The Munich Re Group

Provisional year-end results 2003

Media telephone conference
on 17 March 2004

Münchener Rück
Munich Re Group

Agenda

Munich Re Group in total

Reinsurance segment

Primary insurance segment

Outlook

Backup: IAS 32/39
Tax

Munich Re Group in total

Contrasts 2003:
Loss for the year but further improvement in pre-tax result

After-effects → €0.4bn loss for the year → **... but successful underwriting performance**

After-effects of the weak capital market:

– Writedowns and losses on the disposal of securities available for sale

– Writedowns on goodwill

– Rating of associated companies

– Extreme tax burden

Good performance already reflected in 2003:

– Combined ratio of 96.7% in reinsurance

– Combined ratio of 96.4% in primary insurance

– €2bn result before amortisation of goodwill,
€1.3bn result before tax

– Increase in shareholders' equity to €18.9bn

Group result

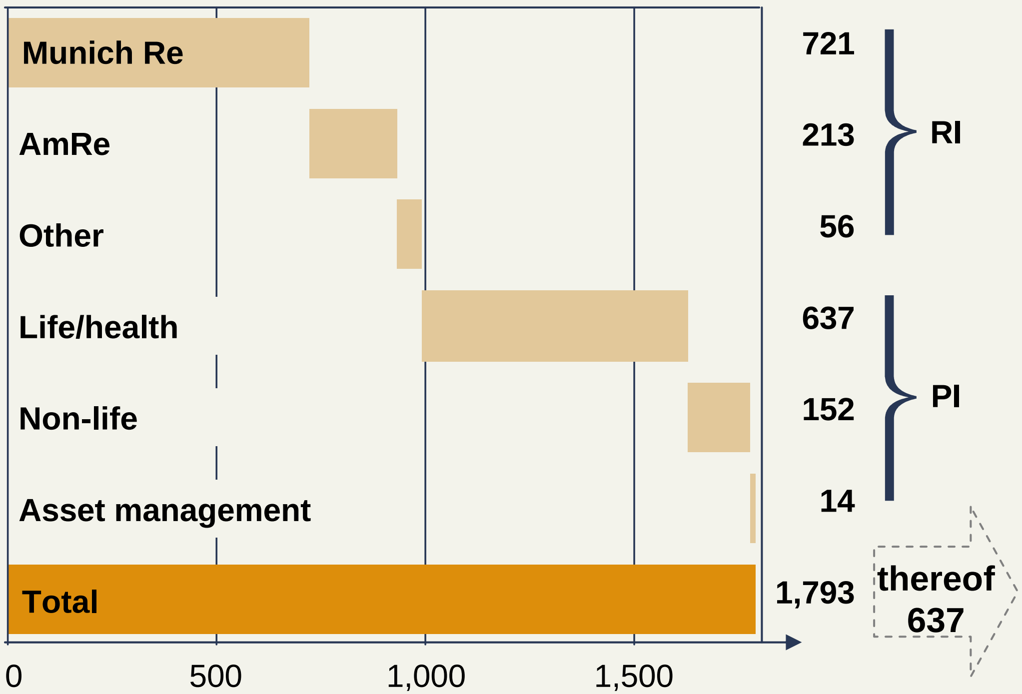
in €m	2003 IAS 39 new	2002
Gross premiums written	40,431	40,014
Investment result	7,131	*5,605**
Total income	45,959	*43,254**
Total expenses	**43,947**	***42,445****
Result before amortisation of goodwill	**2,012**	***809****
Amortisation of goodwill	687	371
Tax	1,793	–574
Minority interests in earnings	–34	*–69**
Group result	**–434**	***1,081****
Earnings per share in €	**–2.25**	***6.08****

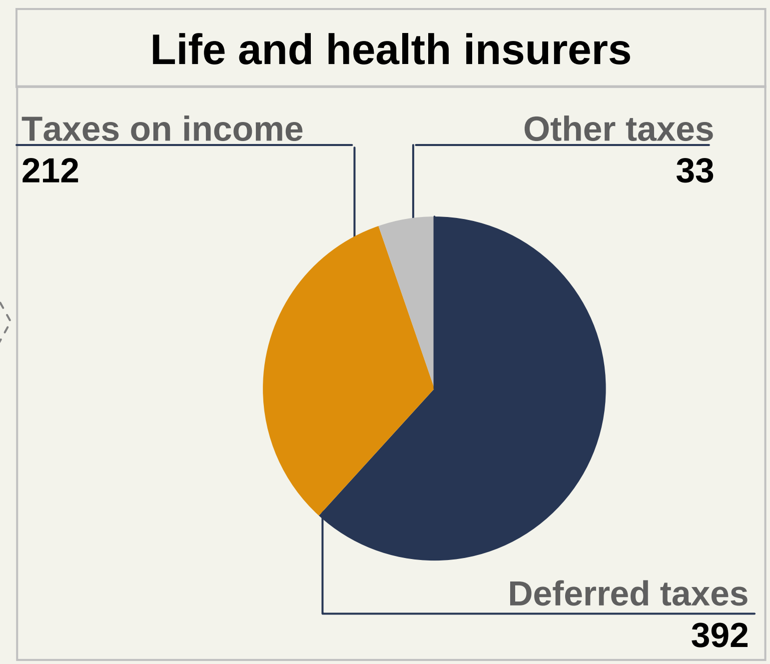
*Prior-year figures printed in italics are likely to change as a result of the application of IAS 39 (rev. 2003)

Composition of the tax burden in 2003

in €m

Tax burden





Effect on consolidated balance sheet

Effect of the new valuation methods on the consolidated balance sheet

in €bn	31.12.2003 IAS 39 new	31.12.2003 IAS 39 old
Assets		
Investments in associated enterprises	4.2	4.2
Securities available for sale	122.4	122.4
Liabilities		
Revenue reserves	7.8	9.7
Other reserves	4.1	2.7
Profit for the year	–0.4	–0.9
Shareholders' equity	18.9	18.9
Other underwriting provisions	7.5	7.5

Effect on consolidated income statement

Effect of the new valuation methods on the consolidated income statement

in €bn	2003 IAS 39 new	2003 IAS 39 old
Investment result	7.1	5.7
Expenses for claims and benefits	32.5	31.5
Taxes	1.8	1.8
Profit for the year	**–0.4**	**–0.9**

Important factors influencing the change in the profit for the year:

– Reduction of €390m in income from write-ups on equity instruments

– Increase of €346m in gains on the disposal of equity instruments

– Reduction of €844m in impairment losses on equity instruments

– Decrease of €688m in losses on the disposal of equity instruments

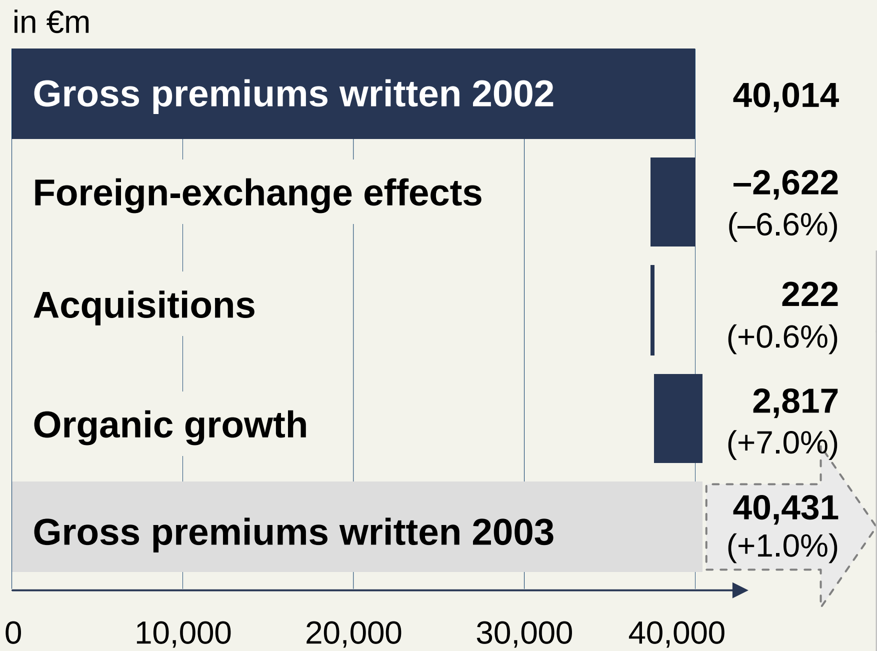
– Increase of €997m in provision for deferred premium refunds

