2002

Munich Reinsurance Company
Annual Report

Münchener Rück
Munich Re Group

Munich Reinsurance Company

	2002 €m	2001 €m	2000 €m
Gross premiums written	21,857	15,464	12,818
Investments	57,955	48,655	43,384
Net underwriting provisions	46,091	39,592	34,559
Shareholders' equity	7,115	4,449	4,228
Profit for the year	2,606	441	441
Dividend	223	221	221
Dividend per share in €	1.25	1.25	1.25
Share price at 31 December in €	114.00	304.95	380.00
Market capitalisation at 31 December	20,368	53,961	67,239

Munich Reinsurance Company
Report on the 123rd year of business
1 January to 31 December 2002

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

01

Report of the Supervisory Board

Ladies and gentlemen,

2002 was an exceptionally difficult year for Munich Re, especially because of the heavy price losses on the capital markets, which also had a substantial impact on the Munich Re Group.

Throughout the period under review, the Supervisory Board monitored the Board of Management and gave counsel where appropriate. It regularly obtained detailed information on the development of business and the situation of the Company and its main affiliates. As Chairman of the Supervisory Board, I kept in close contact with the Chairman of the Board of Management for this purpose. The Board of Management also notified all members of the Supervisory Board without delay in between the scheduled meetings about individual decisions and business transactions that were of particular significance for the Company's further development.

Meetings of the Supervisory Board

At the four meetings of the Supervisory Board, the Board of Management gave in-depth reports on business performance. These reports focused on Munich Re's activities in the US and in particular on the substantial expenditure to increase American Re's loss provisions. American Re was given a capital injection to consolidate and extend its position in the US reinsurance market. The Board of Management reported to us in detail about the claims burdens resulting from the terrorist attack on the World Trade Center of 11 September 2001, as well as on the losses in the value of investments following the exceptional capital market weakness and the resultant reduction in equity capital.

Another topic of our discussions was the further improvement of corporate governance within Munich Re. After a thorough discussion and on the recommendation of a working group that we had set up, the Supervisory Board changed a number of the internal rules of procedure of the Supervisory Board and Board of Management and established an Audit Committee. In addition, the content and timing of the regular and extraordinary reports of the Board of Management to the Supervisory Board were specified. Munich Re complies with virtually all the recommendations of the German Code of Corporate Governance, thus conforming with high international standards in this area as well.

The Board of Management also kept us briefed about the Munich Re Group's value-based management, its fields of application and its limits. The Supervisory Board also considered on several occasions the challenges and opportunities arising for the Munich Re Group from the trends in state social security systems in industrialised countries.

The shareholding transactions announced by Munich Re and Allianz in 2001 were successfully completed in the year under review. Munich Re now holds 25.7% of the capital and 26.3% of the voting rights in HypoVereinsbank AG and 91.9% of ERGO Versicherungsgruppe AG; we obtained ongoing reports on the status of the cooperation between HypoVereinsbank and the ERGO companies.

The Board of Management outlined detailed plans for the coming business years, first and foremost strategies for developing new markets and future fields of business. Besides this, we considered concepts for new distribution channels, the harmonisation of IT platforms, staff development and personnel planning.

The Annual General Meeting on 17 July 2002 adopted a number of amendments to the Articles of Association. In preparation for this, the Supervisory Board discussed in particular the authorisation to buy back shares and to issue warrants and/or bonds with warrants, as well as granting a new authorisation to increase the Company's share capital.

Committees of the Supervisory Board

The Standing Committee met three times in 2002. Its work included matters for which the Supervisory Board's approval was required under the internal rules of procedure. The Personnel Committee also met three times in order to deal with personnel matters involving members of the Board of Management. No meeting of the Conference Committee was required.

At our meeting on 6 December 2002 we established an Audit Committee. Its remit is to deal with the accounting for the annual financial statements and the quarterly report as well as with questions of risk management, the requisite independence of the external auditor, commissioning the annual audit and auditor, determining the focal points of the audit, and agreeing the auditor's fee.

Annual financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the following documents and gave them an unqualified auditor's opinion: the Munich Reinsurance Company's bookkeeping, its company financial statements and the consolidated financial statements as at 31 December 2002, plus the management reports for the Company and the Group. The auditor's reports were promptly given to all the members of the Supervisory Board. The Audit Committee examined the company and consolidated financial statements, the management reports and the auditor's reports and discussed them in detail with the auditor at the Audit Committee meeting on 27 April 2003 to prepare for the examination of the audit by the full Supervisory Board. The results of the Audit Committee's discussion were then presented to the full Supervisory Board at its meeting on 28 April 2003.

The Supervisory Board checked the company financial statements, the consolidated financial statements, the management reports and the proposal of the Board of Management for appropriation of the balance sheet profit. This examination did not result in any adverse findings.

At the balance sheet meeting of the Supervisory Board, we approved and 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 an unchanged dividend of €1.25 per share.

Corporate governance

On 6 December 2002 the Supervisory Board and the Board of Management published their first declaration of compliance with the German Government Commission's Code of Corporate Governance. This declaration makes clear that we have committed ourselves to good, responsible corporate management and control.

Personalia

With effect from 1 April 2002 we appointed Mr. John Phelan to the Board of Management. He had worked for Munich Reinsurance Company of Canada (MROC) for many years, latterly as President and Director. Since 9 March 2002 he has been President, Chief Executive Officer and Chairman of the Board of American Re Corporation (ARC).

As at 30 June 2002 Dr. Wolf Otto Bauer and Dr. Hans-Wilmar von Stockhausen ceased to be members of the Board of Management, having reached retirement age. Both gentlemen served our Company with great personal dedication for over 30 years. We thank them for their responsible and successful work on behalf of Munich Re.

At the end of 2003, Dr. Hans-Jürgen Schinzler will leave Munich Re's Board of Management. At today's meeting of the Supervisory Board we appointed Dr. Nikolaus von Bomhard to succeed him as Chairman of the Board of Management with effect from 1 January 2004.

There have also been changes on the Supervisory Board. One of the representatives of the shareholders, Dr. Ferdinand Piëch, left the Supervisory Board on 16 April 2002. As his successor with effect from 17 April 2002, the Registration Court appointed Dr. Bernd Pischetsrieder. This appointment was ratified by the Annual General Meeting on 17 July 2002.

Dr. Alfons Titzrath gave up his seat on the Supervisory Board at the end of the Annual General Meeting on 17 July 2002. The shareholders voted for Professor Karel Van Miert to succeed him.

On 6 December, at its last meeting in 2002, Dr. Rolf-E. Breuer and Dr. Henning Schulte-Noelle stepped down from the Supervisory Board. As their successors, the Registration Court appointed Professor Dr. Hubert Markl and Mr. Wolfgang Mayrhuber members of the Supervisory Board. These appointments are scheduled to be ratified by the Annual General Meeting on 11 June 2003.

May we take this opportunity to again convey to the members who have left the Supervisory Board our sincere appreciation for their many years of valuable work.

The Supervisory Board wishes to thank the members of the Board of Management and the staff of the individual Group companies for their hard work and commitment on behalf of the company. They all contributed to Munich Re successfully holding its own, even under the difficult circumstances of the business year 2002.

