax rates of the respective subsidiaries are applied. Deferred tax is also calculated using the respective local tax rates. Sometimes for simplicity's sake we use uniform tax rates for individual circumstances or subsidiaries. Changes in tax rates and tax legislation that have already been adopted by the government at the balance sheet date are generally taken into account.

Deferred tax assets are recognised for unused loss carry-forwards to the extent that it is probable that future taxable profit will be available against which the loss carry-forwards can be utilised

The following table shows the reconciliation between the expected taxes on income and the tax on income actually shown. The expected tax expenses are calculated by multiplying the operating result before taxes on income (but after "other tax") by the Group tax rate. The Group tax rate amounts to 40%. This takes into account corporation tax including solidarity surcharge, and a mixed trade-tax rate.

All figures in €m	2004	Prev. year
Result before taxes on income (after "other tax")	2,604	1,284
Group tax rate in %	40.0	40.0
Derived taxes on income	1,042	514
Tax effect of Tax rate differences	–49	–30
Tax-free income	–338	–696
Non-deductible expenses	159	1,332
Changes in tax rates and tax legislation	–107	392
Tax for prior years	–121	88
Municipal trade earnings tax	52	16
Miscellaneous	74	136
Taxes on income shown	712	1,752

The effective tax burden is the ratio between the taxes on income shown and the result before taxes on income (but after "other tax"). In the previous year there was tax relief of 136%. In the current business year the ratio shows tax burden of 27%.

"Tax-free income" is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividend income and other tax-free income. The non-deductible expenses mainly include writedowns on non-fixed-interest securities available for sale. In addition, they contain non-deductible amortisation of goodwill and other non-deductible expenses.

The item "municipal trade earnings tax" includes the differences between the trade-tax rate applied by the respective Group companies and the Group mixed trade-tax rate.

No deferred taxes were calculated on retained earnings of affiliated enterprises, as there is no intention of distributing these earnings in the foreseeable future.

Other information

(33) Parent company

The parent company of the Munich Re Group is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich), Königinstrasse 107, 80802 München. Its registered seat is Munich, Federal Republic of Germany. In addition to its function as a reinsurer, the parent company also fulfils the function of holding company for the Group.

(34) Related parties

HypoVereinsbank AG, one of the largest German private banks, continues to be an associated and related party of Munich Reinsurance Company. On 1 March 2004, HypoVereinsbank AG carried out a capital increase, in which companies of the Munich Re Group did not participate. As a consequence, the Munich Re Group's stake in the bank's share capital is down to 18.4% as at 31 December 2004. For its part, the HVB Group held around 10% of Munich Reinsurance Company's voting capital.

Dr. Lothar Meyer, Chairman of ERGO's Board of Management, has been a member of HypoVereinsbank AG's Supervisory Board since 23 May 2002. Dr. Hans-Jürgen Schinzler, Chairman of Munich Re's Board of Management until 31 December 2003 and since 2 January 2004 member of its Supervisory Board, has been a member of HypoVereinsbank's Supervisory Board since 3 March 2003. Dr. Albrecht Schmidt, Chairman of HypoVereinsbank AG's Supervisory Board since 7 January 2003, was a member of Munich Re's Supervisory Board in the business year 2004. Members of Munich Re and HypoVereinsbank hold seats on the boards of further companies in each other's Groups in a few instances.

Relations between Munich Re and HypoVereinsbank are given documented form in a general agreement. This agreement deals in particular with cooperation activities. On the basis of individual cooperation agreements, companies of the Munich Re Group sell selected HVB Group products. Similarly, staff of various companies of the HVB Group market insurance products of VICTORIA, in which the other ERGO companies participate via reinsurance or coinsurance. The cooperation agreements between companies of the Munich Re Group and the companies of the HVB Group are concluded at market conditions.

There are further contractual relations between companies of the Munich Re Group and the HVB Group in connection with the normal running of business, such as the conclusion of insurance policies for own risks (e.g. buildings insurance policies).

(35) Personnel expenses

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

All figures in €m	2004	Prev. year
Wages and salaries	2,259	2,160
Social security contributions and employee assistance	382	387
Expenses for employees' pensions	209	197
Total	**2,850**	**2,744**

(36) Long-term incentive plans

As at 1 July in the years 1999 to 2004, 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 Reinsurance Company'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 onwards) 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 456,336 (459,398) stock appreciation rights were granted, 133,803 (139,698) of these to members of the Board of Management. Munich Re shares have been acquired to cover future obligations arising from the long-term incentive plans.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in Munich Re's share price. At each balance sheet date, the intrinsic value is calculated and reserved as the difference between Munich Re's share price and the initial share price for the stock appreciation rights; during the two-year vesting period, the amount to be reserved is recognised pro rata temporis. The personnel expenses recognised therefore correspond to the change in the provision in the year under review, taking into account any rights exercised.

In the year under review, provisions of €3.2m (1.5m) had to be posted for the reinsurers in the Munich Re Group; the personnel expenses totalled €1.7m (1.5m).

The fair value of the all stock appreciation rights at the balance sheet date amounted to €11.7m (4.6m) for the Group's reinsurers. This figure takes into account not only the intrinsic value but also the possibility of value growth up to the data of expiry of the rights and is determined with reference to the exercise conditions on the basis of recognised pricing models.

Incentive plans 1999–2004 of the Munich Re Group reinsurers

	Incentive Plan 1999	Incentive Plan 2000	Incentive Plan 2001	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004
Plan commencement	1.7.1999	1.7.2000	1.7.2001	1.7.2002	1.7.2003	1.7.2004
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	€88.65
Intrinsic value 2004 for one right	–	–	–	–	€8.98	€2.35
Fair value 2004 for one right	€0.41	€0.09	€0.36	€2.04	€25.82	€25.15
Number of rights on 31 December 1999	110,840	–	–	–	–	–
Additions	9,045	74,636	–	–	–	–
Number of rights on 31 December 2000	119,885	74,636	–	–	–	–
Additions	–	5,946	109,474	–	–	–
Exercised	34,240	–	–	–	–	
Number of rights on 31 December 2001	85,645	80,582	109,474	–	–	–
Additions	–	–	270	132,466	–	–
Exercised	6,977	–	–	–	–	–
Forfeited	–	321	443	–	–	–
Number of rights on 31 December 2002	78,668	80,261	109,301	132,466	–	–
Additions	4,009	3,793	5,319	6,696	439,581	–
Exercised	–	–	–	–	–	–
Forfeited	3,696	6,199	7,192	3,962	–	–
Number of rights on 31 December 2003	78,981	77,855	107,428	135,200	439,581	–
Additions	–	–	–	–	–	456,336
Exercised	–	–	–	–	–	–
Forfeited	–	438	600	748	2,354	–
Number of rights on 31 December 2004	78,981	77,417	106,828	134,452	437,227	456,336
Exercisable at year-end	78,981	77,417	106,828	134,452	–	–

As at 1 July in the years 2002 to 2004 , the ERGO Insurance Group and some of its subsidiaries, as well as Europäische Reiseversicherung AG, Karlsruher Lebensversicherung Aktiengesellschaft and Karlsruher Versicherung Aktiengesellschaft, set up long-term incentive plans. These plans, also with a term of seven years, provide for Board of Management members and in individual cases also top executives to be granted a defined number of stock appreciation rights in respect of Munich Re shares. The design of the plans is identical to that of Munich Re's long-term incentive plans and accounted for in the same way.

