




### Drawing a line under difficult years

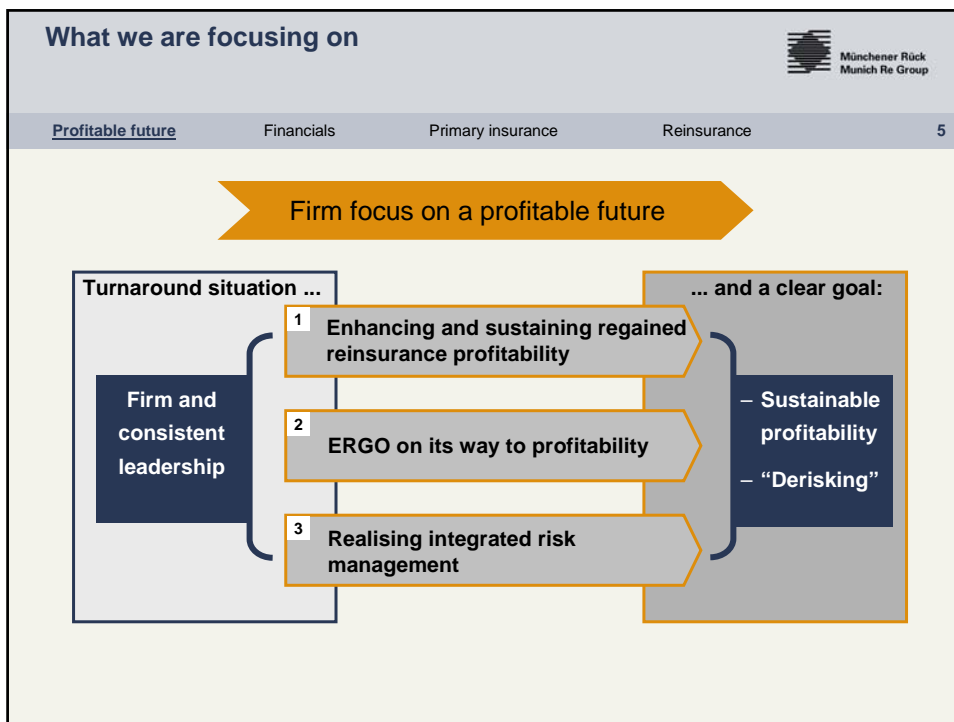


<u>Profitable future</u>	Financials	Primary insurance	Reinsurance	3
Munich Re segment results in €m				<b>2003</b>
Reinsurance				1,632
Primary insurance				-1,091
Asset management				20
Consolidation				-995
<b>Profit for the year</b>				<b>-434</b>

### What we are working on



<u>Profitable future</u>	Financials	Primary insurance	Reinsurance	4
<b>Management</b>				
<ul style="list-style-type: none"> <li>- Controlling tools and planning methods</li> <li>- ERGO: Modernisation of management structure in line with market needs</li> <li>- IT overhaul</li> </ul>				
<b>Assets</b>		<b>Equity and liabilities</b>		
<ul style="list-style-type: none"> <li>- Divestment in non-strategic participations</li> <li>- Reduction of crossholdings</li> </ul>		<ul style="list-style-type: none"> <li>- Reinforce capital base</li> <li>- Optimise portfolio</li> </ul>		
<b>Asset-liability management</b>				



### Where we are now

#### Group targets and performance 2003

Profitable future      Financials      Primary insurance      Reinsurance      6

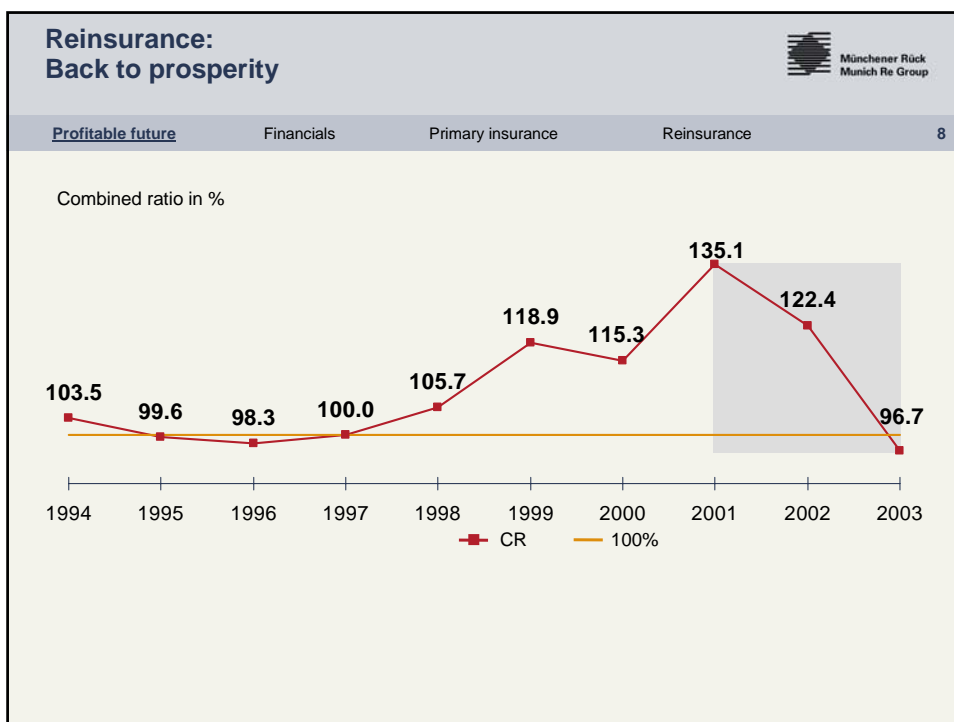
Segment	Business group	Key figures	Target for 2003	Actual 2003
Reinsurance	Non-life	Combined ratio	<100%	96.7%
	Life	Embedded value operating earnings	>10%	13.3%
Primary insurance	Property-casualty	Combined ratio	97%	96.4%
	Life and health	Embedded value operating earnings	>10%	9.1%

### Our business model

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Profitable future      Financials      Primary insurance      Reinsurance      7

- Carrying, managing and financing risks
- Synergies between different risk segments
- Command of the crucial added-value stages of all risk segments
- Direct market access to all clients in all segments (retail and wholesale)
- Diversification as an important value proposition



**ERGO:**  
**On the way back to profitability**

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Profitable future    Financials    Primary insurance    Reinsurance    9

ERGO  
action  
programme

**New management structure**

- Clear result responsibility
- Consistent segment responsibility
- Congruency of task/competencies and responsibilities

**Stringent management**

**Single back-office strategy**

- Efficient process organisation through centralisation of segment responsibilities
- Implementation of two new divisions
  - Customer Service / Organisation / IT
  - Personnel and Service