Munich, 28 April 2003

For the Supervisory Board

Ulrich Hartmann
Chairman

Supervisory Board

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

DEPUTY CHAIRMAN
Herbert Bach
Employee of the Munich Reinsurance Company

DEPUTY CHAIRMAN
Dr. jur. Henning Schulte-Noelle (until 6 December 2002)
Chairman of the Board of Management of Allianz AG

Hans-Georg Appel
Employee of the Munich Reinsurance Company

Klaus Peter Biebrach
Employee of the Munich Reinsurance Company

Dr. jur. Rolf-E. Breuer (until 6 December 2002)
Chairman of the Supervisory Board of Deutsche Bank AG

Peter Burgmayr
Employee of the Munich Reinsurance Company

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

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

Gertraud Köppen
Employee of the Munich Reinsurance Company

Prof. Dr. rer. nat. Hubert Markl (from 13 December 2002)
Professor of Biology at the University of Constance

Wolfgang Mayrhuber (from 13 December 2002)
Deputy Chairman of the Board of Management of Deutsche Lufthansa AG

Prof. Karel Van Miert (from 17 July 2002)
Professor at the University of Nyenrode

Hon.-Prof. Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (until 16 April 2002)
Chairman of the Supervisory Board of Volkswagen AG

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

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder (from 17 April 2002)
Chairman of the Board of Management of Volkswagen AG

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

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

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

Wolfgang Stögbauer
Employee of the Munich Reinsurance Company

Josef Süßl
Employee of the Munich Reinsurance Company

Dr. rer. pol. Alfons Titzrath (until 17 July 2002)
Former Chairman of the Supervisory Board of Dresdner Bank AG

Judy Võ
Employee of the Munich Reinsurance Company

Ludwig Wegmann
Employee of the Munich Reinsurance Company

For seats held on other supervisory boards and comparable bodies see pages 46 ff.

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Board of Management

Dr. jur. Hans-Jürgen Schinzler
(Chairman of the Board of Management)

Executive Offices
Press
Internal Auditing

Dr. jur. Wolf Otto Bauer (until 30 June 2002)

Corporate Underwriting/Global Clients
together with Stefan Heyd

Dr. jur. Nikolaus von Bomhard

Europe 2 and Latin America
(until 30 June 2002 together with
Dr. jur. Hans-Wilmar von Stockhausen)

Clement Booth

Special and Financial Risks
Investor Relations
Strategic Planning

Dr. jur. Heiner Hasford

Finance
General Services
Organisational Design and Development

Stefan Heyd

Corporate Underwriting/Global Clients
(until 30 June 2002 together with
Dr. jur. Wolf Otto Bauer)

Christian Kluge

Europe 1
(until 30 June 2002 together with
Dr. jur. Hans-Wilmar von Stockhausen)
Corporate Communications

John Phelan (from 1 April 2002)

North America

Dr. phil. Detlef Schneidawind

Life and Health
Human Resources

Dr. jur. Jörg Schneider

Accounting
Controlling
Taxes
Information Technology

Dr. jur. Hans-Wilmar von Stockhausen (until 30 June 2002)

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

Karl Wittmann

Asia, Australasia, Africa

Division of responsibilities as from 1 April 2002.

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Management report

As a professional reinsurer, the Munich Reinsurance Company operates worldwide in all classes of insurance. It is the parent company of the Munich Re Group, whose business encompasses reinsurance, primary insurance and asset management.

In the business year 2002, the Munich Reinsurance Company wrote premium income of €21.9bn (15.5bn), representing growth of 41.3%. Munich Re assumed two high-volume blocks of business last year – one from our US subsidiary American Re – which accounted for almost two-thirds of the growth in premium income. As a result, the share of business from clients outside Germany also increased further. German clients contributed only 23% (32%) of our premium income in the year under review.

The underwriting result improved distinctly compared with the very poor previous year, which had been significantly affected by the claims burden from the terrorist attack on 11 September 2001. This is reflected in the respective combined ratios: including claims costs from natural catastrophes, our combined ratio fell to 108.3% (127.4%).

In the business year 2002, particularly as a consequence of strong growth in premium, we had to allocate €1,490m to our claims equalisation provisions in accordance with the provisions of German commercial law. This contrasted with a withdrawal of €1m the year before. Large amounts were added to the provisions particularly in liability (€463m), aviation (€478m) and motor insurance (€342m). After allocations to claims equalisation provisions, the underwriting result shows a higher loss of €2,529m (2,520m).

We managed to record a significant increase in our investment result, which amounted to €6,867m (4,225m). In accordance with accounting regulations, €1,113m (1,114m) of this has been incorporated in the underwriting result. The overall result was significantly affected by the shareholding transactions with Allianz AG and the high writedowns necessitated by the weak state of the capital markets.

The profit for the year came to €2,606m (441m). After allocation of €1,303m (220m) to the revenue reserves, a balance sheet profit of €1,303m (221m) remains. At the Annual General Meeting, it will be proposed that a further €1,080m from the balance sheet profit be allocated to the revenue reserves and that an unchanged dividend of €1.25 be paid on each share entitled to dividend.

Classes of business

In our **life reinsurance** business we were able to record another significant rise in premium income. Whilst we are still the leading reinsurer in Germany, we are achieving considerably stronger growth in our business abroad. We continued to register above-average growth in the UK in particular. The result improved slightly compared with the previous year. Life insurance is still expanding strongly, the long-term driving forces being the demographic trend and the difficult situation in which state social security systems find themselves. For 2003 we anticipate a further increase in premium income and a better result.

In **health reinsurance,** we more than doubled our premium income. A large part of the growth came from new business, including one substantial portfolio ceded to us by our US subsidiary American Re. Once again, the overall result was slightly negative. In the renewals at 1 January 2003, we terminated unprofitable business, so that we expect premium income for 2003 to show a decrease on last year. However, as we are continuing to focus on profitable business, we should see an improvement in the results.

The growth in premium income in **personal accident reinsurance** derived from business outside Germany, which we have expanded further. After a small profit in the previous year, the result was slightly negative. We suffered losses in workers' compensation business in particular. For 2003, we expect to see a marginal fall in premium. Our remedial measures are likely to have a favourable impact, with the result again moving into the black.

In **liability reinsurance,** premium income has almost trebled, mainly due to two important new blocks of business that we added to our portfolio. The combined ratio improved markedly compared with the previous year, owing to the larger volume of business. However, the result still deteriorated in absolute terms. In the current risk period, premium income is expected to show only moderate growth. It should be possible to achieve a noticeable improvement in the result compared with last year.

In **motor reinsurance,** we also achieved a considerable increase in premium income, with our remedial measures bearing fruit. Thanks to our intensive efforts to enhance the quality of our portfolio, we managed to distinctly improve our result. Following the losses in past years, we were once again able to show a profit in this class of business in 2002. For 2003, we expect premium income to be roughly the same as last year. There should also be a further improvement in the result.

In **marine reinsurance,** the growth in premium is likewise due to our foreign business. The result was again negative, essentially because of higher claims burdens from major losses in the second half of the year. Premium income will fall slightly in the current year as a result of adjustments to the portfolio. As we have improved the quality of our business, it should be possible to register a very significant increase in our result, assuming that the burden from major losses is average.

In **aviation reinsurance,** the terrorist attack of 11 September 2001 meant that we were able to implement drastic rate improvements, thereby recording substantial growth in premium income. The higher rates, together with a fortuitously low number of losses sustained in the year under review, led to a large profit. In the current year, we expect a moderate fall in premium income. Given average claims incidence, we expect the result to be lower.

Compared to last year, our premium income in **fire reinsurance** rose sharply. We managed to achieve substantial price increases for existing covers. Besides this, we also won attractive new business in many markets, despite keen competition. We succeeded in adding new treaties with large premium volumes to our fire reinsurance portfolio. Independent of this, business that did not meet our price expectations was terminated. The result was heavily influenced by our strengthening of the provisions for the World Trade Center loss and the claims burden from the floods in Central Europe. Thanks to the higher quality and profitability of our business, the result was nevertheless significantly better. We will continue our efforts to optimise the prices and conditions of reinsurance covers. For 2003, we do not expect any major changes in premium income. The reduction in volume resulting from the termination of unattractive business should be offset by the growth in premium income from business rated at a risk-commensurate level. Results should be positively affected by the further improvement in the quality of the portfolio. The decisive factor, however, will be what claims burdens we suffer from natural catastrophes and other major losses.

In the **engineering classes of business** (machinery, EAR, CAR, electronic equipment, etc.), we managed to improve our result considerably, despite the fact that the premium volume was almost unchanged. This was largely down to our consistent – and still ongoing – remedial efforts. For 2003, we therefore expect a further appreciable improvement in the result, with a slight reduction in premium income.