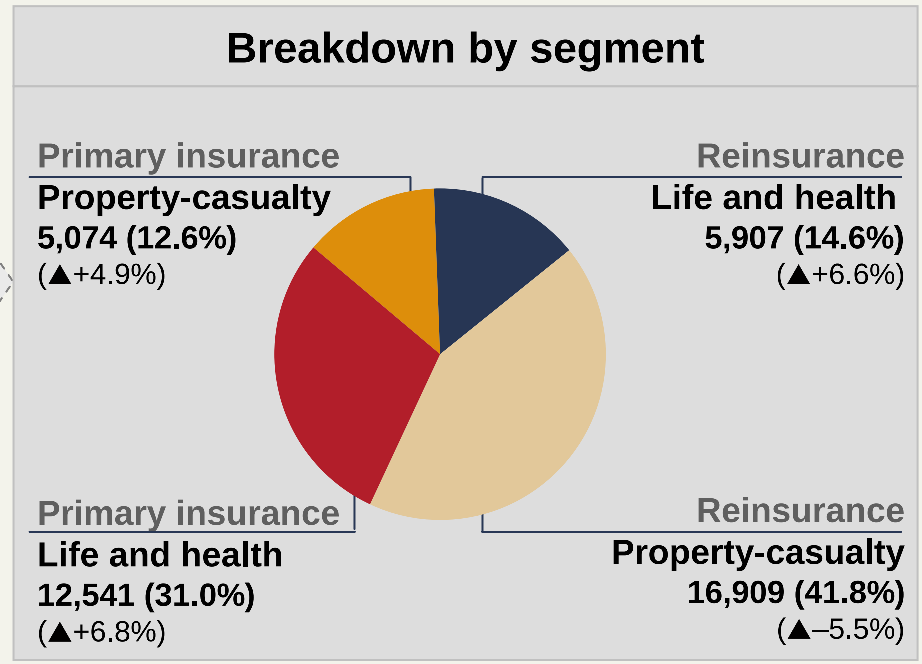
Gross premiums written

in €bn	1999	2000	2001	2002	2003
Gross premiums written	27.4	31.1	36.1	40.0	40.4
Growth	+7.5%	+13.5%	+16.1%	+10.8%	+1.0%
Adjusted growth*	+6.1%	+6.7%	+11.1%	+13.3%	+7.0%
Reinsurers‘ share	51%	54%	57%	59%	56%
Primary insurers‘ share	49%	46%	43%	41%	44%

* Excl. acquisitions and currency fluctuations

Analysis of premium development





Investments

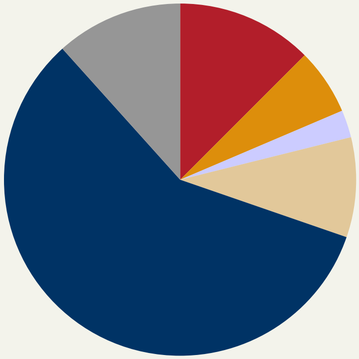
in €m	2003 IAS 39 new	2002
Investments (market values)	173,334	157,351
Investments (book values)	171,881	156,278
Growth in %	+10.0%	–3.5%
Result	7,131	*5,605**
Realised capital gains (net of losses)	2,484	*5,015**

*Prior-year figures printed in italics are likely to change as a result of the application of IAS 39 (rev. 2003)

Investment structure (book values)

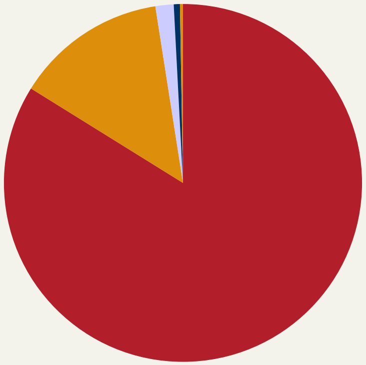
in €m	31.12.2003	31.12.2002	▲ in %
Investments	171,881	156,278	10.0

Investment mix by asset classes in %



■	**5.9**	(6.3)	Real estate
■	**2.5**	(6.1)	Participating interests
■	**9.3**	(8.1)	Loans
■	**58.1**	(56.2)	Fixed-interest securities
■	**12.6**	(11.3)	Shares and equity funds
■	**11.6**	(12.0)	Miscellaneous

Investments by region in %



■	**84.0**	(83.8)	Europe
■	**13.5**	(14.1)	North America
■	**1.8**	(1.4)	Asia and Australasia
■	**0.3**	(0.4)	Africa, Near and Middle East
■	**0.4**	(0.3)	Latin America

Lower equity and concentration risk

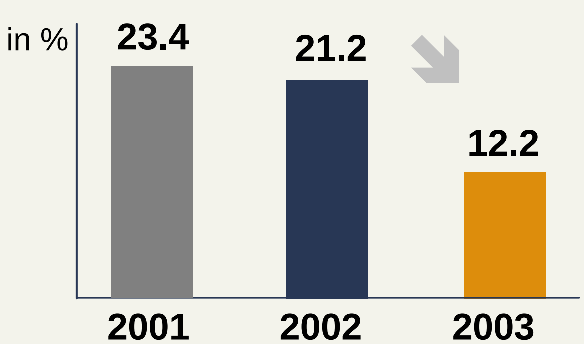
1. Munich Re's equity exposure reduced by various measures:

in % (equity portion within asset allocation)	31.12.2003	31.12.2002
before hedges	15.0	16.9
after hedges	14.4	16.5

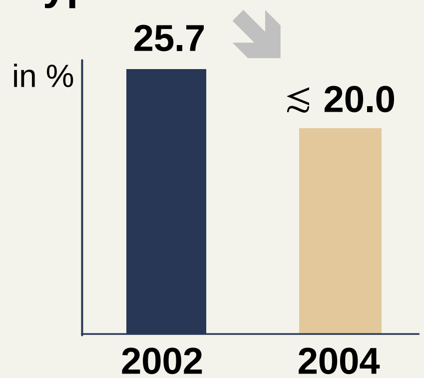
2. Rating structure of bonds consistently excellent (95% A or better), corporate bonds exposure insignificant at 5%