**Synergies**

**Multi-channel strategy**

- Established set of brands gives sustainable access to different customer segments

**Franchise strength**

**Integrated risk management**  
**Example: Life insurance**

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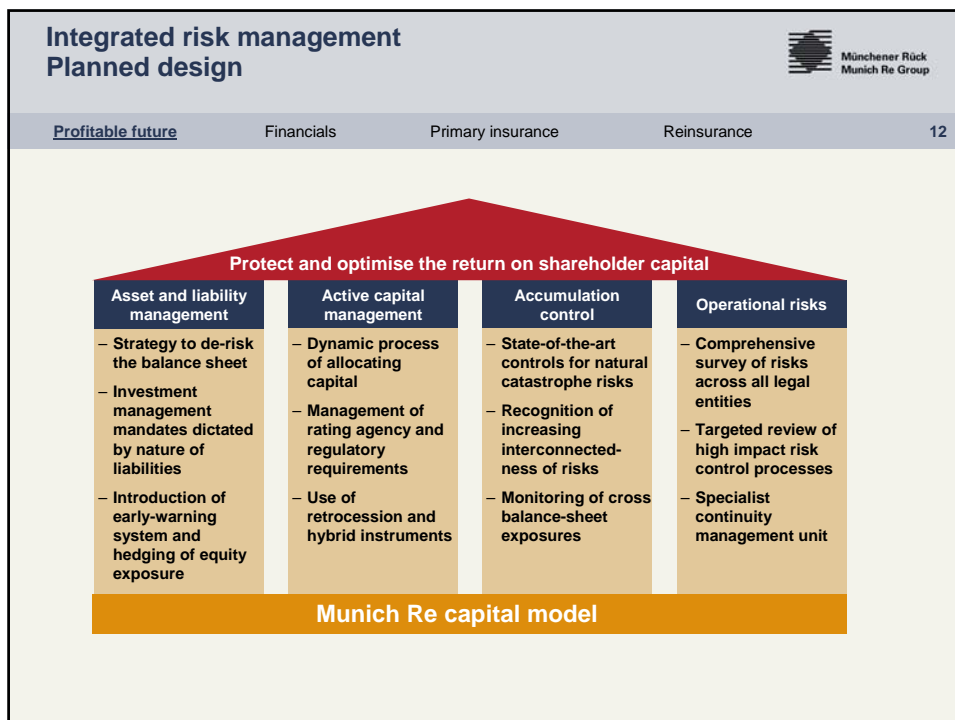
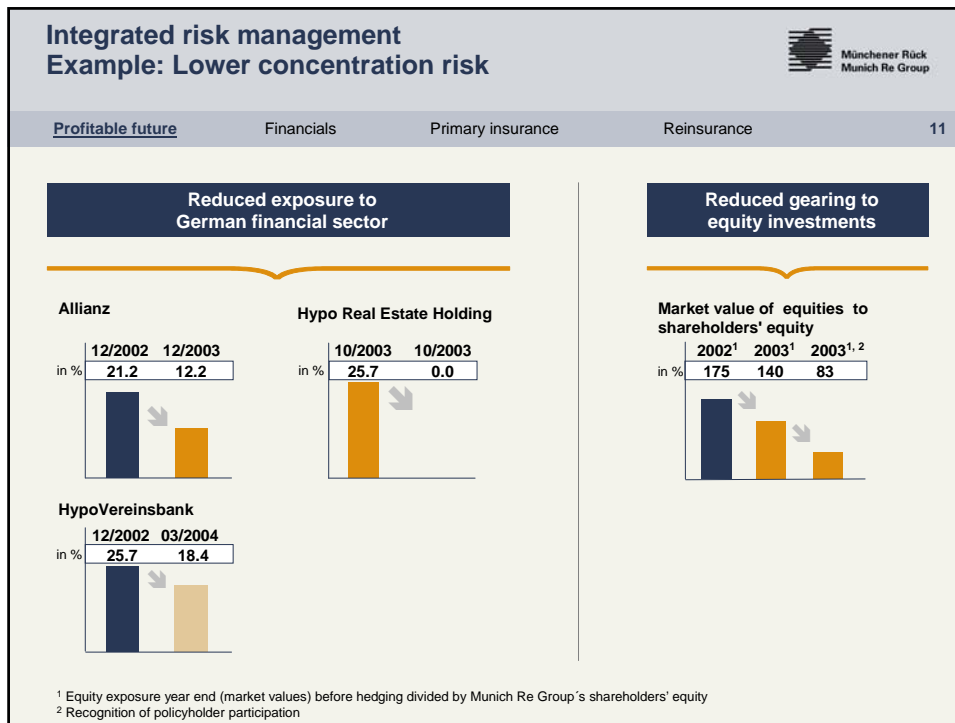
Profitable future    Financials    Primary insurance    Reinsurance    10

- Mismatch risks, i.e. lack of coordination between assets and liabilities, are the most highly leveraged risks assumed by the life companies
- Influenced by investment strategy, hedging strategy and management actions
- Greatest potential to improve our return for risk intermediation or capital productivity

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Managing the liabilities Managing the assets

The improvement aimed at in capital productivity requires optimising management actions on both sides of the balance sheet





**Targets 2004:**  
**Next step on the path to sustainable profitability**



Profitable future      Financials      Primary insurance      Reinsurance      13

**Ambitious financial targets**

Reinsurance		Primary insurance	
<b>Non-life</b>		<b>Property-casualty*</b>	
Combined ratio	97%	Combined ratio	97%
<b>Life</b>		<b>Life and health</b>	
Embedded value operating earnings	>10%	Embedded value operating earnings	>10%

**Asset management**

Group assets	
Return on investment**	4.5%


Munich Re Group:  
 Year-end profit target: €2bn\*\*\*  
 Sustainable RoE of 12%

\* Inclusive legal protection      \*\* IFRS investment result based on average IAS book values      \*\*\* Barring extraordinary claims