Subsumed under the heading of **“other classes of business”** are all the remaining classes of property insurance (burglary, hail, water damage, contingency, windstorm, livestock and householders’ and homeowners’ comprehensive insurance) as well as credit, fidelity guarantee, legal expenses, luggage, and the specie insurance of private risks. These classes of business together recorded a clear increase in premium income, with the biggest contribution to growth coming from credit reinsurance. The overall result was clearly negative, however. In windstorm and homeowners’ comprehensive insurance in particular, we recorded underwriting losses as a result of the heavy claims burden from natural catastrophes. In credit insurance, too, the continuation of the difficult economic situation worldwide and the associated increase in insolvency rates meant that we closed with a negative result.

Investments

The book value of the Munich Reinsurance Company's investments (excluding deposits retained on assumed reinsurance) rose by 17% to €35.2bn (30.2bn).

Real estate showed a slight increase to €1.07bn (0.96bn).

Investments in affiliated enterprises and participating interests grew by around 52% to €16.4bn (10.8bn), with various regroupings that resulted in shareholdings being classified as participating interests.

The other investments fell by 4% to €17.7bn (18.5bn). In this category, shares and investment fund certificates showed a decrease of 21% to €9.6bn (12.1bn). Bearer bonds and other fixed-interest securities increased to €7.7bn (6.1bn).

The market value of our real estate, equity investments (shareholdings in affiliated enterprises, participating interests, shares and investment fund certificates, bearer bonds and other fixed-interest securities amounted to €44bn (66bn) at 31 December 2002. This represents a decline of 33% on the previous year, reflecting the unprecedented stock market slump.

Altogether, income from investments climbed to €12.4bn (4.9bn). In particular, gains of €9.2bn (1.3bn) were realised on the disposal of investments. These include the capital gains realised from the reorganisation of Munich Re's and Allianz's shareholdings.

Losses on the disposal of investments totalled €429m (206m).

Writedowns on investments amounted to €4.9bn (391m) in the business year 2002. This significantly greater need for writedowns mainly involved shares, owing to the very negative developments on the stock markets. Investments with participating interests have been valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for under Section 341b of the German Commercial Code. In addition, writedowns were made on Munich American Holding Corporation (MAHC) and HypoVereinsbank AG.

At €6.9bn, the overall investment result still surpassed the previous year's result of €4.2bn.

Prospects

For the current business year, we expect premium income to reach the same level as last year. This reflects our restrictive, strictly profit-oriented underwriting policy. We are reckoning with slight increases in premium income in life and liability reinsurance. Particularly in the engineering classes of business, on the other hand, premium income will probably fall.

We have succeeded in improving prices and conditions further in the business we have assumed and will continue to do so. This should have a positive impact on the underwriting results in the current year. The crucial factor, however, will be what claims costs affect us as a result of natural catastrophes and other major losses during the risk period.

We assume that our investment result will show a decline due to the lower interest rates, even if stock prices recover from their current low level. Further losses on the disposal of investments and writedowns on our equity portfolios cannot be ruled out either if market prices fall further.

It is too early to forecast the overall result at this stage.

Risks of future development

The events of 2002 again severely tested our Group and its risk management system. Like many others, we were substantially affected by the dramatic slumps on the capital markets.

As part of our risk management we regularly examine what claims burdens we are able and willing to carry, and adjust our underwriting policy and our retrocessions accordingly. We also use defined scenarios as an early-warning device for considering events whose occurrence appears less probable, and take account of this in our liquidity planning.

Functions and organisation of risk monitoring and control

In our risk management activities, we continually analyse our risk situation. Our experts evaluate the most important risks for us with a view to their occurrence probability and possible financial repercussions. In addition, we carry out stress tests and scenario analyses and take appropriate measures for excluding or limiting unacceptable risks.

Key features of our risk management system are centralised organisation and decentralised implementation. There is strict separation of risk management and risk controlling, and the related responsibilities are well defined.

The central risk controlling unit defines standards, develops and maintains the systems and coordinates risk management activities. It is also responsible for regularly informing management about the current risk situation and for proposing measures relating to risk policy.

Competence and responsibility for managing risks lies largely with the decentralised risk managers, who are able to take the appropriate steps to deal promptly with any situations arising. They are responsible for the risk situation in their respective units and it is their job to check and continually monitor whether the risk policy measures taken are sufficient to effectively reduce the risk potential.

The role of internal auditing is to examine independently the risk management system and its further development. It also checks whether the controls and monitoring measures that have been implemented are appropriate and are being complied with.

Our risk management system is also checked by the external auditor as part of the annual audit.

We classify our risks according to German Accounting Standard DRS 5-20 as follows:

– Underwriting risks
– Risks from defaults on receivables from underwriting business
– Investment risks
– Operational risks

Underwriting risks

Underwriting risks result from the fact that significant cash flows for underwriting business may deviate from expected amounts. We distinguish here between

– the premium/claims risk in property-casualty business:
premiums fixed in advance have to finance claims and benefits whose scope is uncertain at the time the premiums are calculated (risk of random fluctuations and risk of change);
– the premium/benefits risk in life and health insurance:
a premium that may be fixed for many years at a constant level has to finance benefits which can be affected by intervening trends as regards when they become due and also in terms of scope (risk of change);
– the reserving risk in the assessment of the underwriting provisions required.

In reinsurance we attach great importance to diversifying our business relations internationally. This enables us to extend the geographical spread of the risks we assume and to achieve a better balance in our portfolio.

In our view, closely gearing our operations to the principles of value-based management is an essential element of responsible risk prevention. We want to make capital available only at conditions that promise an appropriate return. After several years in which rates were far too low, terms of trade in the reinsurance market returned at least partially to risk-commensurate levels. In the year under review we were able to achieve a large portion of the substantial improvements in prices and conditions that were necessary.

Underwriting guidelines and limits

We have clearly regulated responsibility and accountability for the whole process of concluding reinsurance contracts. Binding underwriting guidelines and limits document who may accept what risks and up to what amounts; compliance is routinely checked by means of internal reviews. Liability limits are essential for underwriting profitable business, since unlimited covers are ultimately not calculable.

Accumulation budgets

Providing cover for large and very large catastrophe losses is part of the core business of reinsurance. Particularly in property lines, we assume very large liabilities for earthquake and windstorm losses, and to lesser extent for hailstorm and flood risks. These losses often affect many of our clients at the same time. Owing to this accumulation character, a single loss event can have a substantial impact on the result situation. It is therefore essential that the natural hazard liabilities underwritten are controlled and limited on a Group-wide basis. This is why we introduced accumulation budgets more than ten years ago. By means of these budgets, the Board of Management stipulates annually the maximum liability to be assumed by individual divisions of the Company for such events per loss accumulation zone. The loss scenarios underlying the accumulation budgets are regularly checked by means of scientific comparisons and analyses.

Retrocession

For selected risks, we buy retrocession covers from retrocessionaires with good security.

Provisions

Provisions for uncertain liabilities are established using actuarial methods. Our division Corporate Underwriting/Global Clients regularly checks the claims provisions of all the divisions to make sure they are sufficient. We make appropriate adjustments to these provisions where necessary.

Risks from defaults on receivables from underwriting business

Risks from defaults on receivables from underwriting business may occur in relation to retrocessionaires, cedants and brokers. 2.2% of our receivables on underwriting business at the balance sheet date were outstanding for more than 90 days. The average default rate of the last three years amounts to 0.1%.

Investment risks

Investment risks comprise the market price risks, credit risks and liquidity risks. In the investment sector, we consistently follow a number of principles: we only make investments from which we can expect an appropriate return, and we always ensure that they offer a high degree of security, as reflected in high-quality ratings of counterparties. Also important for us is sufficient liquidity at all times to cover our obligations from underwriting business and a targeted diversification in terms of region and type of investment. Nevertheless, last year's dramatic collapse in share prices, of a dimension that no one could have foreseen, affected to a disproportionate extent the financial stocks in which we traditionally invest particularly strongly.