3. Reduction of investments in the German financial services sector

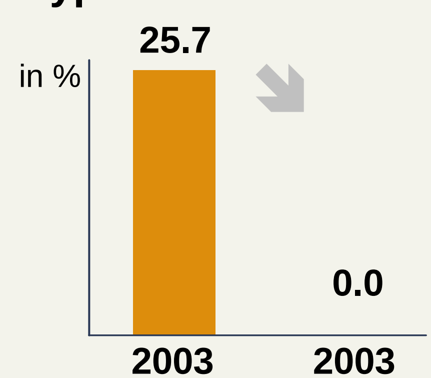
Allianz



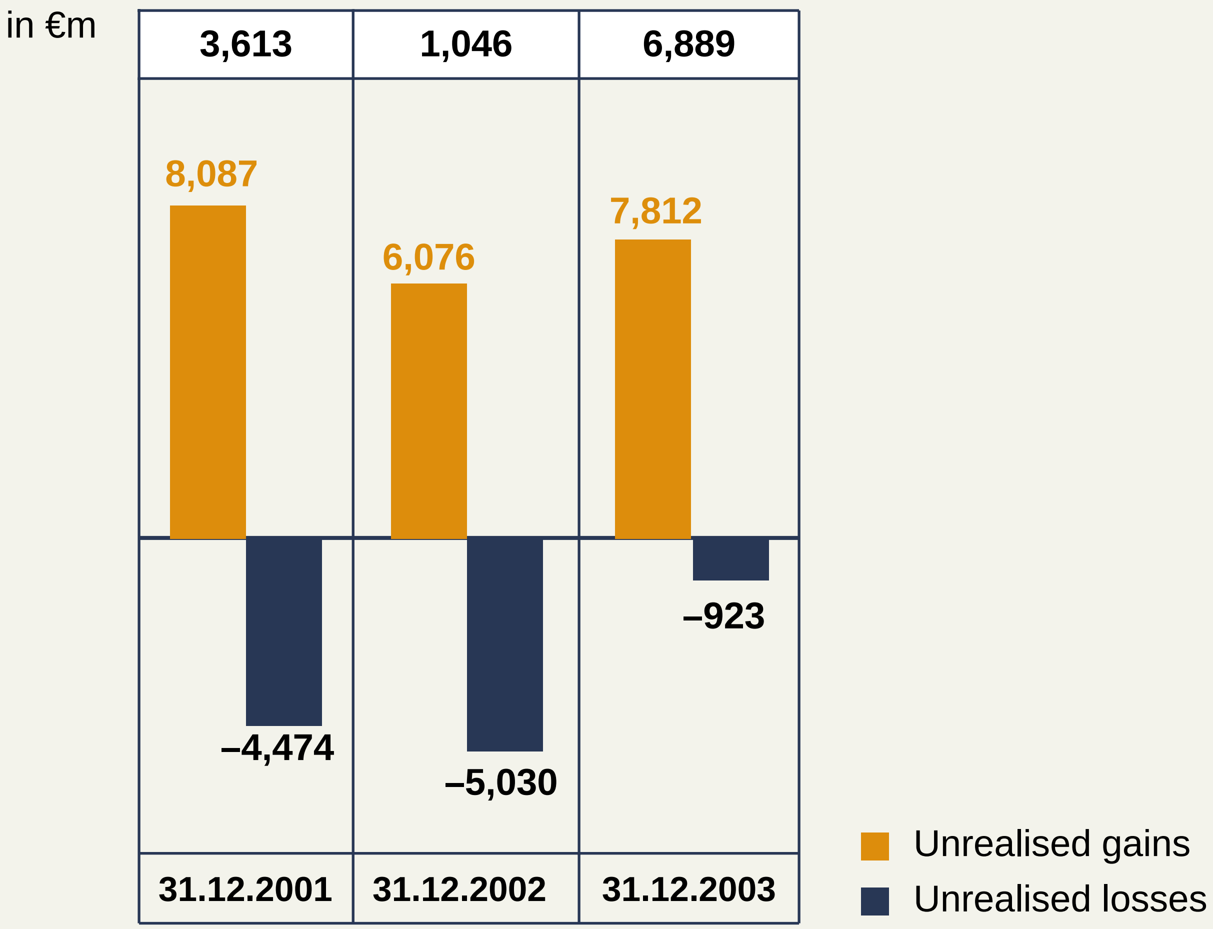
HypoVereinsbank



Hypo Real Estate Group



Unrealised gains and losses on securities available for sale (gross): Balance significantly improved



Changes in shareholders’ equity

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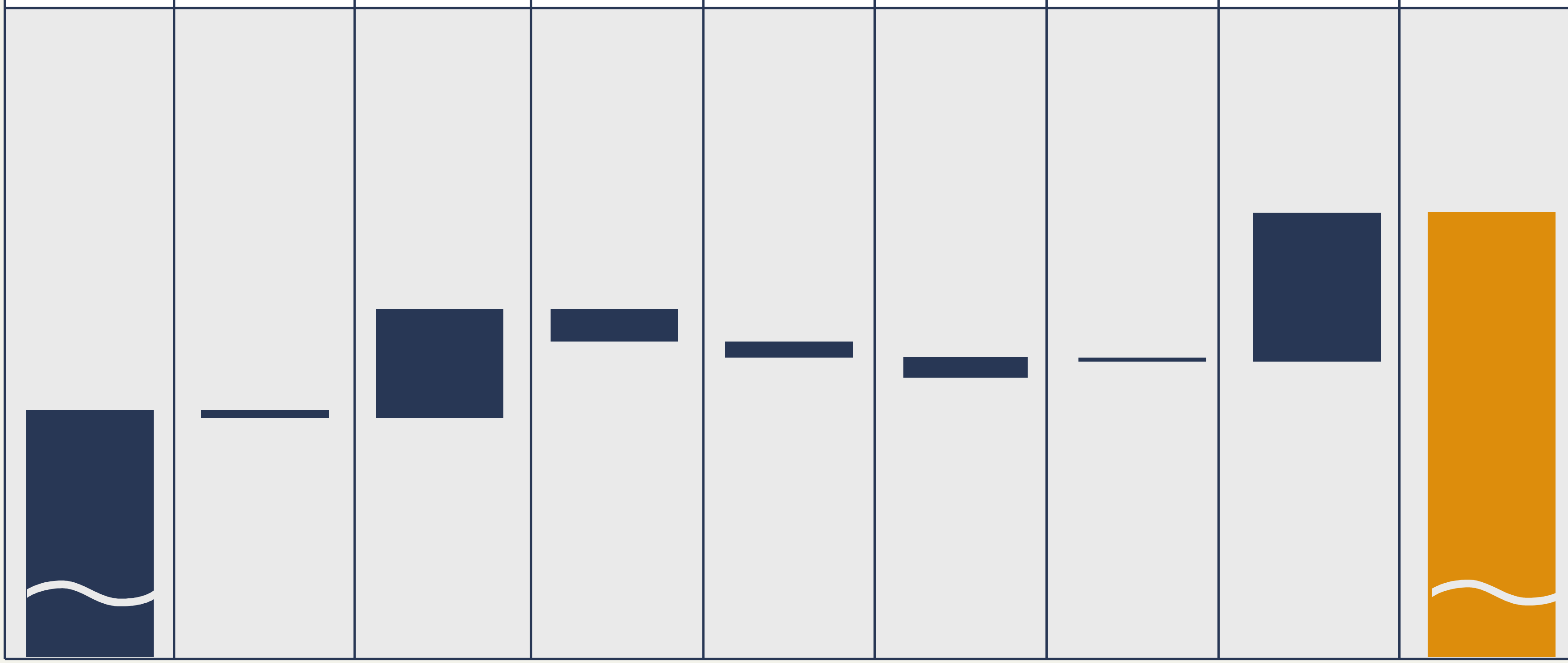
in €m

Shareholders’ equity 31.12.02	Paid dividends	Change in unrealised gains/ losses*	Change resulting from valuation at equity	Consolidated result	Changes in exchange rates	Other changes	Capital increase	Shareholders’ equity 31.12.03
13,948	**–223**	**3,226**	**–743**	**–434**	**–736**	**–80**	**3,941**	**18,899**