In the year under review a total of 155,839 (181,579) stock appreciation rights were granted, 132,653 (156,656) of these to Board of Management members. To cover future obligations arising from these rights, the companies participating in the long-term incentive plan purchased Munich Re shares to some extent.

In the year under review, provisions of €1.1m (–) had to be posted for the primary insurers in the Munich Re Group; the personnel expenses totalled €1.1m (–). The fair value of all stock appreciation rights granted by the primary insurers amounted to €4.1m (1.6m) at the balance sheet date.

Incentive plans 2002–2004 of the Munich Re Group's primary insurers

	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004
Plan commencement	1.7.2002	1.7.2003	1.7.2004
Old initial share price	€260.37	€86.24	–
New initial share price after 2003 capital increase	€247.64	€82.02	€88.65
Intrinsic value 2004 for one right	–	€8.98	€2.35
Fair value 2004 for one right	€2.04	€25.82	€25.15
Number of rights on 31 December 2002	45,476	–	–
Additions	12,898	168,681	–
Exercised	–	–	–
Forfeited	529	–	–
Number of rights on 31 December 2003	57,845	168,681	–
Additions	–	1,650	154,189
Exercised	–	–	–
Forfeited	3,050	13,414	–
Number of rights on 31 December 2004	54,795	156,917	154,189
Exercisable at year-end	54,795	–	–

(37) Employee share-ownership programmes

In 2004, Munich Reinsurance Company staff again had the opportunity to acquire employee shares at preferential conditions and thus to participate directly in Munich Re's success also as shareholders. For this purpose, a total of 10,000 shares were purchased at an average price of €78.64. In addition, 1,559 shares remained from the employee share-ownership programme in 2002. In the 2004 programme, non-senior-executive staff of Munich Reinsurance Company were given the chance to subscribe for up to five shares at a price of €54.00 per share. Altogether, 2,037 availed themselves of this offer and acquired a total of 10,123 shares. The remaining shares were not sold.

(38) Compensation and loans for Board members

The compensation of the Board of Management of the Munich Reinsurance Company for fulfilment of its duties in respect of the parent company and the subsidiaries totalled €18.2m (13.8m). This includes the compensation components that Mr. Phelan received for his work as President, Chief Executive Officer and Chairman of the Board of American Re Corporation. Taken into account for the first time in the disclosure are the provisions for the long-term incentive plan and the provisions/expenses of subsidiaries for variable compensation components of the parent company's Board of Management. The previous year's figures have been adjusted for comparative purposes.

All figures in €'000	2004	Prev. year
Overall compensation	**18,200**	13,770
Fixed components	**6,328**	7,399
Basic remuneration	**5,674**	6,423
Remuneration in kind/fringe benefits	**654**	976
Statutory social benefits	**20**	16
Voluntary social benefits	**35**	449[1]
Company car	**97**	102
Healthcare	**4**	3
Security measures	**–**	1
Insurance	**59**	69
Special remittances	**278**[2]	172
Tax for remuneration in kind/fringe benefits	**161**	164
Variable components	**11,872**	6,371
Annual bonus 2002		
Reversal of provision	**–**	–574[3]
Annual bonus 2003		
Allocation to provision 2003	**–**	3,288
Expenses	**1,635**[4]	–
Annual bonus 2004		
Allocation to provision 2004	**4,860**	–
Medium-term incentive plan		
Allocation to provision 2003	**–**	1,440
Allocation to provision 2004	**3,262**[5]	–
Long-term incentive plan		
Allocation to provision 2003	**–**	469
Allocation to provision 2004	**506**	–
Provisions/expenses of subsidiaries		
Annual bonus	**627**	669
Long-term bonus	**982**	1,079
Additional personnel expenses for valuation of stock appreciation rights at fair value[6]	**1,622**	**–407**

[1] Higher expenses for 2003 are due to anniversary payments.
[2] Higher expenses for 2004 are due to the invoicing of Mr. Phelan's travel expenses for 2003 and 2004.
[3] Bonus payment for 2002 lower than estimated and reserved bonus payment.
[4] Bonus payment for 2003 higher than estimated and reserved bonus payment.
[5] Higher provision due to good business results in 2004.
[6] Additional notional personnel expenses in the year under review for all stock appreciation rights granted as from the long-term incentive plan 1999. This amount takes into account the possibility of growth in value up to the time the rights are forfeited or elapse. It is determined in consideration of the exercise conditions using recognised valuation models, but is not included in personnel expenses.

Basic remuneration made up 31% of overall compensation in 2004, and remuneration in kind and fringe benefits 4%.

The variable compensation includes allocations to provisions for the payments probable on the basis of current estimates. Whether these reserved amounts will actually be paid out to the Board members, and if so how high the sums will be, is not yet certain and will depend on the degree to which individual objectives are achieved and on the exercise conditions of the long-term incentive plans. In accordance with the plan conditions, there were no payments made under the medium-term incentive plan in the business year.

The average level of provision for the pension entitlements of the members of the Board of Management amounts to 38% of the basic remuneration.

Payments to retired members of the Board of Management or their surviving dependants total €4.3m (3.3m).

Remuneration of Supervisory Board members in the business year 2004 in accordance with Article 15 of the Articles of Association[1]

Name	Fixed remuneration Annual	For committee work[2]	Dividend-related remuneration[3] Annual	For committee work	Total
Dr. Schinzler, Chairman from 26 May 2004	39,890.70	14,959.02	73,797.81	27,674.18	**156,321.71[4]**
Bach, Deputy Chairman	37,500.00	12,500.00	69,375.00	23,125.00	**142,500.00**
Hartmann, Chairman until 26 May 2004	35,040.99	10,040.98	64,825.82	18,575.82	**128,483.61[4]**
Dr. Schmidt	25,000.00	28,750.00	46,250.00	34,687.50	**134,687.50**
Dr. Pischetsrieder	25,000.00	12,500.00	46,250.00	23,125.00	**106,875.00**
Prof. Dr. Kagermann	25,000.00	16,250.00	46,250.00	11,562.50	**99,062.50**
Süßl	25,000.00	6,250.00	46,250.00	11,562.50	**89,062.50**
Appel	25,000.00	9,739.75	46,250.00	6,918.55	**87,908.30**
Stögbauer	25,000.00	9,739.75	46,250.00	6,918.55	**87,908.30**
Biebrach (until 26 May 2004)	10,040.98	6,510.25	18,575.82	4,643.95	**39,771.00**
Dr. Schumann (until 26 May 2004)	10,040.98	6,510.25	18,575.82	4,643.95	**39,771.00**

All other re-elected members of the Supervisory Board (Prof. Dr. Markl, Mayrhuber, Prof. Van Miert, Dr. v. Pierer, Dr. Sommer, Võ) each received total remuneration of €71,250.00 (fixed remuneration of €25,000.00 and dividend-related remuneration[3] of €46,250.00).
All remaining members who joined the Supervisory Board on 26 May 2004 (Emmert, Dr. Janßen, Müller, Dr. Schimetschek, Seefried) each received total remuneration of €42,633.20 (fixed remuneration of €14,959.02 and dividend-related remuneration[3] of €27,674,18).
All remaining members who left the Supervisory Board upon conclusion of the AGM on 26 May 2004 (Burgmayr, Köppen, Wegmann) each received total remuneration of €28,616.80 (fixed remuneration of €10,040.98 and dividend-related remuneration[3] of €18,575.82).