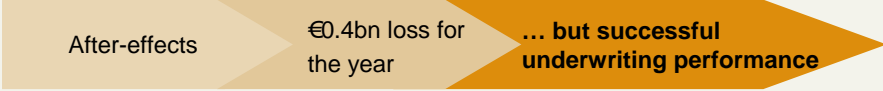




**Munich Re Group 2003**  
**Business year marked by contrasts and transition**



Profitable future	<a href="#">Financials</a>	Primary insurance	Reinsurance	16
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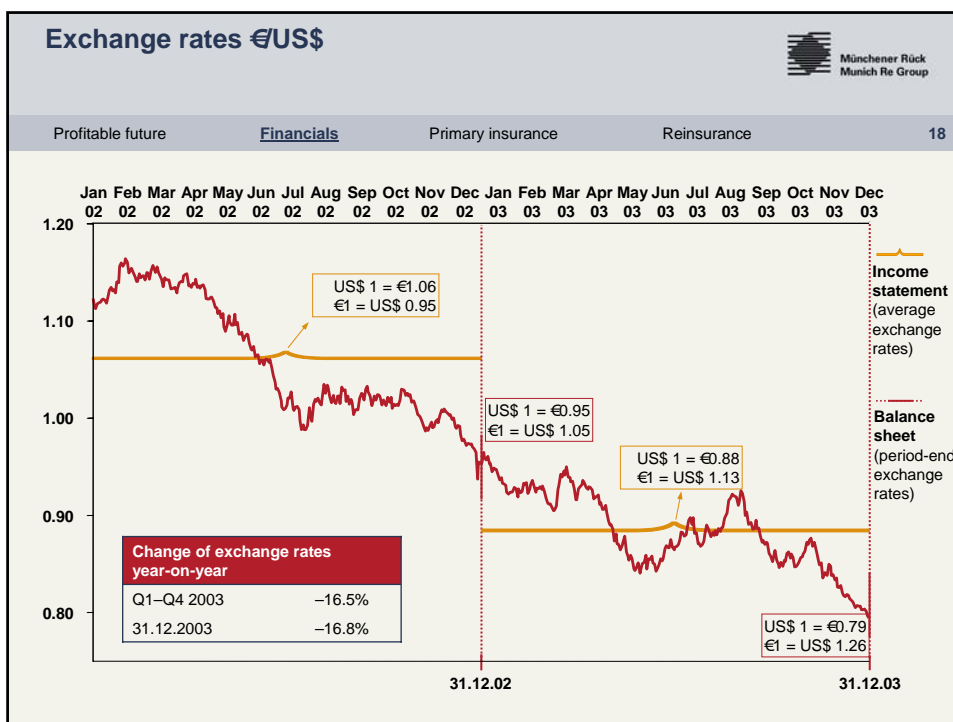
<p>After-effects of the weak capital market:</p> <ul style="list-style-type: none"> <li>– Writedowns and losses on the disposal of securities available for sale</li> <li>– Writedowns on goodwill</li> <li>– Valuation of associated companies</li> <li>– Extreme tax burden</li> </ul>	<p>Good performance already reflected in 2003:</p> <ul style="list-style-type: none"> <li>– Combined ratio of 96.7% in reinsurance</li> <li>– Combined ratio of 96.4% in primary insurance</li> <li>– €2bn result before amortisation of goodwill, €1.3bn result before tax</li> <li>– Significantly improved quantity and quality of capital</li> </ul>
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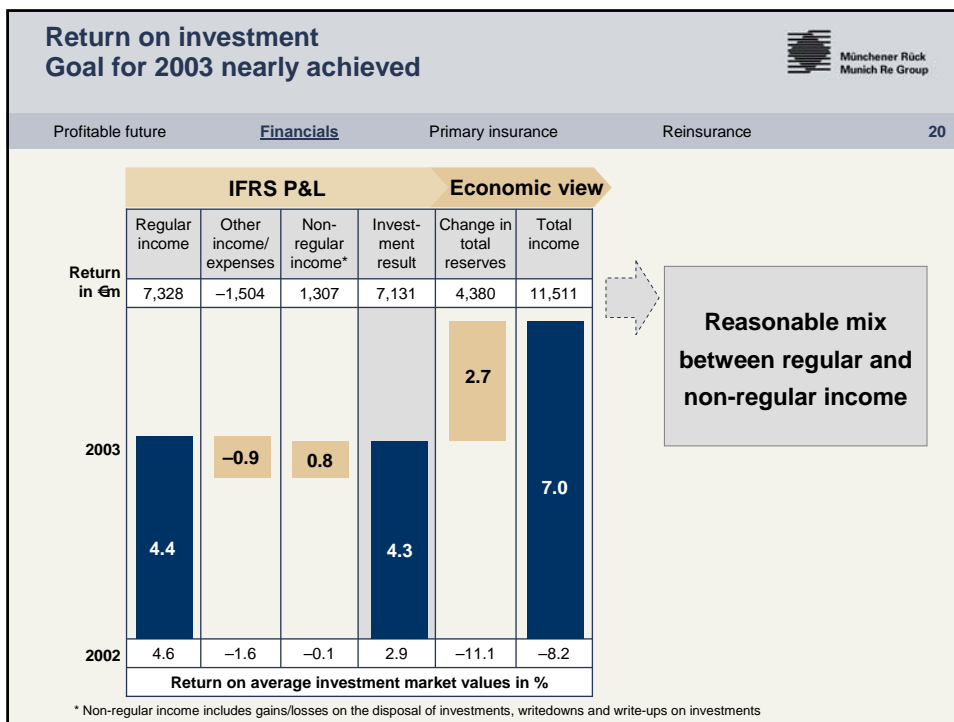
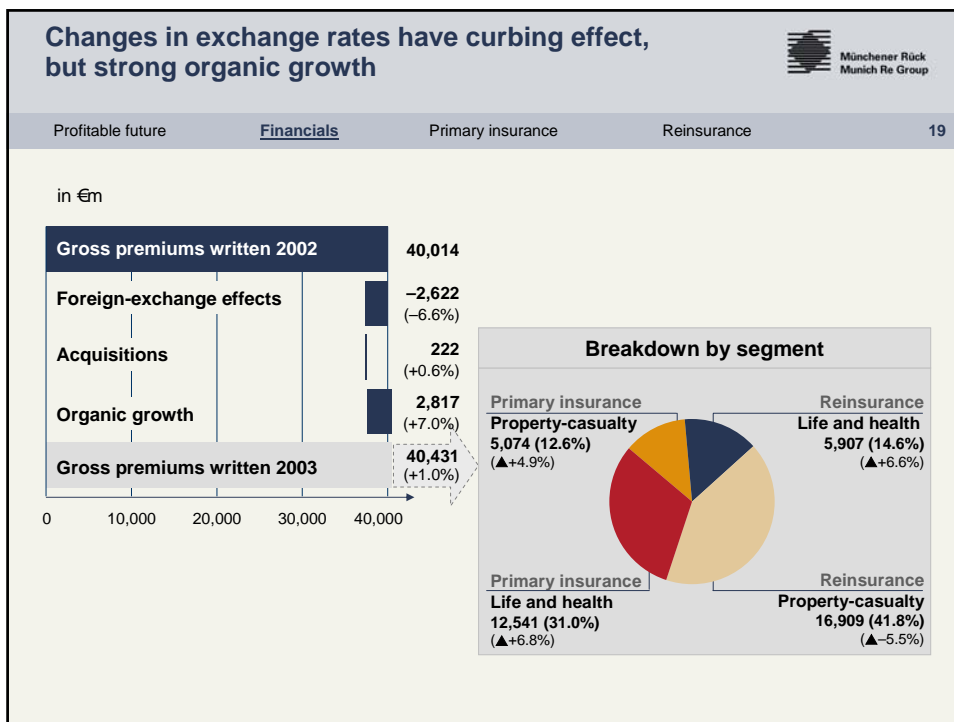