*On other securities

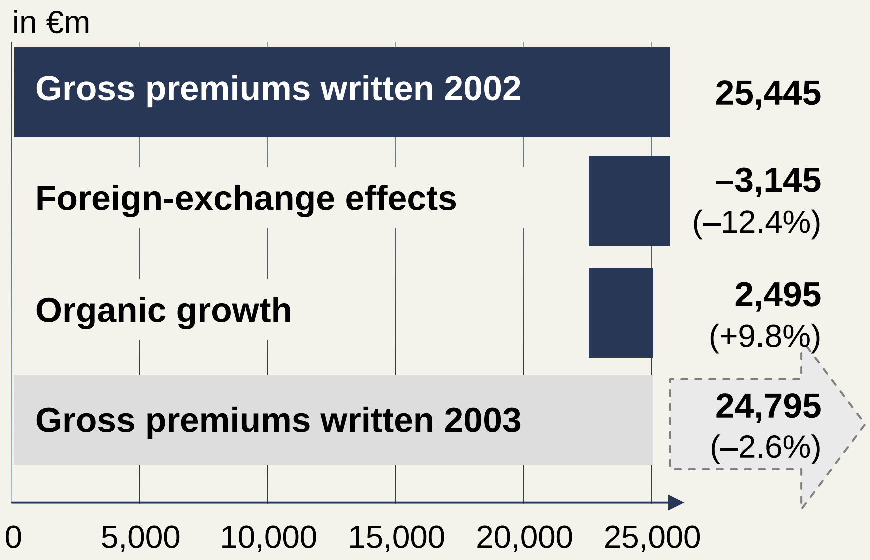
Segment results

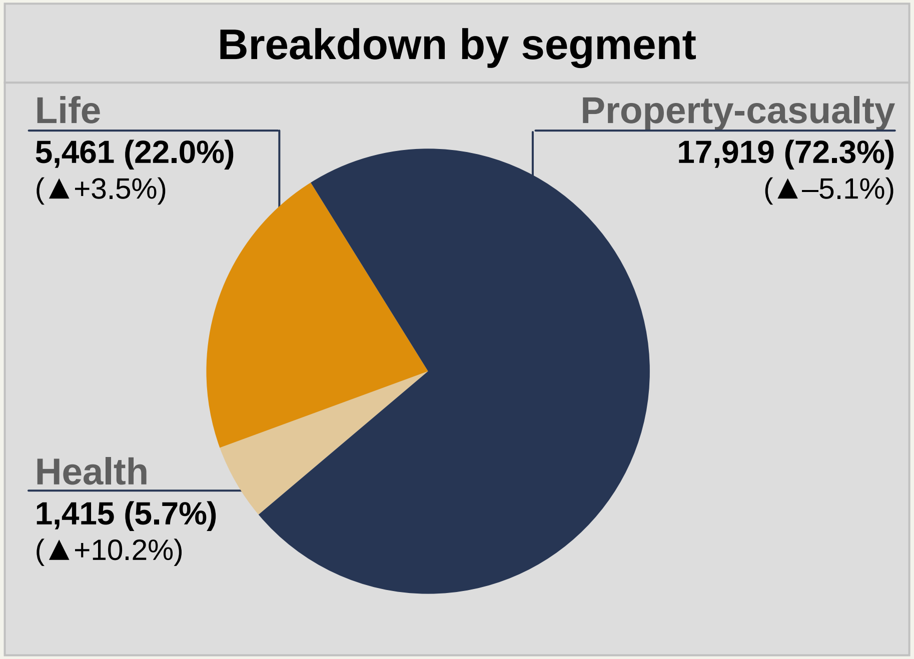
Effect of new valuation methods on segment results

in €m	2003 IAS 39 new	2003 IAS 39 old
Reinsurance	1,632	1,355
Primary insurance	–1,090	–1,266
Asset management	20	20
Consolidation	–996	–996
Profit for the year	**–434**	**–887**


Reinsurance segment

Reinsurance premium

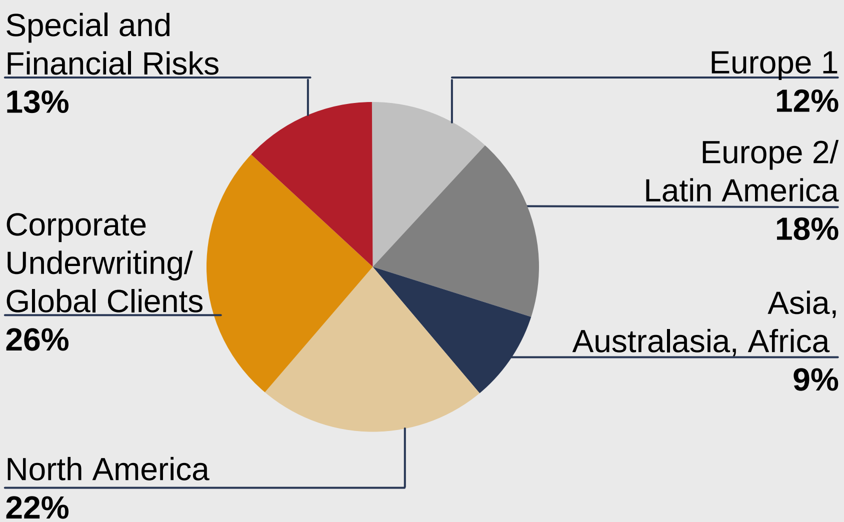




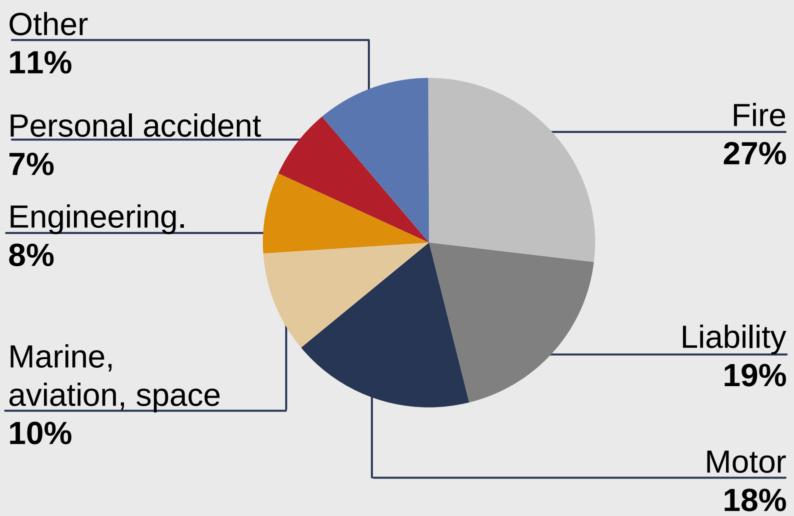
Reinsurance property-casualty: Well diversified portfolio

- Therefore positive diversification effects and reduced capital costs
- Continued process of portfolio optimisation (regional, line of business)

Breakdown by division 2003*



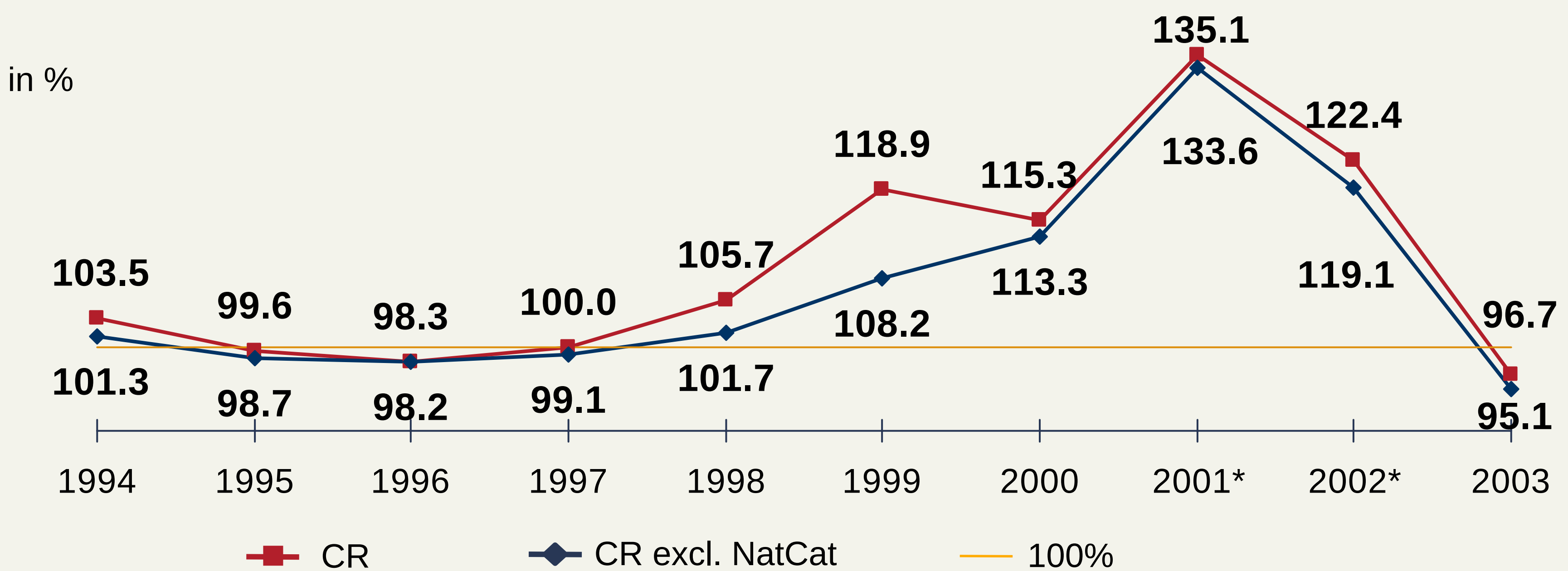
Breakdown by LoB 2003*



*Gross premiums written

Combined ratio

in %	2001	2002	2003
Loss ratio	104.5	95.8	69.6
Expense ratio	30.6	26.6	27.1
Combined ratio in non-life	135.1	122.4	96.7