[1]In €, plus turnover tax in each case, in accordance with Article 15 para. 5 of the Articles of Association.
[2]In the case of members of the Audit Committee, the amount includes attendance fees in accordance with Article 15 para. 3 of the Articles of Association.
[3]Payment after adoption of the dividend proposed by the Supervisory Board and Board of Management (€2.00) at the 2005 Annual General Meeting.
[3]After capping in accordance with Article 15 para. 4 of the Articles of Association.[3]

For retired members of the Board of Management or their surviving dependants, the present value of pension commitments amounts to €58m (55m). The aforementioned group of persons is included in the contractual trust agreement set up in the previous year.

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

(39) Board of Management compensation structure

The Board of Management's compensation is made up of various components, as shown in the following table:

Component	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration, remuneration in kind/fringe benefits (company car, healthcare, security measures, insurances, special remittances)	Function, responsibility, risk-based capital, length of service on the Board	Fixed	Contractual provisions	Monthly
Annual bonus	50% annual result 50% achievement of personal objectives	0–100% 0–100%	Achievement of objectives	Once annually in following year
Medium-term incentive plan	50% annual result 50% achievement of personal objectives	70–100% 70–100%	Achievement of objectives at least 70% on average over three years	In fourth year
Long-term incentive plan (stock appreciation rights; term: seven years)	Appreciation in share price	0–150%	> End of vesting period (two years) > 20% share price increase > Munich Re shares have outperformed EURO STOXX 50 twice at the end of three-month period during the term of the plan	As from third year of plan until end of plan
Pension entitlement	Basic remuneration, number of years on the Board	Fixed amount	Insured event or retirement	–

In the case of 100% achievement of objectives (annual bonus, medium-term incentive plan) and a 35% share price increase (long-term incentive plan), the weightings of the individual components are as follows: basic remuneration approx. 33%, annual bonus approx. 29%, medium-term incentive plan approx. 14%, and long-term incentive plan approx. 24%.

For valuing the stock appreciation rights from the long-term incentive plan, an imputed value at the granting date has been used, arrived at by financial mathematics. Whether the stock appreciation rights can be exercised, and if so when, is not certain at the time they are granted. The exercising and proceeds depend on the development of the share price and the exercise price and date. Up to now it has only been possible to exercise stock appreciation rights under the plan set up as at 1 July 1999.

The compensation components of the annual bonus and medium-term incentive plan are based on different categories of objectives. For the portions dependent on the annual result, an objective is agreed on for the whole Munich Re Group; for the achievement of personal objectives, division financial targets and individual objectives form the basis. The targets and scaling for Group and division objectives are geared to particular indicators. In the case of the Group objective, these are key indicators of external accounting; in the case of division objectives, they are performance measures of value-based management.

Annual bonus, medium-term incentive plan and long-term incentive plan together form a well-balanced incentive system.

In the case of seats held on other boards, compensation for board memberships not classified as personal memberships must be paid over to the Company or is deducted in the course of regular compensation computation.

Compensation for seats held on other boards is paid over to the Company or deducted in the course of regular compensation computation, unless these board memberships are classified as purely personal memberships.

As far as the pension entitlement is concerned, the pension level starts at 30% and can reach a maximum of 60% of annual basic remuneration.

In accordance with the recommendations of the Code of Corporate Governance, the total compensation of the Board members thus comprises fixed and variable components, all of which are appropriate in themselves and as a whole. Criteria for the appropriateness of compensation are in particular the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re, taking into account the relevant benchmarks for Board remuneration.

A different arrangement applies to the compensation structure for Mr. Phelan, who is not only a member of the Board of Management but also the President, Chief Executive Officer and Chairman of the Board of American Re Corporation and therefore has special compensation agreements, with the major portion of his income in the USA.

(40) Share trading and shares held by members of the Board of Management and the Supervisory Board

No acquisition or sales transactions notifiable under Section 15a of the German Securities Trading Act had occurred up to the end of the business year 2004. The total number of Munich Re shares held by all members of the Board of Management and Supervisory Board amount to less than 1% of the shares issued by the Company.

(41) Number of staff

The number of staff employed by the Group at year-end totalled 29,851 (30,223) in Germany and 11,111 (11,208) in other countries.

	31.12.2004	Prev. year
Reinsurance companies	6,612	6,445
Primary insurance companies	33,703	34,360
Asset management	647	626
Total	**40,962**	**41,431**

(42) Contingent liabilities, other financial commitments

Commitments under rental, work and service contracts amounted to €95m (154m). Leasing obligations from rental leasing arrangements totalled €613m (590m). Financial leasing transactions had an insignificant volume of only €9m. Investment obligations amounted to €423m (488m). These figures represent undiscounted nominal amounts.

The remaining periods for leasing obligations from rental leasing arrangements are as follows:

All figures in €m	31.12.2004	Prev. year
Up to one year	127	124
Over one year and up to two years	115	115
Over two years and up to three years	93	95
Over three years and up to four years	56	43
Over four years and up to five years	56	37
Over five years	166	176
Total	**613**	**590**

Beyond this, there were other financial commitments of €40m (12m) and obligations from guarantees totalling €227m (162m). In connection with a sale of shares, a liability towards the purchaser totalling a maximum of £2m has been assumed. There were contingent liabilities of €105m (125m) from a leasing transaction with real estate.

As the German life insurers in our Group participate in Protector Lebensversicherungs-AG, they are committed to assuming its payment obligations to the extent of their market share totalling 13%.

Following amendments to Section 124 ff. of the German insurance supervision law, the German life and health insurers of our Group are obliged to be members of a protection fund. In addition to the regular compulsory contributions, the protection fund may levy special contributions up to the amount of one per mille of net underwriting provisions in the case of life insurers and two per mille in the case of health insurers. This could give rise to a potential payment obligation of €97m at Group level.

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

(43) Events after the balance sheet date

No events have occurred since the balance sheet date which require separate disclosure.

(44) Earnings per share

		2004	Prev. year
Profit for the year	€m	1,833	–434
Result before amortisation of goodwill	€m	2,948	1,971
Number of shares at 1.1. business year		229,101,024	178,330,916
Addition of own shares		581,617	142,838
Weighted average number of shares		228,745,350	193,304,228
Earnings per share		8.01	–2.25
Earnings per share before amortisation of goodwill		12.89	10.20

(45) Proposal for appropriation of profit

Munich Reinsurance Company's result for 2004 according to its financial statements prepared on the basis of the German Commercial Code amounts to €777.0m (510.8m). Of this sum, €318.5m has been allocated to the revenue reserves so that, including the profit brought forward from the previous year, a balance sheet profit of €459.2m remains. The Board of Management will propose to shareholders at the Annual General Meeting that this profit be used for payment of an increased dividend of €2.00 on each share entitled to dividend and that any residual amount be carried forward to new account.