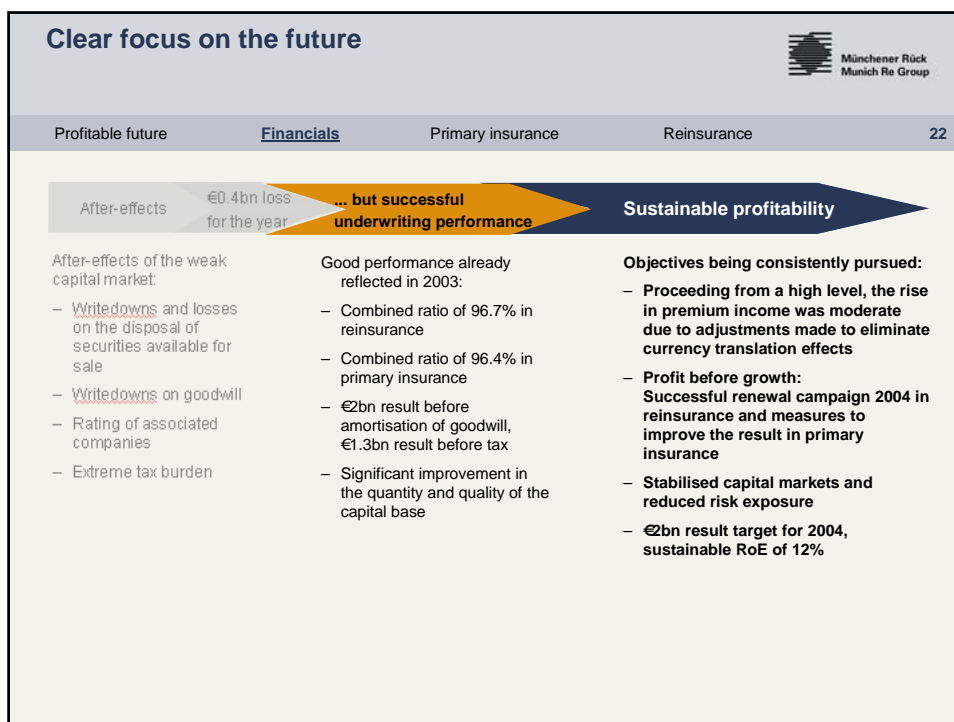
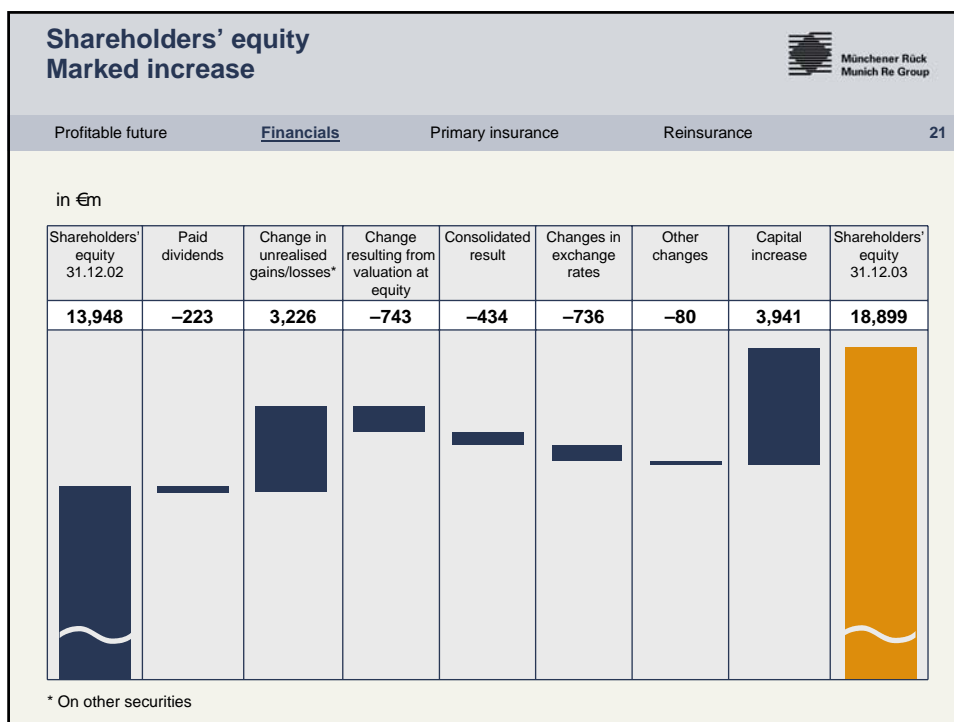
### Income statement A loss, but strong improvement in operating result

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Profitable future	<u>Financials</u>	Primary insurance	Reinsurance	17
in €m				
	<b>2003</b>	<b>2002</b>	<b>▲ in %</b>	
	<small>IAS 39 new</small>	<small>IAS 39 new</small>		
Gross premiums written	40,431	40,014	1.0	
Investment result	7,131	4,935	44.5	
<b>Total income</b>	<b>45,959</b>	<b>42,592</b>	<b>7.9</b>	
<b>Total expenses</b>	<b>43,947</b>	<b>42,581</b>	<b>3.2</b>	
<b>Result before amortisation of goodwill</b>	<b>2,012</b>	<b>11</b>	<b>–</b>	
Amortisation of goodwill	687	371	85.2	
<b>Operating result before tax</b>	<b>1,325</b>	<b>–360</b>	<b>–</b>	
Tax	1,793	–574	–	
Minority interests in earnings	–34	–74	54.1	
<b>Group result</b>	<b>–434</b>	<b>288</b>	<b>–</b>	
<b>Earnings per share in €</b>	<b>–2.25</b>	<b>1.54</b>	<b>–</b>	









### ERGO – The road back to profitability

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Profitable future      Financials      Primary insurance      Reinsurance      25

- Raising premium rates in health, motor and commercial lines
- Further improvement of loss/benefit ratios as well as expense ratios
- Screening of subsidiaries/participations regarding their strategic fit and their profitability

Improving operative profitability

- Reducing risk exposure in life insurance and investments
- Improving ALM activities
- Better management of capital and risk

Derisking the business

- Further extension of the numerous sales channels
- Using cross- /up-selling from large customer base
- Strengthening distribution of profitable private customer property-casualty business, company pension schemes and of unit-linked products

Profitable growth

### Cornerstones of the new ERGO structure

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Profitable future      Financials      Primary insurance      Reinsurance      26

Consistent control of the group by segment

Centralised group-wide management of corporate functions

**ERGO strategy**  
**Segment responsibility at holding and on company level**

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Profitable future      Financials      Primary insurance      Reinsurance      27

<b>ERGO Holding</b>								
CEO	Life	Health	P/C; Leg.Exp.	Foreign Business	CS/Org./ IT*	HR/GS**	Finance	CFO/ CRO

<b>VICTORIA Life</b>		<b>Hamburg-Mannh. Life</b>	
CEO	Other depts.	CEO	Other depts.