*Including reserve strengthening for WTC and AmRe in 2001 (22.4%) and in 2002 (15.9%)

Natural catastrophes and other major losses

Normal claims burden from **natural catastrophes** amounting to 1.6 percentage points of the loss ratio

- Tornadoes in the USA (approx. €90m)
- Forest fires in California (approx. €50m)
- Hurricane Isabel
- Hurricane Fabian
- Typhoon Maemi, Korea

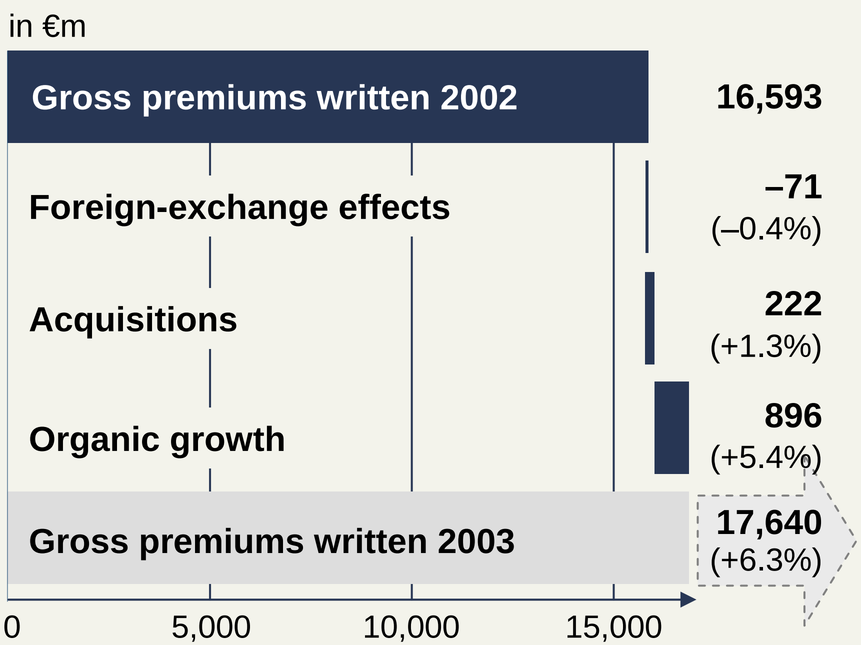
(in total approx. €110m)

Other major losses within normal range

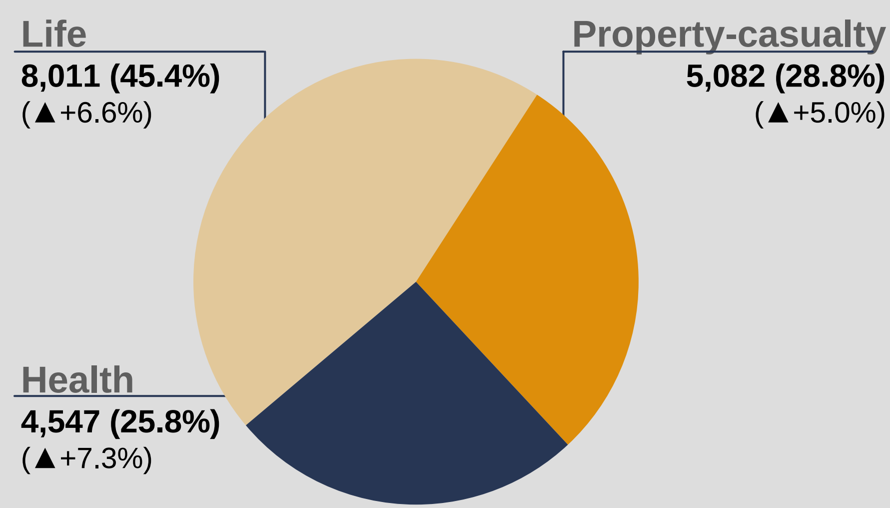
- Power failure in North America (approx. €50m)
- Athabasca Oil (approx. €60m)

Primary insurance segment

Primary insurance premium



Segment growth ...

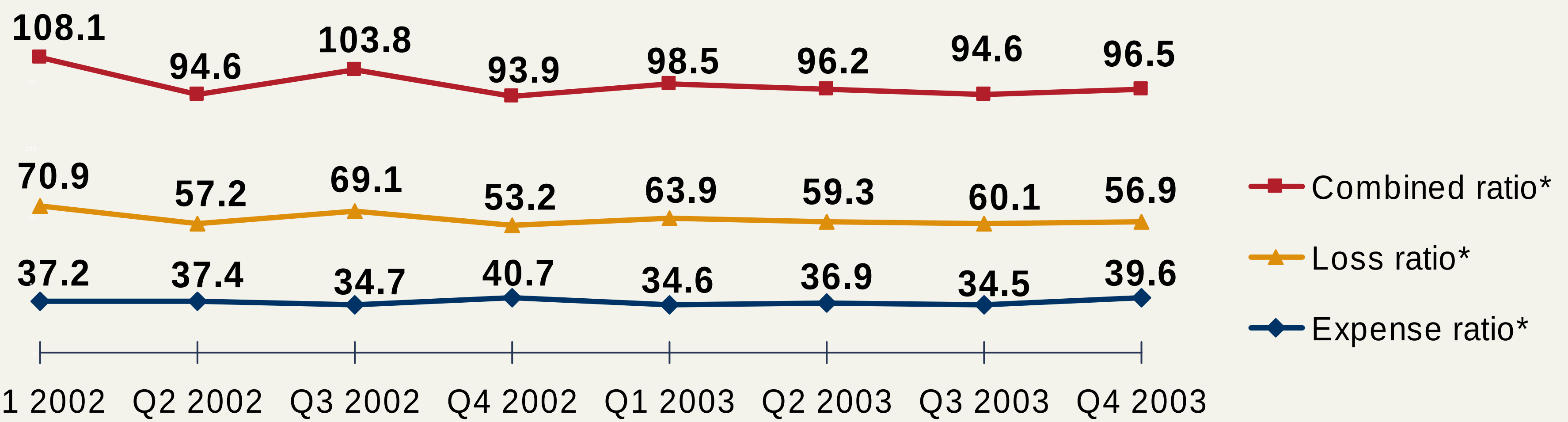


... above market average

Combined ratio significantly improved

in %	2001	2002	2003
Loss ratio*	64.9	62.4	60.0
Expense ratio*	36.5	37.5	36.4
Combined ratio in property-casualty*	101.4	99.9	96.4

in %



*Inclusive legal protection.

Outlook

Outlook

After-effects | €0.4bn loss for the year | **... but successful underwriting performance** | **Sustainable profitability**

After-effects of the weak capital market:

- Writedowns and losses on the disposal of securities available for sale
- Writedowns on goodwill
- Rating of associated companies
- Extreme tax burden

Good performance already reflected in 2003:

- Combined ratio of 96.7% in reinsurance
- Combined ratio of 96.4% in primary insurance
- €2bn result before amortisation of goodwill, €1.3bn result before tax
- Increase in shareholders' equity to €18.9bn

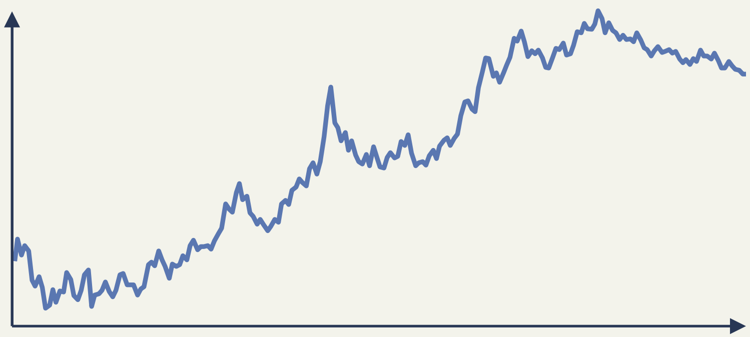
Objectives being consistently pursued:

- Proceeding from a high level, the rise in premium income was moderate due to adjustments made to eliminate currency translation effects
- Profit before growth:
  Successful renewal campaign 2004 in reinsurance and measures to improve the result in primary insurance
- Stabilised capital markets and reduced risk exposure
- €2n result target for 2004, sustainable RoE of 12%

Backup: IAS 32/39

Balance sheet

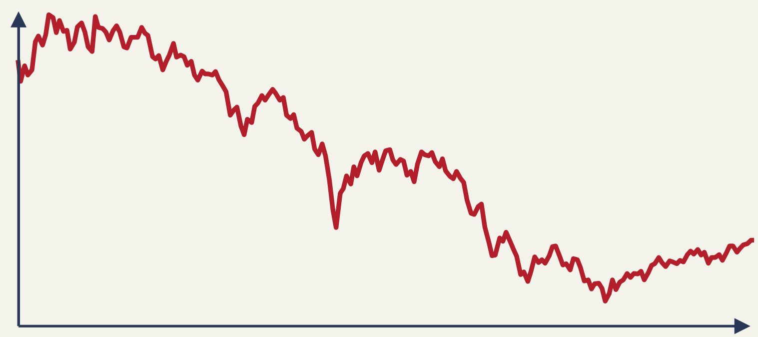
- Equity investments valued at fair value
- Changes in value recognised in shareholders' equity



Values rise

A **Balance sheet** L

Increase in revaluation reserve
=
More shareholders' equity



Values fall

A **Balance sheet** L

Decrease in revaluation reserve
=
Less shareholders' equity

Valuation of equity investments in the income statement under IAS 39 (rev. 2000) / IAS 39 (rev. 2003)

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Income statement

Basic principle → No income or expense recognised in income statement:

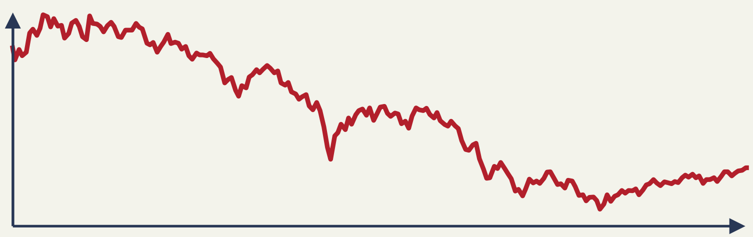
– Changes in value generally recognised in shareholders' equity, without impact on the income statement

BUT → Income or expense recognised in income statement in the case of

– sales, i.e. realisation of changes recognised in shareholders' equity

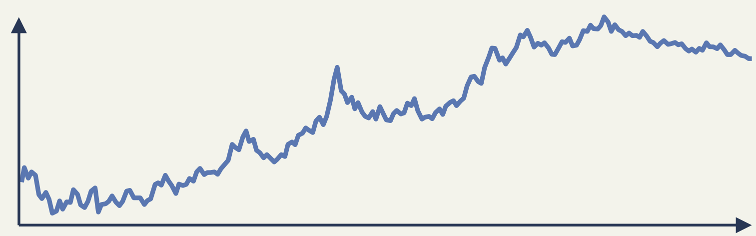
– writedowns due to sustained impairments

– write-ups for a subsequent recovery in value: **only** permissible under IAS 39 (rev. 2000)



After declines in value

Loss on the disposal of equity investments
or
writedown on equity investments



After increases in value

Gain on the disposal of equity investments
or
write-up on equity investments

IAS 39 (rev. 2003)
Comparison of the valuation methods

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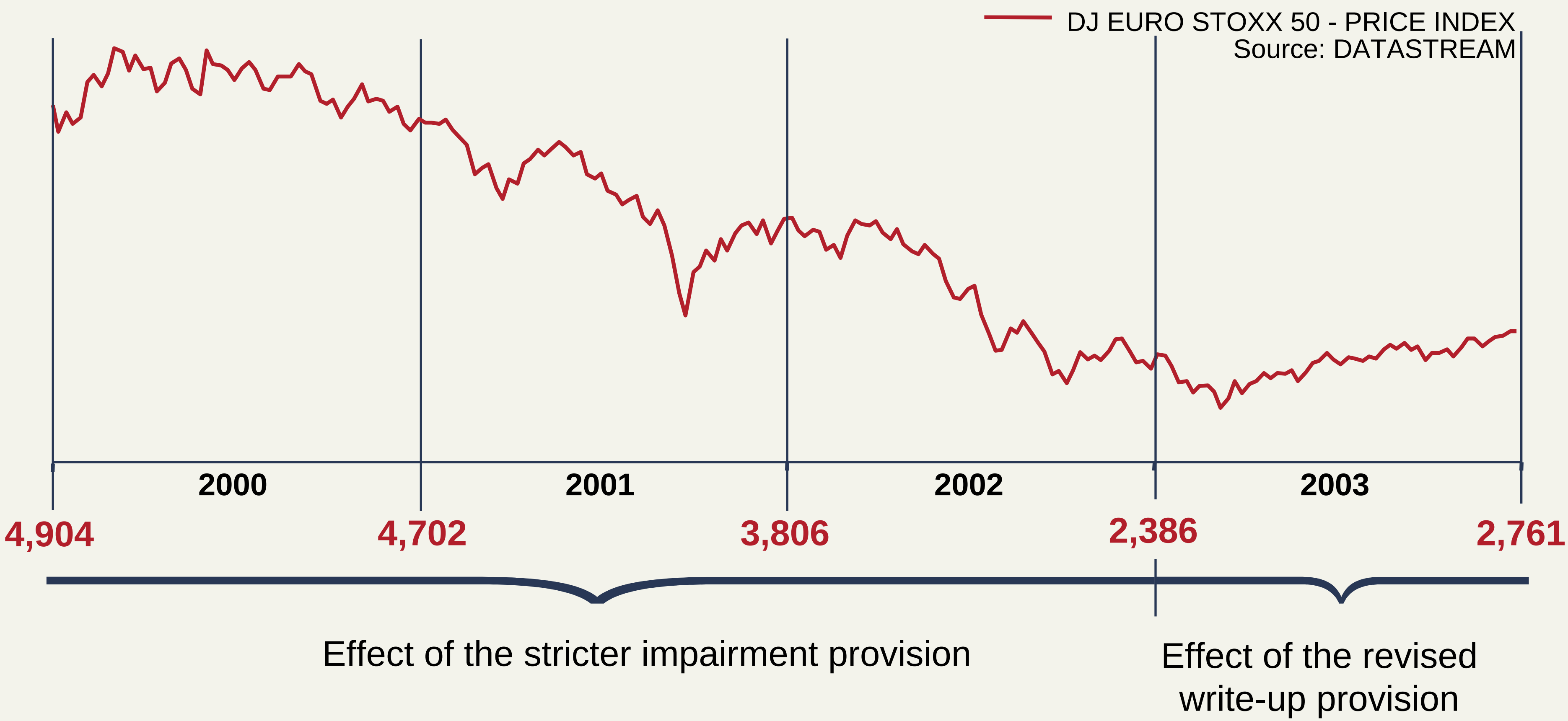
Decline in value of an equity investment: Impairment loss recognised ...