Mandates and investment guidelines

The companies entrusted with management of our assets, in particular MEAG, are given mandates with exact criteria. A clear functional separation between portfolio management, trading and risk controlling is ensured.

Market price risks

Possible market price risks in our investments are measured using the value-at-risk approach, which is also employed in our strategic investment planning to model the optimum investment portfolio according to our risk preference.

We perform regular duration analyses to counter the risks posed by changes in interest rates for the coverage of our obligations from reinsurance, and where necessary we hedge interest-sensitive portfolios.

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

Using stress tests, we also simulate unexpected market functuations and devise strategies for countering them in practice. A change in share prices of ±10% (±20%) and a corresponding rise in the interest rate curve of ±100 (±200) basis points (BP) produce the following theoretical changes in market value at 31 December 2002 for the Munich Reinsurance Company:

Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	+€5.337bn
Increase of 10%	+€2.669bn
Fall of 10%	–€2.669bn
Fall of 20%	–€5.337bn
Market values at 31.12.2002	€33.126bn

Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP	–€1.329bn
Increase of 100 BP	–€0.696bn
Fall of 100 BP	+€0.766bn
Fall of 200 BP	+€1.613bn
Market values at 31.12.2002	€16.943bn

Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	+€1.399bn
Fall of 10%	–€1.399bn
Market values at 31.12.2002	€13.986bn

We use derivative financial instruments for three principal reasons: hedging parts of the portfolio, optimising earnings, and implementing planned purchases and sales.

Credit risks

Of central importance for credit risks in the portfolio management of fixed-interest securities is the credit assessment of the individual investment. The majority of fixed-interest securities in our portfolio have been issued by governments or banks with excellent ratings, e.g. German government bonds, US Treasuries, and mortgage-backed bonds. Also significant for assessing credit risks in the portfolio as a whole are investment volume, collateralisation and the default probability assigned to the individual issuers.

The question of credit risks is currently being debated intensively in connection with the revision of regulatory requirements for banks (Basel II). We have set up a Basel II Centre of Competence in order to identify at an early stage the repercussions for the management of credit risks and the resultant business opportunities for Munich Re.

Liquidity risks

Detailed liquidity planning ensures that Munich Re is able to make the necessary payments at all times, especially for major loss scenarios. This planning concept, which has been in place for many years, has proved its worth after large natural catastrophes and in connection with the World Trade Center loss.

Operational risks

These are hazards posed by technical or human failure, by natural impairments of a company's operations or by other adverse developments in its external environment which may lead to unexpected losses. They include criminal acts, inadequate controls, organisational deficiencies or events resulting in claims for damages from third parties.

Such risks, which may be connected with any activity at the company, its staff, or the use of technical systems, can only be minimised through a wide range of targeted risk management measures. Beyond this, it is our declared aim to sensitise employees to possible risks and thereby to establish an appropriate risk culture. This includes the chance and the willingness to learn from mistakes and to recognise and grasp opportunities for change and improvement. We organise seminars and information events geared to promoting this attitude. An open approach to risks is a central element of efficient risk management.

Security in the IT sector

We identify and limit IT risks through decentralised security organisations that remain in close contact with one another. On the reinsurance side, an internationally operating unit draws up security regulations for the reinsurance subsidiaries and also monitors compliance with these rules. We place emphasis not only on the protection of our own data; of equal importance to us is the security of the information entrusted to us by our clients. Thanks to the precautions we had taken, we were barely affected by the global and sometimes spectacular attacks from computer viruses and other such phenomena to which large firms where exposed in 2002. Isolated virus infections were unable to inflict any significant damage on our global networks. We attach great importance to permanently improving these precautions.

Our security regulations embrace not only the technical design of hardware and software systems but also functional security structures and organisational measures. This includes training our staff in the proper handling of systems and data. In 2002 we initiated a "Security Awareness Programme", aimed at making staff aware of potential risks in the IT sector and thus reducing them. Besides this, Munich Re staff have to comply with the directives on information security and data protection.

The dependence of our global business on central IT systems also requires that operation of the most important systems can be quickly restored in the event of failure or outage of computer centres. In the course of 2002, a concept was developed on the basis of which the necessary organisational and technical preconditions were created and concrete measures implemented. The basic effectiveness of this concept, which will be regularly updated in future, was demonstrated by an emergency test in December 2002.

Risks in the human resources sector

Munich Re has binding standards of corporate integrity governing conduct within the companies themselves, their business transactions and other relationships with external parties. These standards serve not least to prevent conflicts of interest for staff, to ensure that we use only fair and legal means of competition. The clear separation of management and control functions limits the risk of criminal acts. Risks arising from insufficiently qualified personnel and so-called "head monopolies" are countered by suitable staff development measures and management instruments, as well as succession planning.

Staff who have to deal with confidential data and insider information undertake to comply with the relevant regulations and to handle the information responsibly. A Munich Re compliance officer ensures that insider information is handled in conformity with the law. Information of this kind is generally classified and marked as such.

Legal risks

Risks arising from changes in the legal environment may affect all areas of our Company. We counter these mainly by monitoring current developments and actively participating in various bodies and associations to contribute our views both as a company and as a representative of our branch of industry.

Outlook

Markets, products, structures and operations are subject to processes of change at ever shorter intervals. This means that the risk situation is continually altering, one of the potential hazards being that opportunities may not be recognised or exploited in time.

Of particular significance in this respect are strategic risks, which result chiefly from management decisions on the further development of the Group and its business units. In order to help ensure the effectiveness of our activities, we have detailed our corporate objectives in so-called balanced scorecards. In the context of value-based management, this step enables us to implement better the concrete initiatives required by strategic decisions. In addition, balanced scorecards help us to monitor the implementation of measures and to take countermeasures at an early stage in the event of any deviations from the intended objectives.

We will continue to refine and improve our risk management in future, to ensure efficient identification, analysis, assessment and control of risks. Particular consideration will be given to the dynamic development of our business environment and the need to react to this flexibly.

Summary of the risk position

Despite the high claims costs from natural catastrophes and the substantial losses in the value our investments, the solvency of the Munich Reinsurance Company or its subsidiaries was never in danger at any time during the past business year.

Altogether, we see the Munich Reinsurance Company's situation with regard to risks as controlled and viable.

04

Financial statements

Balance sheet as at 31 December 2002

ASSETS	Notes	T€	T€	T€	T€	Prev. year T€
A. Intangible assets	(1)				143,303	30,735
B. Investments	(2, 3)					
I. Real estate				1,067,853		964,097
II. Investments in affiliated enterprises and participations*						
1. Shares in affiliated enterprises			11,280,014			7,170,517
2. Loans to affiliated enterprices			1,412,517			849,387
3. Participations			3,681,847			2,665,203
4. Loans to participations			62,672			67,114
				16,437,050		10,752,221
III. Other investments						
1. Shares, investment fund certificates and other non-fixed-interest securities			9,571,528			12,095,412
2. Bearer bonds and other fixed-interest securities			7,698,849			6,055,201
3. Mortgage loans			12,152			12,322
4. Other loans						
a) Registered bonds		3,539				3,908
b) Loans and promissory notes		6,304				9,471
c) Miscellaneous		222				128
			10,065			13,507
5. Deposits with banks			370,197			230,581
6. Miscellaneous investments			73,195			52,653
				17,735,986		18,459,676
IV. Deposits retained on assumed reinsurance business				22,714,482		18,479,311
					57,955,371	48,655,305
C. Receivables						
I. Accounts receivable on reinsurance business Thereof from – affiliated enterprises: T€782,704 (604,907) – participations: T€3,191 (281,846)				2,518,588		2,635,236
II. Other receivables Thereof from – affiliated enterprises: T€254,877 (228,864) – participations: T€9,047 (2,761)				638,436		764,243
					3,157,024	3,399,479

* Companies in which a participating interest is held.