Munich, 25 February 2005

The Board of Management

Affiliated enterprises, participating interests and other shareholdings*

Company	% share of capital	Shareholders' equity €'000**	Result for the year €'000**
Reinsurance, consolidated subsidiaries			
American Re Corporation, Princeton	100.00%	2,804,436	63,459
Great Lakes Reinsurance (UK) PLC, London	100.00%	229,601	30,231
Münchener Rück Italia S. p. A., Milan	100.00%	229,894	4,781
Munich American Reassurance Company, Atlanta	100.00%	721,683	21,718
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.00%	10,295	6,464
Munich Reinsurance Company of Africa Ltd., Johannesburg	100.00%	99,574	24,329
Munich Reinsurance Company of Australasia Ltd., Sydney	100.00%	183,375	12,295
Munich Reinsurance Company of Canada, Toronto	100.00%	192,464	28,783
New Reinsurance Company, Geneva	100.00%	306,227	34,409
Temple Insurance Company, Toronto	100.00%	69,503	8,081
Reinsurance, associated enterprises			
Prévoyance Ré, S. A., Paris	34.00%	25,083	–2,619
Primary insurance, consolidated subsidiaries			
ERGO Versicherungsgruppe AG, Düsseldorf	93.67%	1,934,740	68,167
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf ***	93.67%	59,669	0
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf ***	93.67%	738,642	0
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S. A., Madrid	93.67%	17,176	1,475
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf ***	93.67%	528,738	0
VICTORIA-Seguros de Vida, S. A., Lisbon	93.67%	18,642	1,056
VICTORIA-Seguros S. A., Lisbon	93.67%	10,516	–1,437
VICTORIA General Insurance Company S. A., Thessaloniki	93.67%	17,019	792
VICTORIA Life Insurance Company S. A., Thessaloniki	93.67%	5,965	–209
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	72.28%	41,432	1,862
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	93.67%	21,930	1,415
Vorsorge Luxemburg Lebensversicherung S. A., Munsbach	93.67%	5,767	1,294
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg ***	93.67%	13,153	0
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg ***	93.67%	262,570	0
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg ***	93.67%	403,250	0
Hamburg-Mannheimer N. V./S. A., Brussels	93.67%	9,172	–1,405
DKV BELGIUM S. A., Brussels	93.67%	29,354	–2,510
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne ***	93.67%	465,267	0
DKV Luxembourg S. A., Luxembourg	70.25%	12,960	889
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	93.67%	50,029	4,532
Union Medica La Fuencisla, S. A., Compania de Seguros, Saragossa	93.67%	6,161	429
GLOBALE Krankenversicherungs-Akltiengesellschaft, Cologne	93.67%	8,674	219
D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich ***	93.67%	209,113	61
D. A. S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich ***	93.67%	38,959	176
D. A. S. Nederlandse Rechtsbijstand Verzekeringmaatschappij N. V., Amsterdam	49.86%	24,590	5,205
D. A. S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	93.65%	27,361	4,286
D A S Legal Expenses Insurance Company Limited, Bristol	93.67 %	55,131	2,148
KarstadtQuelle Lebensversicherung AG, Fürth	72.60%	26,480	7,700
KarstadtQuelle Krankenversicherung AG, Fürth	72.60%	7,027	1,477
KarstadtQuelle Versicherung AG, Fürth	72.60%	47,450	9,581
Neckermann Lebensversicherung AG, Fürth	54.45%	9,093	349

Company	% share of capital	Share-holders' equity €'000**	Result for the year €'000**
ERGO International Aktiengesellschaft, Düsseldorf	93.67%	853,676	–542,101
ERGO Kindlustuse AS, Tallinn	93.09%	12,140	2,894
ERGO Lietuva draudimo UAB, Vilnius	93.67%	9,203	378
ERGO Latvija Versicherung AG, Riga	92.38%	5,431	74
ERGO Assicurazioni S. p. A., Milan	93.67%	53,638	7,016
ERGO Previdenza S. p. A., Milan	65.90%	242,391	19,275
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	93.67%	13,014	1,869
Bayerische Vida España S. A., Barcelona	47.77%	11,666	300
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N. V., Woerden	93.67%	24,022	185
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N. V., Woerden	93.67%	23,805	2,740
STU ERGO HESTIA S. A., Sopot	93.67%	184,394	6,114
STUNZ ERGO HESTIA S. A., Sopot	93.67%	9,050	–2,914
Powszechne Towarzystwo Emerytalne Ergo Hestia S. A. (Pension Fund), Warsaw	93.67%	15,144	–146
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	100.00%	85,458	3,311
Europæiske Rejseforsikring A/S, Copenhagen	100.00%	20,596	1,993
Europeiska Försäkringsaktiebolaget, Stockholm	100.00%	4,632	0
Compagnie Européenne d'Assurances S. A., Neuilly	100.00%	5,116	45
Karlsruher Lebensversicherung AG, Karlsruhe	90.10%	162,664	10,030
Karlsruher Beamten-Versicherung AG, Karlsruhe	90.10%	5,519	–907
Karlsruher Rechtsschutzversicherung AG, Karlsruhe	90.10%	8,515	639
Karlsruher Versicherung-Aktiengesellschaft, Karlsruhe	90.10%	53,437	1,601
Mercur Assistance Aktiengesellschaft Holding, Munich	90.00%	–5,787	–565
Primary insurance, associated enterprises			
Bloemers Holding B. V., Rotterdam	22.73%	13,759	2,842
D. A. S. Difesa Automobilistica Sinistri, S. p. A. di Assicurazione. Verona	46,83%	7,443	1,635
Orel-G-Holding AD. Sofia	29,67%	12,522	11
Storebrand Helseforsikring AS. Oslo	46,84%	9,031	282
UNION VERSICHERUNGS-AKTIENGESELLSCHAFT, Vienna	42,15%	54,342	10,356
VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, Munich	28,10%	62,460	–1,008
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna	43.87%	8,001	360
Saudi National Insurance Company E.C., Manama	22.50%	8,488	3,575
Financial services and asset management, consolidated subsidiaries			
ERGO Trust GmbH, Düsseldorf	93.67%	22,234	382
MEAG MUNICH ERGO AssetManagement GmbH, Munich	97.47%	85,685	21,531
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich ***	97.47%	19,665	0
Financial services and asset management, associated enterprises			
Bayerische Hypo- und Vereinsbank AG, Munich ****	18.34%	10,735,000	–3,303,000
Other participations in insurance companies			
Allianz AG, Munich	8.98%	25,482,652	977,893
Credit Guarantee Insurance Corporation, Johannesburg	6.90%	47,135	38,003
Helvetia Patria Holding, St. Gall	8.16%	286,813	15,621
Jordan Insurance Co. p.l.c., Amman	10.00%	14,231	1,004
Mecklenburgische Lebensversicherungs-AG, Hanover	12.50%	12,600	2,000
Middlesea Insurance p.l.c., Floriana	12.73%	48,850	2,665
Middle Sea Valetta Life Assurance Co. Ltd., Floriana	10.00%	46,400	3,046
Nürnberger Beteiligungs AG, Nuremberg	19.84%	394,413	11,910

Company	% share of capital	Shareholders' equity €'000**	Result for the year €'000**
Other shareholdings in listed companies			
BHS tabletop AG, Selb	28.91%	25,920	6,844
BHW Holding AG, Berlin****	9.24%	1,478,328	232,226
Commerzbank AG, Frankfurt am Main****	7.00%	9,091,000	–2,320,000
Forst Ebnath AG, Ebnath	96.73%	2,252	194
Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg	6.04%	1,290,650	–694,900
Jenoptik AG, Jena****	9.37%	396,914	–25,789
Mediclin AG, Frankfurt am Main	23.40%	166,520	–34,919
Österreichische Volksbanken-AG, Vienna	10.00%	723,307	38,957
WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige	11.33%	191,462	10,780

* Some of these selected participations are held indirectly. They are calculated proportionally in each case.
** The amounts are taken from the individual companies' financial statements. They have been translated using the exchange rates applicable on 31 December 2004.
*** Result for the year after profit transfer.
**** Including special funds.