**Example: life segment**

- Responsibility for the strategic direction of the segment
- Management of all segment specific processes/duties
- The ERGO board member will also be CEO of the segment's insurance companies, therefore consistent segment responsibility

\* CS/Org./IT: Customer Service, Company Organisation, IT  
 \*\* HR/GS: Human Resources, General Services

**ERGO strategy**  
**Clear responsibility for the operative business in the segments**

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Profitable future      Financials      Primary insurance      Reinsurance      28

<b>VICTORIA Life</b>					<b>Hamburg-Mannheimer Life</b>				
CEO	Dept. 1	Dept. 2	Sales	Other depts.	CEO	Dept. 1	Dept. 2	Sales	Other depts.

- Personal union regarding the operative insurance business at the segment's insurance companies
  - Product development/actuarial dept.
  - Application/policy
  - Benefits/claims
- Driving force behind the harmonisation of processes



**ERGO strategy**  
**ERGO Holding: New group-wide responsibility for customer service, organisation and IT**

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Profitable future      Financials      Primary insurance      Reinsurance      29

ERGO Holding								
<u>CEO</u>	<u>Life</u>	<u>Health</u>	<u>P/C; Leg.Exp.</u>	<u>Foreign Business</u>	<u>CS/Org./ IT</u>	<u>HR/GS</u>	<u>Finance</u>	<u>CFO/ CRO</u>

↓

- **Customer service:**
  - Responsibility for all group-wide business operations
- **Company organisation:**
  - Securing a comprehensive and efficient process organisation
  - Coordination with the company organisations for specific segments
- **IT:**
  - Determination of ERGO's IT strategy
  - Steering of ITERGO

**ERGO strategy**  
**ERGO Holding: New group-wide responsibility for human resources and general services**

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Profitable future      Financials      Primary insurance      Reinsurance      30

ERGO Holding								
<u>CEO</u>	<u>Life</u>	<u>Health</u>	<u>P/C; Leg.Exp.</u>	<u>Foreign Business</u>	<u>CS/Org./ IT</u>	<u>HR/GS</u>	<u>Finance</u>	<u>CFO/ CRO</u>

↓

- **Group-wide responsibility for human resources issues:**
  - HR planning and budgeting
  - Development programmes for the senior management
  - Personnel administration
  - "Personnel director" for ERGO Holding and co-determined group companies
- **Group-wide responsibility for general services:**
  - Office management
  - Procurement
  - Logistics

### ERGO strategy Advantages of the new ERGO structure

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Profitable future      Financials      Primary insurance      Reinsurance      31

- Clear leadership and responsibilities by segments
- Reduction of complexity and coordination
- Fast reaction to market opportunities
- Avoidance of redundant developments
- New departments to assist in cross-segment efficiency enhancement
- Easier harmonisation of processes
- New structure helps to realise economies of scale and specialisation
- Cross-selling potential better achievable

**Increase of profitability**

### ERGO – Big player in the corporate pensions market

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Profitable future      Financials      Primary insurance      Reinsurance      32

**ERGO is No. 2 in Germany in the growth market of corporate pension schemes**

**ERGO capacity:**

- consulting
- distribution
- products and options
- administration

**ERGO provides full service**

New business volume

	2002	2003
in €m	284	451

+59%

### ERGO – Health insurance Outstanding position

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Profitable future      Financials      Primary insurance      Reinsurance      33

- Strict underwriting guidelines
- Further extension of management of benefits
- Possibility to increase premium rates when claims rise

**Focus on technical profits**

**Innovative health insurance products by integration of**

- financial protection
- services
- provision

**Innovative distribution channels:**

- partnerships with state health insurers
- corporate health business

**Opportunities in the areas of services and provision:**

- Hospitals
- Old-age residences
- Health centres

**Expanding the core business**

### ERGO – Property-casualty insurance Combined ratio substantially below 100%

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Profitable future      Financials      Primary insurance      Reinsurance      34