	Notes	T€	T€	T€	T€	Prev. year T€
D. Other assets						
I. Tangible assets and inventories				48,007		35,410
II. Cash at bank in current accounts, cheques and cash in hand				169,777		186,378
III. Own shares				177		0
IV. Miscellaneous assets				0		4,691
					217,961	226,479
E. Deferred taxes					336,148	441,309
F. Other deferred items	(4)					
I. Accrued interest and rent				119,356		100,115
II. Miscellaneous deferred items				2,076		3,980
					121,432	104,095
Total assets					61,931,239	52,857,402

EQUITY AND LIABILITIES	Notes	T€	T€	T€	Prev. year T€
A. Shareholders' equity	(5)				
I. Issued capital			457,388		452,992
II. Capital reserve			2,989,918		2,713,342
III. Revenue reserves			2,364,708		1,061,799
IV. Balance sheet profit			1,303,081		220,979
				7,115,095	4,449,112
B. Special reserve	(6)			175,033	148,905
C. Underwriting provisions	(7)				
I. Unearned premiums					
1. Gross amount		3,927,764			3,289,481
2. Less for retroceded business		227,297			233,220
			3,700,467		3,056,261
II. Provision for future policy benefits					
1. Gross amount		19,003,044			17,046,579
2. Less for retroceded business		1,893,802			2,095,453
			17,109,242		14,951,126
III. Provision for outstanding claims					
1. Gross amount		22,935,279			20,767,638
2. Less for retroceded business		2,101,009			2,475,840
			20,834,270		18,291,798
IV. Provision for premium refunds					
1. Gross amount		21,693			24,299
2. Less for retroceded business		6,388			4,362
			15,305		19,937
V. Claims equalisation provision and similar provisions			4,127,728		2,753,501
VI. Other underwriting provisions					
1. Gross amount		313,803			532,224
2. Less for retroceded business		9,712			12,863
			304,091		519,361
				46,091,103	39,591,984

EQUITY AND LIABILITIES	Notes	T€	T€	T€	Prev. year T€
D. Other accrued liabilities	(8)				
I. Provisions for employees' pensions and similar commitments			282,881		197,138
II. Provisions for tax			803,328		757,107
III. Miscellaneous			453,001		182,147
				1,539,210	1,136,392
E. Deposits retained on retroceded business				2,227,724	2,353,537
F. Other liabilities					
I. Accounts payable on reinsurance business Thereof to – affiliated enterprises: T€182,798 (135,321) – participations: T€150,221 (221,504)			2,142,867		2,074,383
II. Notes and debentures	(9)		1,198,934		1,179,473
III. Amounts owed to banks	(10)		636,594		901,824
IV. Miscellaneous liabilities Thereof towards – affiliated enterprises: T€530,496 (816,099) – participations: T€27,079 (94,150) Thereof from taxes: T€4,146 (14,523) Thereof for social security: T€3,567 (2,744)	(11)		803,708		1,021,514
				4,782,103	5,177,194
G. Deferred items	(12)			971	278
Total equity and liabilities				61,931,239	52,857,402

Income statement for the business year 2002

ITEMS	Notes	T€	T€	T€	Prev. year T€
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written		21,857,190			15,463,618
b) Retroceded premiums		1,493,536			1,737,908
			20,363,654		13,725,710
c) Change in gross unearned premiums		–934,836			–931,010
d) Change in retroceded share of unearned premiums		–2,198			–6,172
			–937,034		–937,182
				19,426,620	12,788,528
2. Interest on underwriting provisions for own account	(14)			1,018,197	978,166
3. Other underwriting income for own account				1,768	1,207
4. Claims incurred for own account					
a) Claims paid					
aa) Gross amount		11,724,994			9,579,618
ab) Retroceded amount		1,078,335			989,049
			10,646,659		8,590,569
b) Change in provision for outstanding claims					
ba) Gross amount		3,992,390			4,249,607
bb) Retroceded amount		–166,498			1,303,642
			4,158,888		2,945,965
				14,805,547	11,536,534
5. Change in other underwriting provisions for own account					
a) Net provision for future policy benefits			–769,774		–245,170
b) Other net underwriting provisions			130,900		–82,004
				–638,874	–327,174
6. Expenses for premium refunds for own account				509	16,925
7. Operating expenses for own account	(15)				
a) Gross operating expenses			6,341,239		4,777,871
b) Less commission received on retroceded business			320,158		388,698
				6,021,081	4,389,173
8. Other underwriting expenses for own account				19,299	18,260
9. Subtotal				–1,038,725	–2,520,165
10. Change in claims equalisation provision and similar provisions				–1,490,515	526
11. Underwriting result for own account	(13)			–2,529,240	–2,519,639

	Notes	T€	T€	T€	T€	Prev. year T€
II. Non-technical account						
1. Investment income	(16, 18)					
a) Dividends from participations			290,631			654,103
Thereof from affiliated enterprises: T€132,094 (300,648)						
b) Income from other investments						
Thereof from affiliated enterprises: T€397,435 (298,563)						
ba) Rents from real estate		157,988				146,148
bb) Income from other investments		2,614,067				2,615,435
			2,772,055			2,761,583
c) Income from write-ups			125,542			51,960
d) Realised gains on investments			9,159,537			1,321,636
e) Income from reduction of special reserve			32,384			139,077
				12,380,149		4,928,359
2. Investment expenses	(15, 17, 18)					
a) Expenses for the management of investments, interest paid and other expenses for investments			138,502			102,278
b) Writedowns on investments			4,886,786			391,365
c) Realised losses on investments			429,436			206,181
d) Allocations to special reserve			58,444			3,062
				5,513,168		702,886
				6,866,981		4,225,473
3. Interest income on underwriting provisions				1,112,870		1,114,254
					5,754,111	3,111,219
4. Other income					146,262	170,976
5. Other expenses					399,642	241,298
6. Operating result before tax					2,971,491	521,258
7. Taxes on profit and income				360,728		75,903
8. Other taxes				4,945		4,499
					365,673	80,402
9. Profit for the year					2,605,818	**440,856**
10. Profit brought forward from previous year					172	123
11. Transfer to revenue reserves					1,302,909	220,000
12. Balance sheet profit					1,303,081	**220,979**

Notes to the financial statements

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

Accounting and valuation methods

Basic principle

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

Intangible assets

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

Investments

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

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

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

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

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

Receivables

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

Other assets

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

Deferred taxes

Deferred taxes result from temporary differences between financial statement valuations and valuations prescribed for determining taxable income. They have been included on the assets side of the balance sheet insofar as differences arise as a result of the German tax reform laws since 1996. For foreign branches, deferred taxes are posted for differences between commercial and tax valuations and for tax loss carry-forwards.

Underwriting provisions

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

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

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

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

In the year under review we posted a major-risk provision for terrorism risks for the first time, in accordance with Section 30 of the German Accounting Regulations for Insurance Companies.

The “other underwriting provisions” mainly comprise provisions for anticipated losses, which are calculated on the basis of many years’ experience and taking into account the latest information we have, and provisions for profit commission.

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

Other accrued liabilities

In calculating the provisions for employees’ pensions, we have followed the IAS approach, taking into account future increases in pensions and salaries and measuring these using an actuarial interest rate of 5.9%. The other provisions are posted in accordance with the probable requirements.