Auditor's report

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

We have audited the consolidated financial statements, consisting of the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, for the business year from 1 January 2004 to 31 December 2004. The preparation and the content of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

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

Our audit, which also extends to the group management report for the business year from 1 January 2004 to 31 December 2004, has not led to any reservations. In our opinion, altogether the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and group management report for the business year from 1 January 2004 to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and group management report in accordance with German accounting law.

Munich, 4 March 2005

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Other seats held by Board members[1]

Supervisory Board	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler Chairman (from 26 May 2004)	Bayerische Hypo- und Vereinsbank AG Deutsche Telekom AG METRO AG	
Ulrich Hartmann Chairman (until 26 May 2004)	Deutsche Bank AG Deutsche Lufthansa AG E.ON AG (Chairman) Hochtief AG IKB Deutsche Industriebank AG (Chairman)	Henkel KGaA ARCELOR, Luxembourg
Prof. Dr. rer. nat. Henning Kagermann	DaimlerChrysler Services AG Deutsche Bank AG	
Prof. Dr. rer. nat. Hubert Markl	Bayerische Motoren Werke AG	Sanofi-Aventis S. A., Paris Royal Dutch Petroleum Company/Shell, The Hague
Wolfgang Mayrhuber	Bayerische Motoren Werke AG 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	Agfa-Gevaert NV, Mortsel Anglo American plc, London De Persgroep, Asse Royal Philips Electronics NV, Amsterdam Solvay S. A., Brussels Vivendi Universal S. A., Paris 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. 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. Dr. h. c. Albrecht Schmidt	Bayerische Hypo- und Vereinsbank AG (Chairman) Siemens AG	Thyssen'sche Handelsgesellschaft m. b. H.
Dr. phil. Ron Sommer	Celanese AG	Motorola Inc., Schaumburg

[1] Status: 31 December 2004.
* 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. Nikolaus von Bomhard Chairman	ERGO Versicherungsgruppe AG* (Chairman)	–
Georg Daschner	–	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	–
Dr. rer. nat. Torsten Jeworrek	–	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*

* 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. 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.

07
General information

Glossary A–D

Actuary
Qualified expert who analyses problems from the area of insurance, home loans, investments and pensions using methods of probability theory and financial mathematics, and develops solutions with due regard to legal and economic parameters.

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

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

Alternative risk financing
Utilising the capacity of the capital markets to cover insurance risks. An example is the securitisation of natural catastrophes risks that can no longer be borne in full by the insurance and reinsurance industry.

Asset allocation
The distribution of investments between various asset classes, e.g. equities, participating interests, fixed-interest, real estate and money market. The investments are subsequently distributed between various regions and currencies as appropriate. A distinction is generally made between strategic (medium- to long-term) and tactical (short-term) allocation.

Asset-liability management
Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

Asset management
Management of an investment portfolio on the basis of risk and return considerations. It covers both the preparation and implementation of investment decisions regarding assets and the management of → special funds.

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

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

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

Balanced scorecard
Strategy-implementation tool in which strategic objectives and initiatives (financial and non-financial) are set out in a table and linked with one another. Short-term milestones help in monitoring the achievement of objectives.

Blue chip
Designation for high-turnover stock of large and internationally significant firms. Their share price performance is also used as the basis for calculating the main indices.

Captive
A captive is an insurance company established as a subsidiary of one or more industrial/trading companies or groups mainly for the purpose of insuring the risks of these companies and their affiliates.

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

Cedant
Client of a reinsurance company (see also → primary insurers).

Combined ratio
Ratio, in per cent, of the sum of net claims expenses plus net operating expenses to net earned premiums. The sum of the loss ratio and the expense ratio.

Compliance guidelines
Rules for handling insider information. As a general rule, insider information may not be used for own investment transactions, for transactions conducted by a bank or for recommendation to others. Therefore, as part of the compliance procedure, business transactions are checked to make sure they are not based on insider information.

Composite insurer
Insurer that writes both life and non-life business.

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

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

Corporate governance
Corporate governance refers to the legal and factual framework for managing and monitoring companies. Corporate governance rules serve to provide transparency and thus strengthen confidence in responsible management and control geared to the creation of value.

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

D–F

Deferred tax assets/liabilities
Deferred taxes derive from temporary differences between accounting on the basis of International Accounting Standards and national tax law. If in the consolidated financial statements asset items are valued lower, or liabilities higher, than in the tax balance sheet of the Group company concerned, the resulting future tax relief must be recognised as a deferred tax asset. Deferred tax assets are also posted for tax loss carry-forwards. If the accounting differences between the consolidated financial statements and tax balance sheet will lead to future tax burdens, these must be recognised as deferred tax liabilities. Deferred tax assets are reversed if a realisation of the corresponding receivable is not probable.

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

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

Directors' and officers' liability insurance
Insurance of liabilities arising from the performance of professional or official company duties.

Duration
Duration refers to the average term of an interest-sensitive investment (or → portfolio) and is a measure of the risk of its sensitivity to changes in interest rates.

Earnings per share
A ratio calculated by dividing the consolidated result by the average number of shares issued. "Diluted earnings per share" includes exercised and still to be exercised subscription rights in the Group result for the year and the number of shares. Such subscription rights arise from the issue of bonds with conversion rights and from warrants for the acquisition of shares.

Embedded value
The concept of embedded value is used in valuing life and health insurance business. Embedded value mainly comprises the present value of earnings from business in force, calculated according to actuarial principles, plus the value of equity capital, including valuation reserves, and less capital commitment costs.

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

Event limit
An event limit restricts the maximum indemnity for a certain type of event that typically results in large numbers of individual losses, e.g. earthquake.

Exchangeable bonds
Exchangeable bonds are a special form of corporate bond which, besides entitling holders to repayment of the face amount and regular interest, give them the option to convert the bond into shares. The conversion right is for shares in a company which is not the bond issuer.

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

Exposure
The measurable extent of a risk or portfolio of risks; basis for calculating premiums in reinsurance.

Factor-based risk approach
Simplified capital model based on applying a series of "factors" (or capital charges) to volumes such as premiums, reserves or asset values. The model provides only a crude proxy for the risk-based capital requirements.

Facultative reinsurance
The reinsurer assumes a share of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. → obligatory reinsurance).

Fair value
The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. Where there is an active market, the fair value of an asset is its current → market value. Alternatively, the fair value may be determined on the basis of recognised valuation methods.

Fast close
The sum of organisational and technical improvements in business processes that serve to accelerate publication of a company's quarterly and annual financial statements.