**Combined ratio**

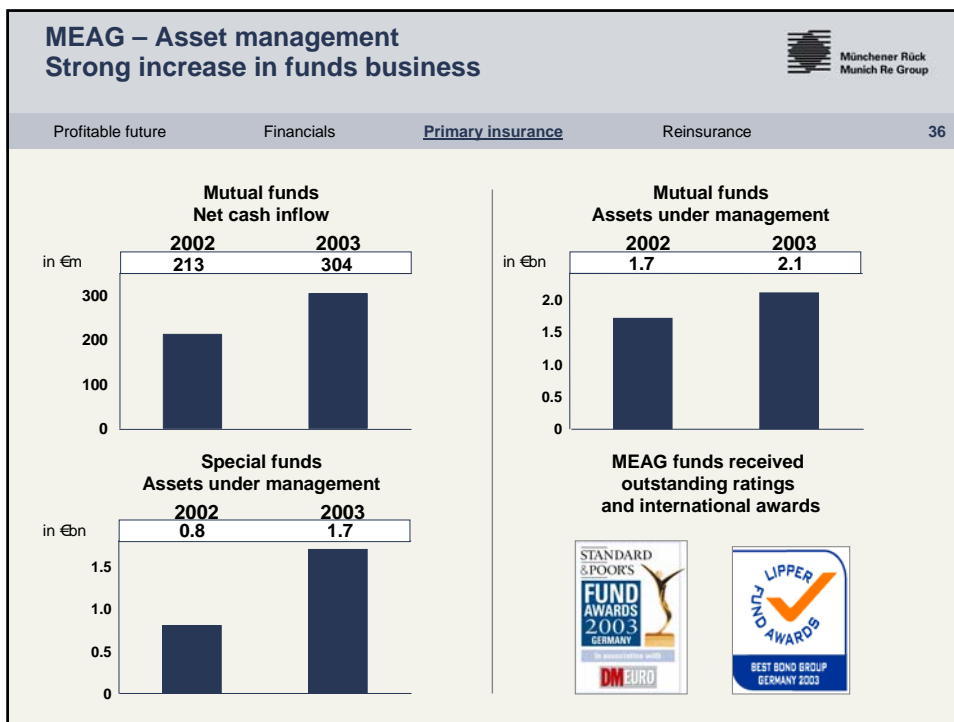
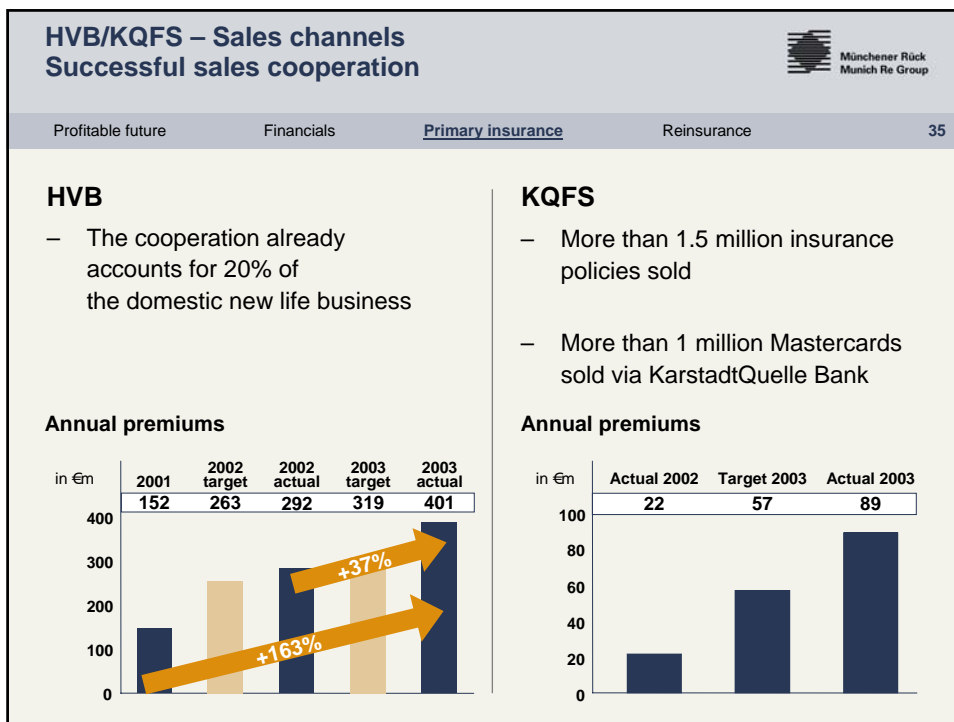
in %      1998      1999      2000      2001      2002      2003

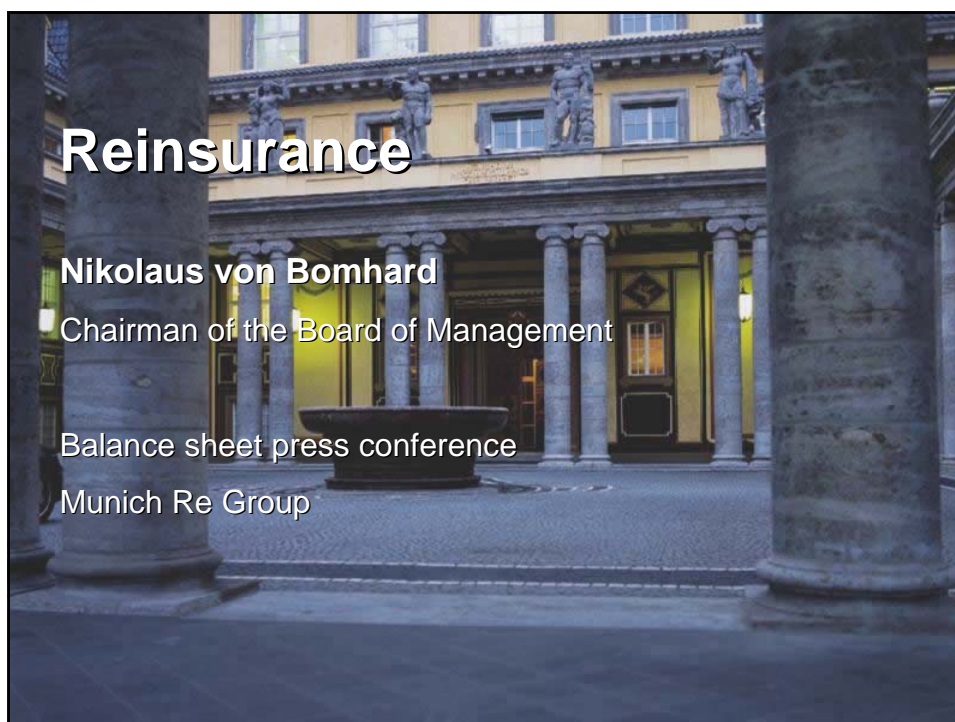
**Portfolio mix**


in %      ERGO 2003      German market 2003

**Strengths: Excellent portfolio composition, selective underwriting policy**

**Target for 2004: Another first-rate combined ratio**





**Our strengths: Core competences form the foundation** 

Profitable future      Financials      Primary insurance      Reinsurance      39


**Munich Re's focal points**

- Outstanding technical underwriting
- Selective collaboration with cedants

**Requirements**

- Superior technical knowledge to model, price and select risks
- Broad client base with a clear segmentation

**Regaining sustainable profitability: Crucial factor for future growth**

**Sustainable profitability through our underwriting controlling process** 

Profitable future      Financials      Primary insurance      Reinsurance      40

**Planning and target setting**

- 1) Actuarial transformation of RoE targets of division into risk-specific pricing loadings (binding for all underwriters)
- 2) Client segmentation tool to allocate capacity to clients depending on the strategic short/long-term result expectation

**Monitoring**

- 3) Online monitoring of renewal progress (target price vs. achieved price) by treaty, by client, by line of business, by division, ... → Sophisticated management tool
- 4) Restrictive referral mechanism to decide at management or Board level on quantitative/qualitative deviations

**Underwriting controlling process**



**Our guiding principle: Cycle-independent, risk-commensurate underwriting**

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Profitable future    Financials    Primary insurance    Reinsurance    41

**Market perspective**

**CBS-Lloyds Index (1986=100)**

Source: CBS Private Capital, March 2004

- Ongoing high degree of discipline
- Positive market environment continues
- Capacity generally adequate, but not excessive
- Widely differing market conditions