Liabilities

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

Foreign currency translation

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

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

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

	Balance sheet		Income statement	
	31.12.2002	Prev. year	**2002**	Prev.year
Australian dollar	**1.86360**	1.73040	**1.73884**	1.73170
Canadian dollar	**1.65790**	1.40800	**1.48469**	1.38644
Pound sterling	**0.65180**	0.60880	**0.62891**	0.62171
Rand	**9.00440**	10.55960	**9.9001**	7.69710
Swiss franc	**1.45100**	1.48030	**1.46683**	1.51050
US dollar	**1.04940**	0.88180	**0.94583**	0.89545
Yen	**124.5320**	115.692	**118.1280**	108.711

Notes to the balance sheet – Assets

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

	Carrying amount 31.12.2001 T€	Translation/ fluctuation effect T€	Additions T€	Realloca-tions T€	Disposals T€	Apprecia-tion T€	Deprecia-tion T€	**Carrying amount 31.12.2002 T€**
(1) Intangible assets	30,735		124,694				–12,126	**143,303**
(2) Investments								
Real estate	964,097		155,564		–5,338		–46,470	**1,067,853**
Investments in affiliated enterprise and participations								
– Shares in affiliated enterprises	7,170,7517		8,095,901	187,240	–2,697,213		–1,476,431	**11,280,014**
– Loans to affiliated enterprises	849,387	–109,377	1,197,962		–525,455			**1,412,517**
– Participations	2,665,203	–2,155	282,821	2,954,163	–897,302	645	–1,321,528	**3,681,847**
– Loans to participations	67,114	–9,055		5,525	–912			**62,672**
	10,752,221	**–120,587**	**9,576,684**	**3,146,928**	**–4,120,882**	**645**	**–2,797,959**	**16,437,050**
Other investments								
– Shares, investment fund certificates and other non-fixed-interest securities	12,095,412	–704,521	9,895,342	–3,141,403	–6,604,060	3,053	–1,972,295	**9,571,528**
– Bearer bonds and other fixed-interest securities	6,055,201	–390,108	8,606,931	–5,525	–6,598,837	39,268	–8,081	**7,698,849**
– Mortgage loans	12,322		1,971		–2,141			**12,152**
– Other loans								
– Registered bonds	3,908	–589	220					**3,539**
– Loans and promissory notes	9,471				–3,167			**6,304**
– Miscellaneous	128	–8	108		–6			**222**
– Deposits with banks	230,581	–29,973	169,589					**370,197**
– Miscellaneous investments	52,653				–53	82,576	–61,981	**73,195**
	18,459,676	**–1,125,199**	**18,674,161**	**–3,146,928**	**–13,208,264**	**124,897**	**–2,042,357**	**17,735,986**
Total investments (2)	**30,175,994**	**–1,245,786**	**28,406,409**	**0**	**–17,334,484**	**125,542**	**–4,886,786**	**35,240,889**

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

The carrying amount of self-occupied real estate totals T€263,573 (223,351).

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

We made a writedown on MAHC (affiliated enterprise) amounting to T€1,400,000. This corresponds to the book value increase in the year under review resulting from the capital increase necessary at American Re in 2002. The Munich Reinsurance Company's shareholding in American Re is held through MAHC. A total of T€1,302,390 of the total writedowns is apportionable to our investment in HypoVereinsbank AG.

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

Of our total investments (excluding deposits retained on assumed reinsurance business) with a carrying amount of T€35,240,889 (30,175,994), an amount of T€3,436,455 (2,879,740) is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us.

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

Valuation reserves			31.12.2002
	Fair value T€	Carrying amount T€	Valuation reserves T€
Real estate	2,627,167	1,067,853	1,559,314
Equity investments	31,768,397	24,533,389	7,235,008
Fixed-interest securities	9,116,999	8,802,348	314,651
Total	43,512,563	34,403,590	9,108,973

For the fair values of real estate, the capitalised earnings value is generally used; new buildings are valued at cost at the balance sheet date. Equity investments consist of shares, investment fund certificates and shareholdings in affiliated enterprises and other participations. Where the companies concerned are listed on the stock market, the share price at the balance sheet date is used; in the case of unlisted companies, the net asset value according to the method of the DVFA (German Association of Financial Analysts and Investment Consultants) is used or – for new acquisitions – the acquisition cost. The fair value of fixed-interest securities is determined on the basis of the stock market price at the balance sheet date.

The equity investments include the Munich Reinsurance Company’s crossholding in Allianz (21%); the fair values of this holding at 31 December 2002 amounted to €4.7bn.

(3) List of shareholdings

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

(4) Other deferred items

This item includes differences totalling T€1 (14) arising from the posting of loans in the balance sheet at nominal values.

Notes to the balance sheet – Equity and liabilities

(5) Shareholders' equity

On 3 June 2002 the exercise period for the 1998/2002 warrants ended. The exercising of warrants in the business year up to the expiry date resulted in the issue of 1,717,294 new registered shares at an exercise price of €163.61 each. This increased the share capital to €457,388,254.72, and the company raised a total of €280,972,310.14 from the issue of the new shares.

The share capital as at 31 December 2002 is thus divided into 178,667,287 registered shares, each fully paid up and entitled to one vote.

The Annual General Meeting on 17 July 2002 cancelled the authorisation for a contingent increase in the share capital of €15,360,000 to safeguard conversion or subscription rights resulting from convertible bonds or bonds with warrants and replaced this with a new contingent capital of €30m.

The contingent capital is as follows:

All figures in €m	31.12.2002
To safeguard subscription rights from exercise of warrants (Contingent Capital Increase 1998)	15.4
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2002)	30.0
Total	**45.4**

On 17 July 2002 the Annual General Meeting cancelled the existing authorisations for increasing the share capital under "Authorised Capital Increases I, II and III", replaced these with a new authorisation "Authorised Capital Increase 2002" amounting to €220m, and renamed "Authorised Capital Increase IV" "Authorised Capital Increase 2001".

The capital authorised for capital increases is thus as follows:

All figures in €m	31.12.2002
Authorised Capital Increase 2002 (until 17 July 2007)	220.0
Authorised Capital Increase 2001 (until 18 July 2006)	3.8
Total	**223.8**

The capital reserve increased by €277m to €2,990m.

€1,303m from the profit for the year has been allocated to the revenue reserves.

By resolution of the Annual General Meeting on 18 July 2001, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 18 January 2003. This authorisation was cancelled by the Annual General Meeting on 17 July 2002 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 17 January 2004.

In the business year 2002 Munich Re bought back 10,000 shares in connection with its newly established employee share-ownership programme. In addition, one subsidiary acquired 120,000 Munich Re shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Re executives since 2000. The total calculated nominal value of these bought-back shares amounts to €332,800, representing 0.07% of the share capital. The shares were acquired for an average price of €185.35 per share via the stock exchange in Munich Re's case and for €255.94 per share in the case of the subsidiary. The transaction value totalled €32,566,300. Under the employee share-ownership programme, Munich Re non-senior-executive staff were offered up to seven shares on a salary-dependent basis at a price of €88.38 per share. A total of 1,748 staff availed themselves of this offer and acquired 8,441 shares. The remainder of 1,559 shares with a calculated nominal value of €3,991.04, representing 0.001% of Munich Re's share capital, was not sold. Together with the 166,592 shares already acquired in 2001, there was a total portfolio of 288,151 shares with a calculated nominal value of €737,666.56, representing 0.16% of the share capital.

Furthermore, the companies of the ERGO Insurance Group acquired 34,019 Munich Re shares with the framework of their employee share-ownership programme in the business year 2002 and 45,476 Munich Re shares to safeguard future obligations from the long-term incentive plan set up at 1 July 2002. The calculated nominal value of the shares acquired totalled €203,507.20, representing 0.04% of Munich Re's share capital. 33,000 of these shares were acquired at an average price of €193.00 per share, 1,495 at €219.60 each, and the remaining 45,000 at a price of €220.15 per share. As part of the employee share-ownership programme, staff of the ERGO Insurance Group in Germany were offered the chance to subscribe for up to five of the shares at a price of €87.30 per share. Senior executives of the ERGO Insurance Group could choose to received their performance-related remuneration in these shares at a price of €193.00 per share. Altogether, 31,275 employee shares were transferred to staff. The remainder of 2,744 shares – with a calculated nominal value of €7,024.64, representing 0.002% of Munich Re's share capital – were not sold. All in all, at the end of the business year, the companies of the ERGO Insurance Group held 48,220 shares with a calculated nominal value of €123,443.20, representing 0.03% of the share capital.