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

Financial reinsurance
Forms of reinsurance in which the transfer of underwriting risk from the insurer to the reinsurer is significantly restricted, being replaced by financing mechanisms. In view of the accounting regulations in many markets, it is no longer a customary form of reinsurance. → Finite risk reinsurance

Finite risk reinsurance
Form of reinsurance in which the risk transfer from insurer to reinsurer is combined with a risk financing function. The focus here is on business-management and accounting aspects. The desired objectives are achieved by, among other things, the assumption of a limited amount of risk by the reinsurer, result-sharing with the insurer, multi-year contracts and the consideration of the time value of money.

Forwards
Contracts to trade at a specified price on a specified future date. In contrast to → futures, forwards tend to be individually designed derivative financial instruments.

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

G–O

Goodwill
Any excess of the purchase price of a subsidiary over the acquirer's interest in the fair value of the net assets as at the acquisition date. Goodwill is amortised over its useful life. Goodwill resulting from business combinations agreed to on or after 31 March 2004 is not amortised, but is tested and written down for impairment if necessary.

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

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

IAS 32/39
Accounting standards on financial instruments published by the → International Accounting Standards Board (IASB). IAS 32 governs disclosure whilst IAS 39 is concerned with recognition and measurement of financial instruments.

Integrated risk management (IRM)
Holistic management of insurance risks in life and non-life business and of investment risks. IRM essentially rests on four pillars → asset-liability management, active capital management, → accumulation control and operational risks..

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

International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS)
Standards formulated by the → IASB with the intention of achieving internationally comparable preparation and presentation of financial statements. Since 2002 the standards adopted by the IASB have been referred to as "International Financial Reporting Standards (IFRS)". Until existing standards are renamed, they continue to be referred to as "International Accounting Standards (IAS)".

Investments for the benefit of life insurance policyholders who bear the investment risk
This mainly involves investments for policyholders under → unit-linked life insurances. It also includes investments under index-linked life insurance policies whose performance depends on share or currency indices. Obligations arising from this type of contract are mainly shown under the balance sheet item "underwriting provisions for life insurance policies where the investment risk is borne by the policyholders".

Layer
Term used in excess-of-loss reinsurance to denote a stratum of cover. Its point of attachment and extent is defined in terms of the sum insured. Example: €5,000 in excess of €1,000 refers to the layer €1,000 to €6,000.

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

Loss reserve
Reserve for the coverage of losses that have occurred but have not yet been settled.

Marine
The insurance of ships and their cargoes.

Market value
The publicly listed market price obtainable for an asset in an active market (especially stock market price).

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

Net asset value
Measurement of the → fair value of companies. The starting point is the proportional equity capital of the company to be valued, plus the valuation reserves.

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

Net → Gross/net

Net operating expenses
Commission, personnel costs and general expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission, plus expenses from amortisation of → PVFP.

Non-proportional reinsurance
Here the reinsurer assumes payment of the primary insurer's losses above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Obligatory reinsurance
Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. (cf. → facultative reinsurance).

Offshore energy insurance
Umbrella term for the insurance of risks such as oil platforms and production facilities at sea, plus the related technical equipment.

Operating result
Operation profit/loss on the enterprise's ordinary activities, before minority interests in earnings and taxes on income.

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

O–R

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

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

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

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

Policyholders' bonuses
In life and health insurance, policyholders are entitled by law and contractually to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

Portfolio
Collection of investments belonging to an investor or held by a financial organisation. They primarily comprise securities, but may also include real estate. In the case of investment funds, portfolio refers to the composition of investment instruments in the fund (equities, bonds, derivatives, etc.). In the case of insurers and reinsurers, portfolio usually means all the risks assumed in insurance and reinsurance respectively.

Premium
The amount that has to be paid for the insurance cover provided by an insurer. It may be paid as a regular or single premium. In the case of products that are largely of an investment nature (e.g. financing treaties and unit-linked life insurance) it only includes – under IAS – the amount serving to cover the risk and the costs. In IAS financial statements there are no "premiums from the provision for premium refunds" either.
Premiums written means all premium income that has become payable in the business year. The portion of this premium income that constitutes payment for insurance cover in the business year is referred to as earned premiums.

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

Property-casualty
Umbrella term for all insurance business that is not life or health insurance, e.g. liability, motor and fire insurance.

Proportional reinsurance
In proportional reinsurance, the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

Provision for future policy benefits
Underwriting provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance. It amounts to the balance of the present value of future obligations less the present value of future premiums.

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

Provision for premium refunds
Provisions for premium refunds are made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. They also include the policyholders' share of accumulated valuation differences between IAS/IFRS and German Commercial Code (provision for deferred premium refunds).

PVFP (Present Value of Future Profits)
When insurance companies or individual insurance portfolios are acquired, the present value of the expected earnings from the business acquired is capitalised as "PVFP". This intangible asset arises in particular when life or health insurance companies are acquired.

Rating
Standardised assessment of the credit standing of debt instruments and companies by specialised independent rating agencies.

Recoverable amount
The recoverable amount of an asset is the higher of net sales price (i.e. sales price less sales costs) and the utility value (i.e. present value of the future cash flows). The recoverable amount plays a part especially in connection with impairments in the value of real estate, where a writedown has to be made if the recoverable amount is lower than the carrying amount.

Registered share
Share registered in the owner's name. Registered shares are entered in the company's share register with the shareholder's personal data and the number of shares held.

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

Reinsurance capacity
Amount of cover that a reinsurance company or the market as a whole can make available.

Renewable energy
Renewable energies (also referred to as regenerative or alternative energies) are sources of energy that continually renew or replenish themselves or are inexhaustible by human standards, i.e. are available in unlimited amounts. The most important renewable energies are: solar, wind, water/hydro, biomass and geothermal energy.

Renewals
Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

R–U

Retention
That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retains net for own account.

Retrocessionaire
Reinsurer that provides retrocession cover for other reinsurers (a reinsurer of reinsurers). Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Return on equity (RoE)
Indicator for measuring an enterprise's financial performance. It is calculated by dividing the result for the period by the average shareholders' equity employed.

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

Risk capital
Risk capital is the amount of capital hypothetically assigned for the conducting of insurance of reinsurance business to ensure that the probability of default in respect of the portion of the business exposed to risk is kept to a minimum. The capital required for this purpose is calculated using mathematical risk and financing models.

Risk controlling
Ongoing monitoring and control of risks and measures, including methodological development and risk analysis/reporting, by a neutral, independent unit that also proposes and initiates additional measures.

Risk management
Ongoing, systematic and continual identification, analysis, evaluation and control of potential risks that may jeopardise the assets, liabilities, financial position and results of a company in the medium- to long-term. The aim is to safeguard the existence of the company and its objectives against disruptive influences by means of suitable measures, and to increase corporate value.

Scenario analysis
Used to investigate how certain key figures (market values or book values) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

Security
Ability (and willingness) of a reinsurer to meet its financial obligations from reinsurance agreements in full and at all times. Security depends on such factors as earnings capacity, quality of investments, capitalisation and liquidity.

Segment reporting
Presentation of the items in the annual financial statements according to classes of business and regions.

Solvency
An insurance company's capitalisation.