IAS 39 (rev. 2000)	IAS 39 (rev. 2003)
... if there is a – significant (at least 20%) **and** – prolonged (at least 6 months) decline in the fair value of the investment below its cost (in conjunction with US GAAP)	… if there is a – significant (at least 20%) **or** – prolonged (at least 6 months) decline in the fair value of the investment below its cost (IAS 39.61)

Recovery in the value of an equity investment: Impairment losses …

IAS 39 (rev. 2000)	IAS 39 (rev. 2003)
… which were recognised in the income statement **must** be reversed in the income statement. (IAS 39.119) [Write-up recognised as profit in the income statement]	... which were recognised in the income statement **may not** be reversed in the income statement (IAS 39.69) [Write-up not recognised as profit in the income statement]

Effects of the first-time application of IAS 39 (rev. 2003) – Indications based on the performance of the EURO STOXX 50



IAS 39 (rev. 2000) versus IAS 39 (rev. 2003)

Example 1 showing effect of first-time application of IAS 39 (rev. 2003)

– Value under IAS 39 (rev. 2000) = €37
– Value under IAS 39 (rev. 2003) = €27
– Difference of €10 reallocated from unrealised losses to revenue reserves

– Reduction of €10 in writedown recognised in the income statement

– Reduction of €12 in the write-up recognised in the income statement

IAS 39 (rev. 2000) versus IAS 39 (rev. 2003)

Example 2 showing effect of first-time application of IAS 39 (rev. 2003)

– Value under IAS 39 (rev. 2000) = €78
=
Value under IAS 39 (rev. 2003) = €78

– Increase of €42 in writedown recognised in the income statement

– Increase of €42 in unrealised gains

IAS 39 (rev. 2000) versus IAS 39 (rev. 2003)

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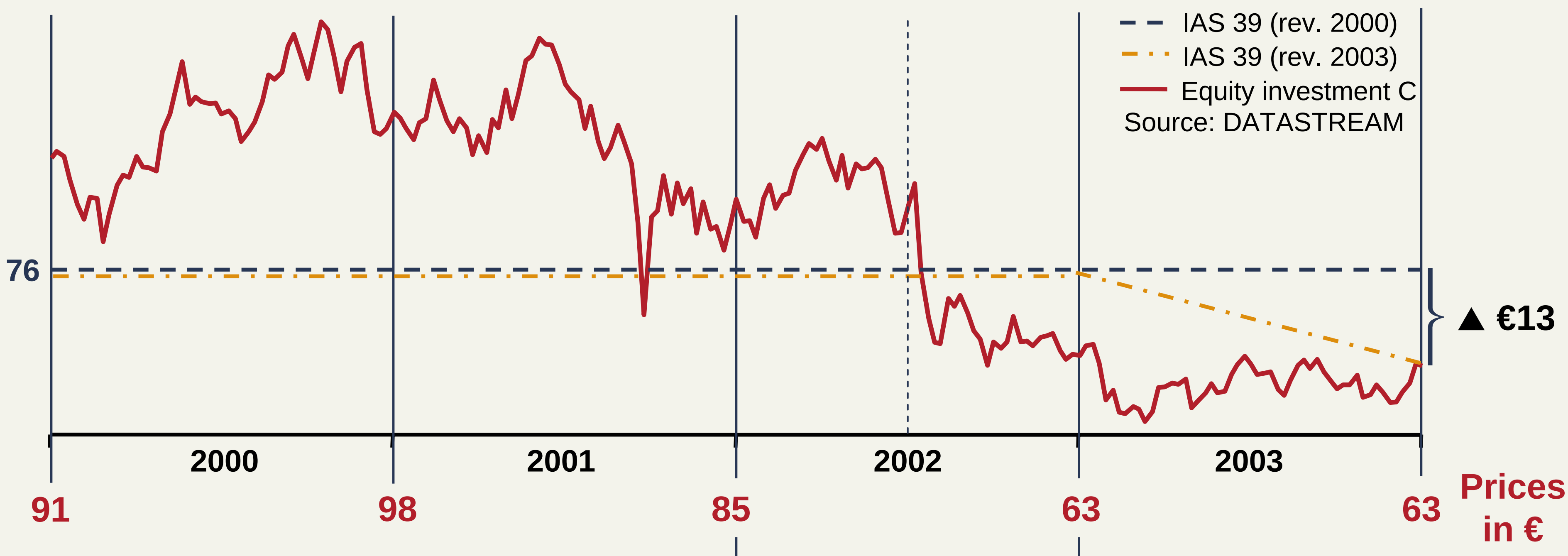
Example 3 showing effect of first-time application of IAS 39 (rev. 2003)



– Value under IAS 39 (rev. 2000) = €76
=
Value under IAS 39 (rev. 2003) = €76

– Value unchanged under IAS 39 (rev. 2000) and IAS 39 (rev. 2003)

– Increase of €13 in writedown recognised in the income statement

IAS 39 (rev. 2000) versus IAS 39 (rev. 2003)

Example 4 showing effect of first-time application of IAS 39 (rev. 2003)

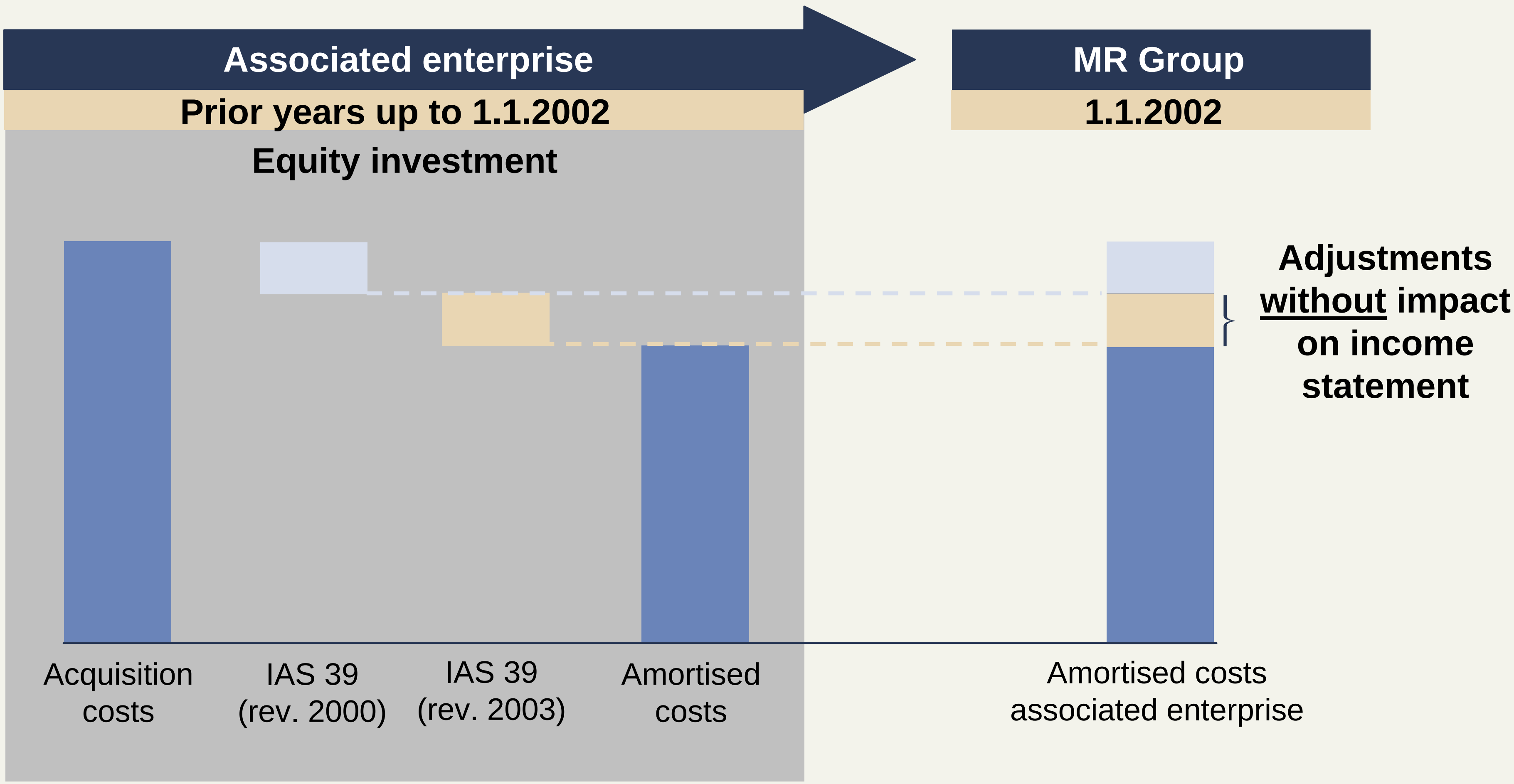
– Value under IAS 39 (rev. 2000) = €185
=
Value under IAS 39 (rev. 2003) = €185