(6) Special reserve

The special reserve has been posted as per Sections 6 b and 52 para. 16 of the German Income Tax Act.

(7) Underwriting provisions

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

	Unearned premiums	Provision for future policy benefits	Claims provision	Claims equalisation provision	Other provisions	**Total**	**Reserves as % of net premiums**
Life	839	15,709	616	–	167	**17,331**	**402**
Health	20	776	272	–	13	**1,081**	**101**
Personal accident	136	624	873	–	4	**1,637**	**191**
Liability	425	–	7,338	1,033	8	**8,804**	**299**
Motor	403	–	4,119	579	19	**5,120**	**198**
Marine	183	–	885	–	0	**1,068**	**139**
Aviation	67	–	646	473	1	**1,187**	**158**
Fire	782	–	3,384	1,382	95	**5,643**	**137**
Engineering	469	–	1,468	315	5	**2,257**	**181**
Other classes	377	–	1,233	346	7	**1,963**	**115**
Non-life combined	2,862	1,400	20,218	4,128	152	**28,760**	**179**
Total	3,701	17,109	20,834	4,128	319	**46,091**	**226**

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

	31.12.2002 T€	Prev. year T€
Claims equalisation provision	**2,659,605**	1,332,229
Provision for major risks	**221,385**	100,674
– For nuclear facilities	**56,189**	52,524
– For pharmaceutical products liability	**50,046**	48,150
– For terrorism risks	**115,150**	–
Provisions for natural hazards	**1,246,738**	1,320,598
Total	**4,127,728**	2,753,501

The “other” underwriting provisions include provisions for anticipated losses totalling T€26,200 (173,562).

(8) Other accrued liabilities

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

There are pension provisions of T€37,530 (25,180) for former members of the Board of Management or their surviving dependants.

The miscellaneous other provisions include, in particular, provisions of T€307,521 for currency risks and T€60,870 for personnel expenses not yet due at the balance sheet date.

(9) Notes and debentures

In June 2000 the Munich Reinsurance Company issued exchangeable bonds on Allianz shares. Creditors are entitled to convert each of their exchangeable bonds into Allianz shares with an equivalent value of €509.44 per share. The annual coupon payment is 1% on the face value. If the bonds are not exchanged or redeemed beforehand, they will be redeemed on 9 June 2005 at 108.5629% of the face value; the creditors' annual gross yield will then amount to 2.625%.

(10) Amounts owed to banks

Liabilities with a remaining term of more than five years total T€120,635.

(11) Miscellaneous liabilities

The sum of the liabilities secured by mortgages is T€135 (396).

(12) Deferred items

This item includes differences totalling T€1 (196) arising from the posting of loans in the balance sheet at nominal values.

Notes to the income statement

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

	Gross premiums written		Underwriting result		Change in claims equalisation provisions		Combined ratio in %	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Life	**4,782**	4,178	**87**	80	**–**	–	**–**	–
Health	**1,110**	527	**–28**	–26	**–**	–	**102.6**	105.1
Personal accident	**935**	487	**–29**	7	**–**	–	**104.0**	98.4
Liability	**3,011**	1,046	**–752**	–521	**–463**	103	**127.7**	158.5
Motor	**2,734**	2,420	**11**	–76	**–342**	–	**100.9**	103.7
Marine	**820**	644	**–152**	–168	**–**	–	**122.4**	129.1
Aviation	**916**	465	**255**	–371	**–478**	34	**65.5**	235.7
Fire	**4,422**	2,973	**–93**	–1,057	**–247**	–176	**104.8**	142.8
Engineering	**1,313**	1,285	**42**	–330	**–113**	41	**97.3**	134.8
Other classes	**1,814**	1,439	**–380**	–58	**153**	–1	**123.3**	104.5
Non-lfe combined	**17,075**	11,286	**–1,126**	–2,600	**–1,490**	1	**108.3**	127.4
Total	**21,857**	15,464	**–1,039**	–2,520	**–1,490**	1	**–**	–

In the year under review our clients reported substantial claims for losses from earlier years. On top of this, we again had to strengthen our provisions for the World Trade Center loss. Especially in fire, but also in liability, we therefore had to post considerable expenses for commitments from previous years.

(14) Interest on underwriting provisions

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

(15) Personnel expenses

The management expenses include the following personnel expenses:

	2002 T€	Prev. year T€
Wages and salaries	**196,921**	175,530
Social insurance contributions and voluntary assistance	**44,039**	42,482
Expenses for employees' pensions	**93,154**	16,805
Total	**334,114**	234,817

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

(16) Investment income
The write-ups result from the reversal of no longer appropriate writedowns.

(17) Investment expenses
Of the writedowns on investments, T€4,778,335 (248,751) comprised exceptional depreciations as per Section 253 para. 2 sentence 3 of the German Commercial Code.

Special writedowns of T€19,648 (114,131) were made for tax purposes as per Section 6 b of the German Income Tax Act.

(18) Tax influences on accounting
Writedowns for tax purposes and the reduction of the special reserve as per Sections 6 b and 52 para. 16 of the German Income Tax Act affected the Munich Reinsurance Company's result for the year by T€19,648 and T€32,384 respectively. T€58,444 was allocated to the special reserve.

(19) Long-term incentive plans
As at 1 July in the years 1999, 2000, 2001 and 2002, 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 that applying at the start of the plan.

The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than at the start of the plan. In addition, Munich Re shares must have outperformed the DAX 30 (Plan 1999) or the EURO STOXX 50 (Plan 2000, Plan 2001 and Plan 2002) 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 119,608 (102,880) stock appreciation rights were granted, 39,631 (42,664) of these to members of the Board of Management. The expenses incurred for the stock appreciation rights have been determined on the basis of the change in Munich Re's share price.

In the year 2002 the provision set up in the previous years – reduced by €15.8m in 2001 – was completely reversed. The reversal of the provision resulted partly from the fact that stock appreciation rights from the Long-Term Incentive Plan 1999 had been exercised and partly from the fall in Munich Re’s share price.

	Incentive Plan 1999	Incentive Plan 2000	Incentive Plan 2001	Incentive Plan 2002
Plan commencement	1.7.1999	1.7.2000	1.7.2001	1.7.2002
Initial share price	€182.60	€319.34	€320.47	€260.37
Number of rights on 31.12.1999	104,340	–	–	–
Additions	–	63,496	–	–
Number of rights on 31.12.2000	104,340	63,496	–	–
Additions	–	5,946	96,934	–
Exercised	31,935	–	–	–
Number of rights on 31.12.2001	72,405	69,442	96,934	–
Additions	–	–	270	119,338
Exercised	2,587	–	–	–
Expired	–	321	443	–
Number of rights on 31.12.2002	69,818	69,121	96,761	119,338
Exercisable at year-end	69,818	69,121	–	–

Other information

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

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

Taking into account the proposal for the appropriation of the profit, the total emoluments of the members of the Board of Management amounted to T€10,016 (11,085). Of this, T€4,900 (4,283) is apportionable to fixed components, T€4,915 (3,250) to variable components, and T€201 (3,552) to the exercise of stock appreciation rights granted under the Long-Term Incentive Plan 1999. Details of this plan are provided in Note 19.

Payments to retired members of the Board of Management or their surviving dependants total T€3,473 (3,310).

Taking into account the proposal for the appropriation of the profit, the total emoluments of the members of the Supervisory Board amounted to T€1,153 (1,154). This sum includes emoluments of T€605 (604) dependent on the dividend paid to the shareholders.