Special funds
Investment funds with a maximum of 30 unit-holders that are not natural persons. As the fund owners pursue specific objectives with their investments, investment policy is geared to individual requirements.

Statutory Surplus
Surplus recorded in the balance sheet of US insurance companies on the basis of the statutory accounting regulations used by US state supervisory authorities and rating agencies.

Stress test
A special form of → scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations.

Structured products
In the case of structured products, a → derivative financial instrument (e.g. an → option) is combined with a non-derivative instrument (e.g. a bond). Structure products are also referred to as hybrid products.

Subordinated bonds
In the event of liquidation, dissolution or insolvency of the loan debtor or in the event of debt composition proceedings or other processes to avoid insolvency being taken against the loan debtor, the claims of holders of subordinated bonds are satisfied after the claims of all other non-subordinated creditors. In other words, payments on subordinated bonds are not made until claims of third parties against the bond debtor arising from non-subordinated liabilities have been fully satisfied.

Sustainable development
A type of development that satisfies the needs of the present without jeopardising the needs of future generations.

Swap
Agreement between two counterparties to exchange payment flows over a specified period in order to profit from relative cost benefits that one party enjoys on a particular financial market. In the case of an interest rate swap, payment obligations in the same currency but with different interest rate conditions (e.g. fixed/variable) are exchanged. In the case of currency swaps, the payment obligations exchanged are in different currencies.

Third party administrator (TPA)
An independent corporate entity (third party) that administers benefits and claims for risk carriers and self-insured schemes. A TPA does not typically assume risk.

Underwriters
Members of an insurance or reinsurance company that act on behalf of their employer to negotiate, accept or reject the terms of a (re)insurance contract.

Underwriting provisions
Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Underwriting result
Balance of income and expenses apportionable to the (re)insurance business.

Unearned premiums
The portion of premium income in the business year that is attributable to periods after the balance sheet date is accounted for as unearned premiums in the underwriting provisions.

U–V

Unit-linked life insurance
A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

US Generally Accepted Accounting Principles (US GAAP)
The principles of US accounting that are stipulated as compulsory for listed companies in the US. The individual accounting standards are referred to as → Financial Accounting Standards (FAS).

Value at risk
Method of quantifying risk which measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

Value-based management
The concept of value-based management is geared to increasing the value of a company on a long-term basis. Value is only created long term if a company regularly earns a profit that exceeds the costs of the equity capital invested.

Voting right
Every shareholder has a legal right to vote at the Annual General Meeting. The number of votes that a shareholder has depends on the number of shares with voting rights held. Shareholders can arrange for their voting rights to be exercised by a third party, e.g. a bank or a shareholders' association (proxy).

Index of key terms

* IC = Inside cover

Important addresses

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Classes of business

Reinsurance

Gross premiums written in €m	**2004**	2003	2002	2001	2000
Life	**6,119**	5,461	5,277	4,769	3,865
Health	**1,421**	1,415	1,284	1,131	836
Liability	**2,606**	3,444	3,514	2,402	1,934
Personal accident	**1,080**	1,293	1,302	1,213	1,043
Motor	**2,890**	3,186	3,337	3,448	3,335
Marine, aviation, space	**1,609**	1,742	1,896	1,398	1,158
Fire	**3,775**	4,874	5,294	4,481	3,363
Engineering	**1,281**	1,393	1,443	1,449	929
Other classes of business	**1,616**	1,987	2,098	1,905	1,862
Loss ratio in %					
Health	**68.5**	69.9	77.5	82.5	70.8
Liability	**96.4**	84.1	144.4	114.4	89.2
Personal accident	**82.2**	72.8	128.6	80.6	68.1
Motor	**87.6**	79.1	84.6	85.9	90.7
Marine, aviation, space	**66.1**	60.0	72.7	134.3	92.7
Fire	**54.2**	60.3	80.9	136.1	95.2
Engineering	**57.4**	64.4	75.8	103.3	74.5
Other classes of business	**47.1**	60.3	98.2	70.2	70.8
Expense ratio in %					
Health	**30.4**	29.1	26.9	31.4	31.1
Liability	**27.8**	27.9	26.8	33.1	31.8
Personal accident	**33.6**	31.0	29.6	32.1	30.8
Motor	**25.1**	23.6	23.2	25.2	24.5
Marine, aviation, space	**23.5**	24.8	22.3	30.0	27.4
Fire	**27.6**	26.2	26.4	29.4	31.4
Engineering	**32.1**	30.1	29.4	34.9	39.8
Other classes of business	**28.4**	29.3	32.4	36.2	33.7
Combined ratio in %					
Health	**98.9**	99.0	104.4	113.9	101.9
Liability	**124.2**	112.0	171.2	147.5	121.0
Personal accident	**115.8**	103.8	158.2	112.7	98.9
Motor	**112.7**	102.7	107.8	111.1	115.2
Marine, aviation, space	**89.6**	84.8	95.0	164.3	120.1
Fire	**81.8**	86.5	107.3	165.5	126.6
Engineering	**89.5**	94.5	105.2	138.2	114.3
Other classes of business	**75.5**	89.6	130.6	106.4	104.5

Primary insurance

Gross premiums written in €m	**2004**	2003	2002	2001	2000
Life	**7,787**	8,011	7,514	7,112	6,471
Health	**4,537**	4,547	4,238	4,010	3,834
Property-casualty	**5,202**	5,082	4,841	4,593	4,110
Combined ratio in %					
Property-casualty (including legal expenses insurance)	**93.0**	96.4	99.9	101.4	97.2

Multi-year overview

		31.12.2004	31.12.2003	31.12.2002	31.12.2001	31.12.2000
Balance sheet						
Investments	€m	**178,132**	171,881	156,278	161,994	159,408
Shareholders' equity	€m	**20,196**	18,899	13,948	19,357	23,602
Net underwriting provisions	€m	**154,327**	147,476	142,966	138,642	131,526
Balance sheet total	€m	**214,791**	209,384	196,441	202,054	193,567
Shares						
Dividend per share	€	**2.00**	1.25	1.25	1.25	1.25
Amount distributed	€m	**457**	286	223	221	221
Share price	€	**90.45**	96.12	114.0	305.00	380.00
Munich Re's market capitalisation	€bn	**20.8**	22.1	20.4	54.0	67.2
Other						
Combined ratio non-life reinsurance	%	**98.9**	96.7	122.4	135.1	115.3
Number of staff		**40,962**	41,431	41,396	38,317	36,481

in €m	2004	2003	2002	2001	2000
Gross premiums written	**38,071**	40,431	40,014	36,123	31,113
Net earned premiums	**36,534**	37,617	36,306	31,680	28,129
Investment result	**8,041**	7,131	4,935	10,420	12,166
Other income	**1,116**	1,211	1,351	892	501
Total income	**45,691**	45,959	42,592	42,992	40,796
Net expenses for claims and benefits	**31,636**	32,487	31,265	34,162	29,770
Net operating expenses	**8,847**	8,997	8,933	7,758	7,340
Other expenses	**2,260**	2,504*	2,414*	1,517*	1,091*
Total expenses	**42,743**	43,988*	42,612*	43,437*	38,201*
Result before amortisation of goodwill	**2,948**	1,971*	–20*	–445*	2,595*
Amortisation of goodwill	**344**	687	371	230	145
Operating result before taxes on income	**2,604**	1,284*	–391*	–675*	2,450*
Taxes on income	**712**	1,752*	–605*	–1,070*	379*
Minority interests in earnings	**59**	–34	–74	145	321
Profit for the year	**1,833**	–434	288	250	1,750

*Adjusted after reallocation of "other tax" to "other expenses".

in €	2004	2003	2002	2001	2000
Earnings per share	**8.01**	–2.25	1.54*	1.34*	9.41*
Earnings per share, diluted	**–**	–	–	1.34*	9.36*

*Taking into account the capital increase in November 2003.