**Munich Re's approach**

Munich Re is committed to strong profitability (RoE targets instead of growth or market share targets)

Inadequately priced business eliminated

Focus on a sustainable improvement of our portfolio and the enhancement of terms and conditions

**Minimal topline decline in Jan. 2004 renewals offset by significantly improved portfolio quality**

**Proportional reinsurance: Our position**

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Profitable future    Financials    Primary insurance    Reinsurance    42

**Strict application of risk-adequate pricing**


**Proportional business**

- Only clients that implement strict risk-related original rates policy and procure reinsurance for pure capacity reasons get proportional cover
- Application of sophisticated prospective pricing tools
- Permanent monitoring of original rates introduced by segment/by market in order to have most up-to-date information available for adequate underwriting decision (avoid retrospective view)
- Additional underwriting audits to verify the underwriting of our cedants
- Introduction of clauses to guarantee rate increase/rate stability of the covered portfolio

**XL treaty/ facultative business**

- Application of state-of-the-art pricing tools
- Good knowledge of price adequacy
- Worldwide monitoring of price developments

### Life and health reinsurance: Encouraging development in 2003



Profitable future
Financials
Primary insurance
Reinsurance
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**Life business with good organic growth:**

- Premium increase by 3.5% to €5,461m in 2003
  - Increase of about 10% before currency translation influences
- Increase in embedded value by 7.7%
  - Increase before exchange rates of about 15%
- Embedded value operating earnings target more than fulfilled
- Value added by new business of €153m

**Health business with double digit growth since end of the nineties:**

- Premiums of €1,415m in 2003
- Operating results clearly exceeding required value

**Excellent  
profitability  
expected in  
2004**


### Life and health: Market outlook 2004 shows attractive opportunities




Profitable future
Financials
Primary insurance
Reinsurance
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- Several drivers for further growth
- Hardening markets: For the first time over a long period, there is a trend towards price increases in some life markets, e.g. USA and UK

**Munich Re is  
well positioned  
with its ability to  
provide efficient,  
tailor-made  
solutions**

<b>American Re: On the right track</b>				
Profitable future	Financials	Primary insurance	<u>Reinsurance</u>	45
<p><b>2002 Reorganisation/refocus on US core business and improving the bottom line</b></p> <ul style="list-style-type: none"> <li>- New management team and corporate structure</li> <li>- Reserve review and massive reserve increase</li> </ul> <p><b>2003 Growing surplus and return to profitability</b></p> <ul style="list-style-type: none"> <li>- Surplus grew by over US\$ 1bn to US\$ 3.3bn</li> <li>- Pre-tax earnings of US\$ 503m</li> <li>- Reserve increase of US\$ 368m</li> </ul> <p><b>2004 Sustaining profitability / Well positioned to capitalise on growth potential</b></p> <ul style="list-style-type: none"> <li>- Enhanced portfolio quality</li> <li>- Strong presence in all distribution channels: direct, broker market, facultative and alternative market</li> </ul>				

<b>American Re: US casualty addressed</b>				
Profitable future	Financials	Primary insurance	<u>Reinsurance</u>	46
<p><b>Structural challenges in the marketplace</b></p> <ul style="list-style-type: none"> <li>- We do not just blame the liability system</li> <li>- Insurance cycle, (superimposed) inflation, emerging risks and legal/regulatory and political environment are the key drivers for profitability in the US reinsurance market</li> </ul> <p><b>Key actions of Munich Re Group</b></p> <ul style="list-style-type: none"> <li>- Continuously update tools to better cover key drivers</li> <li>- Address issues in the political debate</li> <li>- Review of Munich Re Group's US casualty strategy initiated and currently underway</li> </ul>				

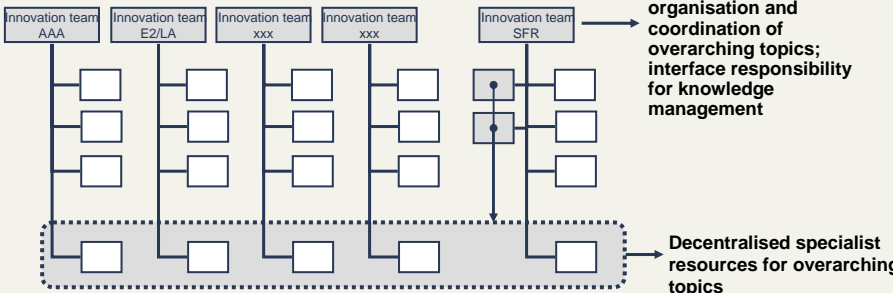
### Growth with new business opportunities: New approach to innovation management



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Profitable future
Financials
Primary insurance
Reinsurance
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- Exploring a new set of business activities
- Coordinated decentralised approach with close link to market strategies ensures success



Management, organisation and coordination of overarching topics; interface responsibility for knowledge management

Decentralised specialist resources for overarching topics

### Outlook 2004



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Profitable future
Financials
Primary insurance
Reinsurance
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M  
A  
R  
K  
E  
T


- ✓ Premiums and conditions at adequate level
- ✓ Early feedback on spring renewals 2004 (e.g. Japan, South Korea) does not seem to support a declining trend in terms and conditions
- ✓ As a whole, no signs of dwindling market discipline

M  
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- ✓ **Increased reliance on sophisticated risk modelling**
- ✓ **Focus on profitability instead of market share/growth**

- ✓ Implementation of advanced controlling tools and planning methods generates value
- ✓ Persistent evolution of organisational structure due to value proposition of business units
- ✓ Asset-liability management removes mismatch of investment and technical risk