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

(21) Other seats held by Board members[1]

Supervisory Board	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Ulrich Hartmann	Deutsche Lufthansa AG Hochtief AG IKB Deutsche Industriebank AG (Chairman) RAG AG (Chairman) E.ON Energie AG* (Chairman) Ruhrgas AG* (Chairman)	Henkel KGaA ARCELOR, Luxembourg Powergen Limited, London* (Chairman)
Dr. jur. Henning Schulte-Noelle (until 6 December 2002)	BASF AG E.ON AG Linde AG Siemens AG ThyssenKrupp AG Allianz Dresdner Asset Management GmbH* (Chairman) Allianz Lebensversicherungs-AG* (Chairman) Allianz Versicherungs-AG* (Chairman) Dresdner Bank AG* (Chairman)	Assurances Générales de France S.A., Paris* Riunione Adriatica di Sicurtà S.p.A., Milan*

[1] Status: 10 April 2003 (in the case of members who have left the Supervisory Board, the information shows the status at the date of their departure).
* Own group company within the meaning of Section 18 of the German Stock Companies Act.

Supervisory Board	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Rolf-E. Breuer (until 6 December 2002)	Bertelsmann AG Deutsche Börse AG (Chairman) Deutsche Lufthansa AG E.ON AG Siemens AG	Compagnie de Saint-Gobain S. A., Paris Landwirtschaftliche Rentenbank Kreditanstalt für Wiederaufbau
Prof. Dr. rer. nat. Henning Kagermann	DaimlerChrysler Services AG Deutsche Bank AG SAP Systems Integration AG*	–
Prof. Dr. rer. nat. Hubert Markl (from 13 December 2002)	Bayerische Motoren Werke AG	Aventis S. A., Schiltigheim Royal Dutch Petroleum Company/ Shell, The Hague
Wolfgang Mayrhuber (from 13 December 2002)	Eurowings Luftverkehrs AG RWE Systems AG Lufthansa CityLine GmbH* (Chairman)	HEICO Corporation, Miami Ameco Corporation, Beijing*
Prof. Karel Van Miert (from 17 July 2002)	RWE AG Fraport AG	Agfa-Gevaert NV, Mortsel Anglo American plc, London De Persgroep, Asse DHV Holding BV, Amersfoort Royal Philips Electronics NV, Amsterdam Wolters Kluwer NV, Amsterdam
Hon.-Prof. Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (until 16 April 2002)	Dr.-Ing. h. c. F. Porsche AG	Porsche Holding GmbH, Salzburg Porsche Ges.m.b.H., Salzburg Scania AB, Södertälje* (Chairman) SEAT, S. A., Barcelona*
Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer	Bayer AG Hochtief AG Volkswagen AG	Siemens AG Österreich, Vienna* (Chairman)

* Own group company within the meaning of Section 18 of the German Stock Companies Act.

Supervisory Board	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder (from 17 April 2002)	Dresdner Bank AG METRO AG Audi AG* (Chairman)	Tetra Laval Group, Pully Scania AB, Södertälje* (Chairman) SEAT, S. A., Barcelona* (Chairman)
Dr. jur. Dr. h.c. Albrecht Schmidt	Bayerische Börse AG (Chairman) Siemens AG Bayerische Hypo- und Vereinsbank AG (Chairman) HVB Real Estate Bank AG* (Chairman)	Bank Austria Creditanstalt, Vienna* (Chairman)
Dr. rer. pol. Alfons Titzrath (until 17 July 2002)	Allianz AG Celanese AG Deutsche Lufthansa AG Dresdner Bank AG RWE AG	–

* Own group company within the meaning of Section 18 of the German Stock Companies Act.

Board of Management	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler Chairman	Bayerische Hypo- und Vereinsbank AG ERGO Versicherungsgruppe AG (Chairman) MAN AG METRO AG	Aventis S. A., Schiltigheim
Dr. jur. Nikolaus von Bomhard	–	Münchener Rück Italia S. p. A., Milan*
Clement Booth	Allgemeine Kredit Coface	ACORD, Pearl River, New York Inreon Ltd., London Nova Risk Partners Ltd., Johannesburg Munich American Capital Markets Inc., Delaware* New Reinsurance Company, Geneva*
Dr. jur. Heiner Hasford	D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG ERGO Versicherungsgruppe AG Europäische Reiseversicherung AG (Chairman) BHS tabletop AG MAN Nutzfahrzeuge AG Nürnberger Beteiligungs-AG VICTORIA Lebensversicherung AG VICTORIA Versicherung AG WMF Württembergische Metallwarenfabrik AG	Munich London Investment Management Ltd., London American Re Corporation, Wilmington, Delaware*

* 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**
Stefan Heyd	Allianz Versicherungs-AG EXTREMUS Versicherungs-AG Kraft Versicherungs-AG Münchener und Magdeburger Agrarversicherung AG	–
Christian Kluge	Karlsruher Versicherung AG (Chairman) Karlsruher Lebensversicherung AG Mercur Assistance AG Holding (Chairman)	–
John Phelan (from 1 April 2002)	–	American Re Corporation, Wilmington, Delaware* (Chairman) Munich Reinsurance Company of Canada, Toronto* American Re-Insurance Company, Princeton* (Chairman)
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	Forst Ebnath AG (Chairman) MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	American Re Corporation, Wilmington, Delaware*
Karl Wittmann	–	Jordan Ins. Co. p.l.c., Amman Saudi National Insurance Company E.C., Jeddah

* Own group company within the meaning of Section 18 of the German Stock Companies Act.

(22) Number of staff

The number of staff employed by the company in Munich and at its offices abroad in the business year 2002 averaged 2,915 (2,613).

(23) Contingent liabilities, other financial commitments

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

For two foreign subsidiaries, a guarantee has been given in connection with a loan obligation and a rent guarantee.

Apart from this there are contingent liabilities towards affiliated and associated enterprises of subordinate importance.

Other financial commitments totalling €507m result from already concluded real estate purchase agreements, building contracts and future provision of capital for a foreign subsidiary.

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

(24) Declaration of compliance with the German Code of Corporate Governance as per Section 161 of the German Stock Companies Act

On 6 December 2002 the Board of Management and the Supervisory Board published their first declaration of compliance with the recommendations of the Government Commission German Code of Corporate Governance, as per Section 161 of the German Stock Companies Act. They have made this declaration permanently available to shareholders via the internet.

(25) Events after the balance sheet date

Munich Re will participate by way of "opération blanche" in Allianz AG's capital increase announced on 20 March 2003, which means that we will not invest any new funds. As a consequence, our stake in Allianz will remain at the same level in value terms during the subscription period; our percentage share in Allianz will decrease at most to 15%. Conversely, Allianz intends to reduce its stake in Munich Re to 15%. For this purpose it will redeem its "MILES" bonds issued in 2000 by exchanging them for Munich Re shares.

In order to provide a sound basis for further organic growth, we issued two subordinated bonds in April 2003: a euro bond with a volume of €3bn and a spread of 245 basis points above euro mid-swap, and a pound sterling bond with a transaction volume of around €450m and a spread of 295 basis points above gilt.

Munich, 10 April 2003

The Board of Management

Auditor's report

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

We have audited the annual financial statements, together with the bookkeeping system, and the management report of the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München for the business year from 1 January 2002 to 31 December 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 14 April 2003

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Proposal for appropriation of profit

The balance sheet profit at the disposal of the Annual General Meeting amounts to €1,303,081,179.47.

We propose that this balance sheet profit be appropriated as follows: distribution of a dividend of €1.25 on each share entitled to dividend and allocation of €1,079,747,070.72 to the revenue reserves, with the amount apportionable to own shares being carried forward to new account. Up to the Annual General Meeting the number of shares entitled to dividend may decrease or increase through the further acquisition or sale of own shares. In this case, an appropriately modified proposal for the appropriation of the profit, with an unchanged dividend of €1.25 per share entitled to dividend, will be made to the Annual General Meeting.

Munich, 10 April 2003

The Board of Management

Schinzler, von Bomhard, Booth, Hasford, Heyd, Kluge, Phelan, Schneidawind, Schneider, Wittmann

Münchener Rückversicherungs-Gesellschaft
Central Division: Corporate Communications
Königinstrasse 107
80802 München
Germany
http://www.munichre.com

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