Quarterly figures

		31.12.2004	30.9.2004	30.6.2004	31.3.2004
Balance sheet					
Investments	€m	**178,132**	177,712	173,449	173,708
Shareholders' equity	€m	**20,196**	19,502	19,109	19,529
Balance sheet total	€m	**154,327**	155,508	153,896	152,816
Net underwriting provisions	€m	**214,791**	214,759	212,272	214,437
Shares					
Share price	€	**90.45**	77.56	89.10	90.37
Munich Re's market capitalisation	€bn	**20.8**	17.8	20.5	20.7
Other					
Combined ratio non-life reinsurance	%	**98.9**	98.8	95.5	96.3
Number of staff		**40,962**	40,891	40,774	41,004

in €m	Total	Q4 2004	Q3 2004	Q2 2004	Q1 2004
1. Gross premiums written	**38,071**	9,139	9,256	9,318	10,358
2. Net earned premiums	**36,534**	9,318	9,055	9,111	9,050
3. Investment result	**8,041**	2,311	1,667	2,209	1,854
4. Other income	**1,116**	270	263	231	352
Total income (2–4)	**45,691**	11,899	10,985	11,551	11,256
5. Net expenses for claims and benefits	**31,636**	7,820	8,008	7,935	7,873
6. Net operating expenses	**8,847**	2,545	2,097	2,070	2,135
7. Other expenses	**2,260**	1,024	395*	443*	398*
Total expenses (5–7)	**42,743**	11,389	10,500*	10,448*	10,406*
8. Result before amortisation of goodwill	**2,948**	510	485*	1,103*	850*
9. Amortisation of goodwill	**344**	172	51	66	55
10. Operating result before taxes on income*	**2,604**	338	434*	1,037*	795*
11. Taxes on income*	**712**	24	48*	388*	252*
12. Minority interests in earnings	**59**	8	21	21	9
13. Profit for the year	**1,833**	306	365	628	534

*Adjusted after reallocation of "other tax" to "other expenses".

		Total	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Earnings per share	€	**8.01**	1.34	1.60	2.75	2.33

Important dates 2005/2006

28 April 2005	Annual General Meeting
29 April 2005	Dividend payment
9 May 2005	Interim report on 1st quarter 2005
4 August 2005	Interim report on 2nd quarter 2005
4 August 2005	Half-year press conference
7 November 2005	Interim report on 3rd quarter 2005
14 March 2006	Balance sheet press conference for 2005 financial statements
14 March 2006	Analysts' conference for 2005 financial statements
19 April 2006	Annual General Meeting
20 April 2006	Dividend payment
9 May 2006	Interim report on 1st quarter 2006
3 August 2006	Interim report on 2nd quarter 2006
7 November 2006	Interim report on 3rd quarter 2006

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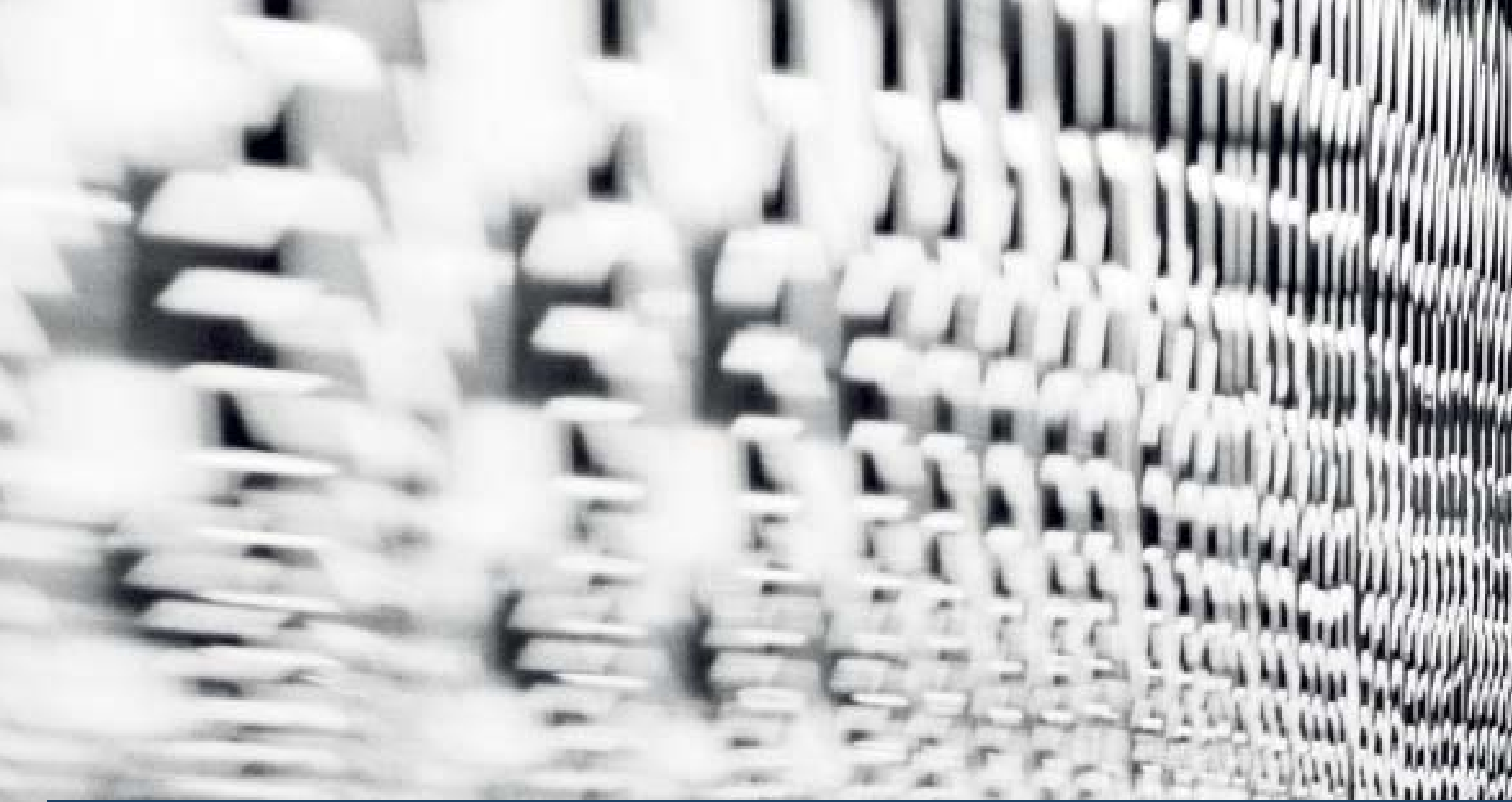

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