

The compensation structure of Munich Reinsurance Company's Board of Management

The Board of Management's compensation is made up of various components, as shown in the following table:

Compensation structure of Board of Management				
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 Board	Fixed	–	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 – MR 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.

Annual bonus, medium-term incentive plan and long-term incentive plan together form a well-balanced incentive system.

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.

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