– Increase of €94 in writedown recognised in the income statement

– Reduction of €85 in the writedown recognised in the income statement

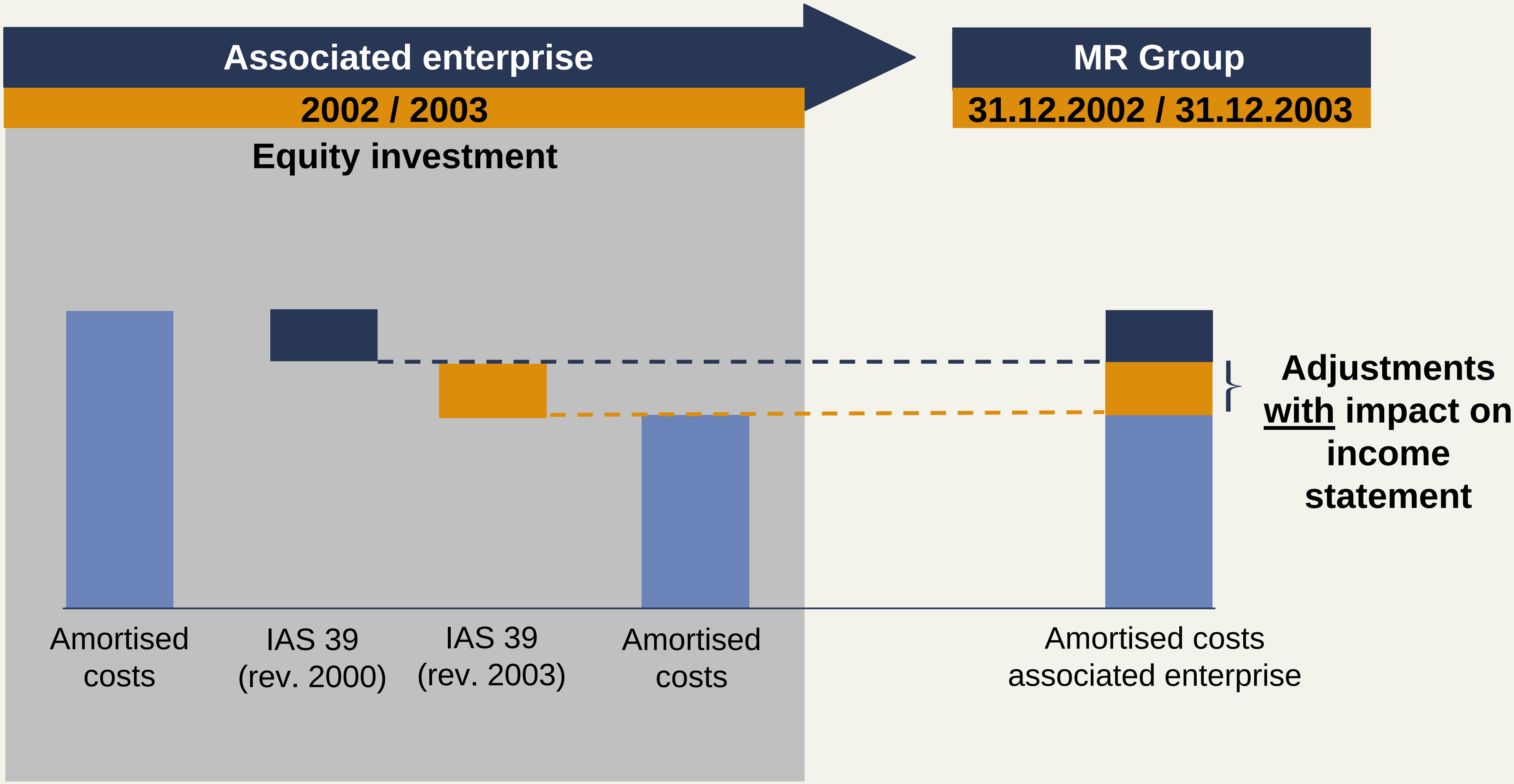
IAS 28 (rev. 2000)

First-time application of revised standards also to associated enterprises



IAS 28 (rev. 2000)

Subsequent application of revised standards also to associated enterprises



Application of revised disclosure requirements for financial instruments

The carrying amounts of financial instruments exposed to interest-rate risk must be presented grouped according to the following periods to maturity: …

IAS 32 (rev. 1998)	IAS 32 (rev. 2003)
…	…
(i) up to one year;	(i) up to one year;
(ii) over one and up to five years;	**(ii) over one year and up to two years ;**
	(iii) over two years and up to three years;
	(iv) over three years and up to four years;
	(v) over four years and up to five years;
(iii) over five years.	(vi) over five years.
(IAS 32.64)	(IAS 32.74)

IAS 32 and IAS 39 (rev. 2003)

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First-time application of new standards to financial statements for 2003

01.01.2002 31.12.2002 31.12.2003 31.12.2004 31.12.2005 t

Retrospective application of IAS 32 and IAS 39

Adjustments without impact on income statement

Original application of IAS 32 and IAS 39

Adjustments without impact on income statement (for write-ups); otherwise with impact

Exercising of option to apply standards earlier

Compulsory application of IAS 32 and IAS 39

Why earlier first-time application of the revised standards?

1. **The accounting set-up in the Munich Re Group**
   enables us to implement the standards in our consolidated financial statements within a very short time (➔ insurance groups less affected than banking groups)

2. **Consistency in earlier first-time application of IAS 39**,
   given that Munich Re also applied IAS 39 (rev. 2000) before it was compulsory (as from 1.1.2001) when preparing its consolidated financial statements for 2000

3. **More transparency regarding the earnings situation**,
   because fluctuations in the value of equity investments are recognised more promptly in the consolidated financial statements

Positive response from the capital market

Backup: Tax

Change in taxation of German life and health insurers with regard to gains and losses on equity investments

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Starting point:

- At least 90% / 80% of the commercial balance sheet results of life and health insurers have to be allocated to the provision for premium refunds due to insurance law ➔ tax-deductible
- Gains and losses from equity investments increase/decrease the amount of the tax-deductible provision for premium refunds
- At most 10% / 20% of the commercial results remain with the insurer as profit

Change in taxation of German life and health insurers with regard to gains and losses on equity investments

Previous tax situation (up to 31.12.2003):
Gains and losses from equity investments are tax-exempt

– From the small 10% / 20% profit 100% of the non-taxable gains from equity investments can be deducted and 100% of the losses from equity investments have to be added back due to German tax law

Result

– In the case of gains these can be deducted for tax purposes nearly twice
➔ principally leads to a taxable loss ➔ no tax burden

– In the case of losses these have to be added to taxable income nearly twice
➔ leads to overproportional tax burden

Change in taxation of German life and health insurers with regard to gains and losses on equity investments

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Adding losses from equity investments to taxable income reduces the commercial balance sheet result and concurrently the tax-deductible allocation to the provision for premium refunds

“spiral effect“

Higher tax basis and thus higher taxation, which consequently further reduces the tax-deductible allocation to the provision for premium refunds

Income tax burden of up to 70% of the non-tax-deductible losses from equity investments

Change in taxation of German life and health insurers with regard to gains and losses on equity investments

New tax regime for life and health insurers (from 01.01.2004)
Gains and losses from equity investments are taxable

Result

– Inconsistency in taxation is dropped

– Life and health insurers come up with a balanced result, normally small taxable profits ➔ leads to disclosure of deferred taxes

Change in taxation of German life and health insurers with regard to gains and losses on equity investments

Transitional rule for life and health insurers

– Possibility of a block option for the new tax regime retroactively for 2001–2003 at the rate of 80% to avoid too high a tax burden, no loss carry-back/ forward arising from it

– Exercise of the option depends on the individual situation, for example
  - amount of losses from equity investments in 2003
  - tax situation/handling in 2001 und 2002

Disclaimer

The information given here, in particular the “Outlook” section, refers to statements relating expressly and implicitly to the future and contains words such as “expect”, “believe”, “assume”, “targets” and other similar expressions. Such forward-looking statements are based on current expectations, estimates, forecasts and prognoses concerning the development of the market as well as management estimates and assumptions. Such forward-looking statements are no guarantee that events or results will actually materialise in the future and are subject to risks, uncertainties, assumptions and other factors that could lead to actual events or results deviating substantially from those anticipated in these forward-looking statements. Other factors include in particular catastrophes that could lead to extraordinary loss burdens as well as considerable price changes on the capital market, namely share price changes which may have an impact on the financial situation of the Munich Re Group.