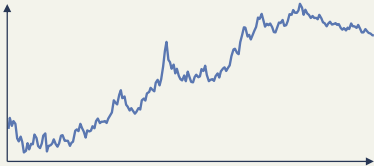


### Valuation of equity investments in the balance sheet under IAS 39 (rev. 2000) / IAS 39 (rev. 2003)

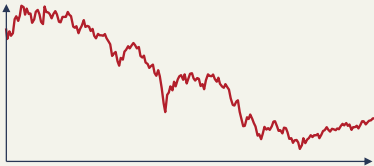
Backup: IAS 32/39 51

#### Balance sheet

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

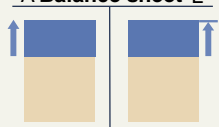


**Values rise**




**Values fall**

**A Balance sheet L**




Increase in revaluation reserve  
= More shareholders' equity

**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)

Backup: IAS 32/39 52


#### 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**

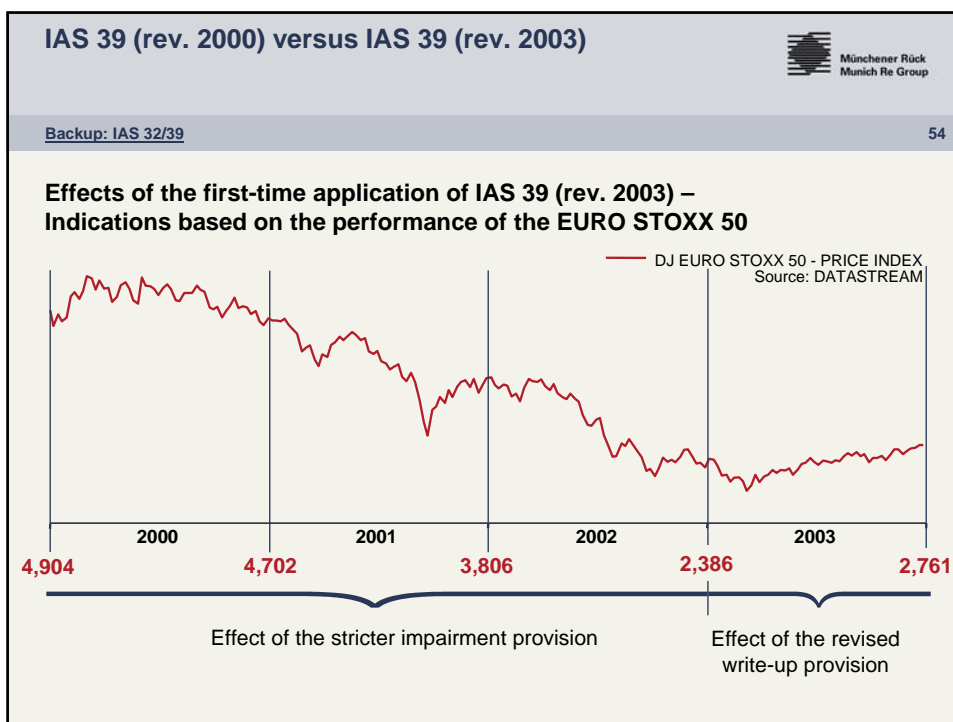
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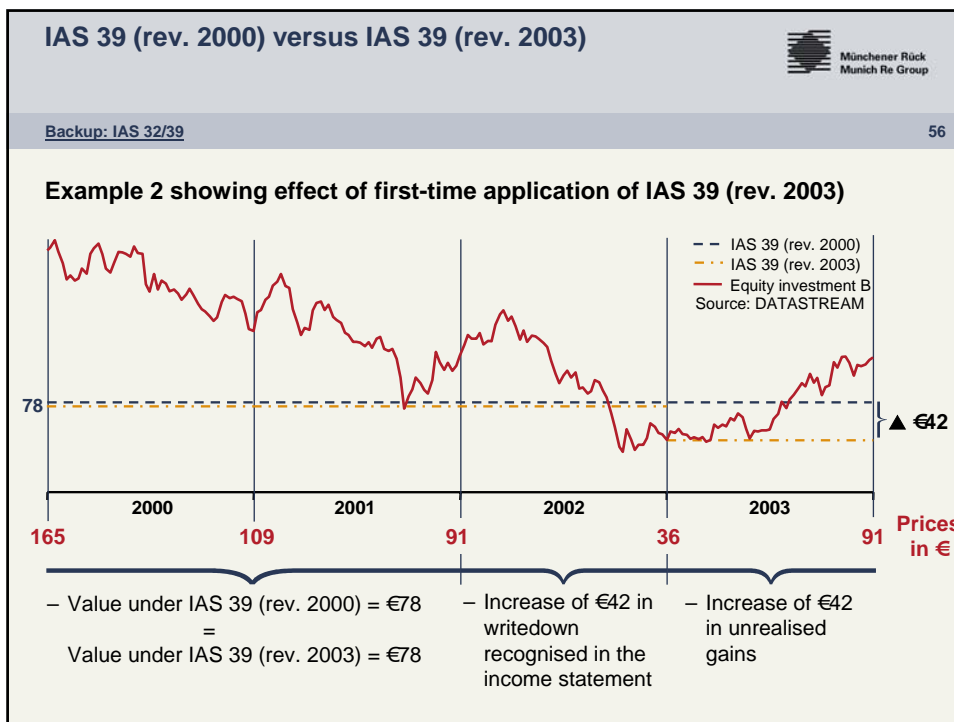
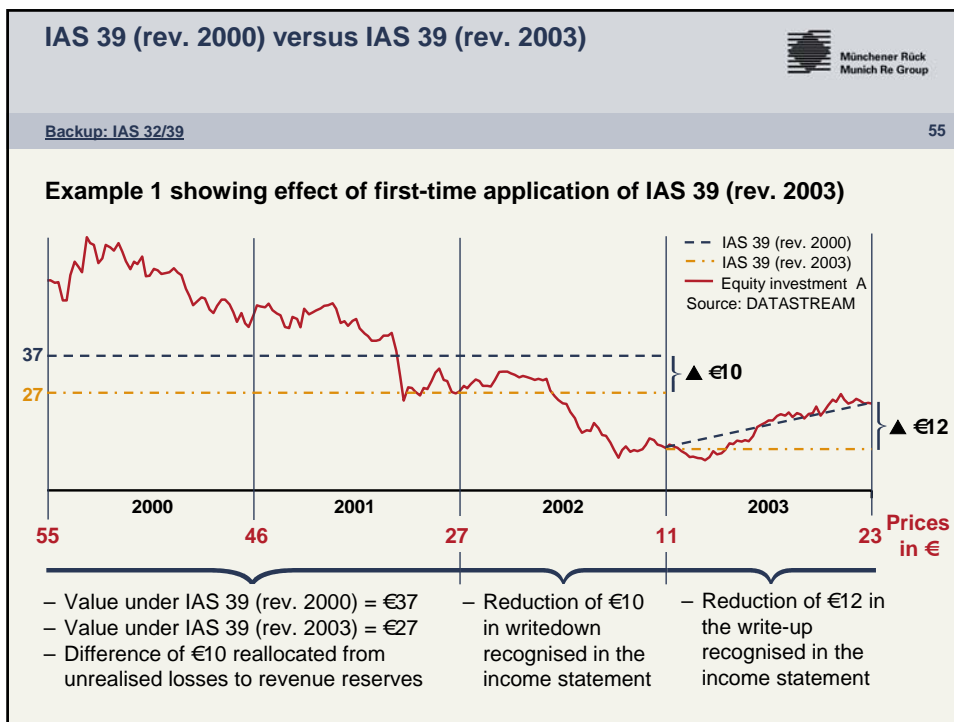
Backup: IAS 32/39 53

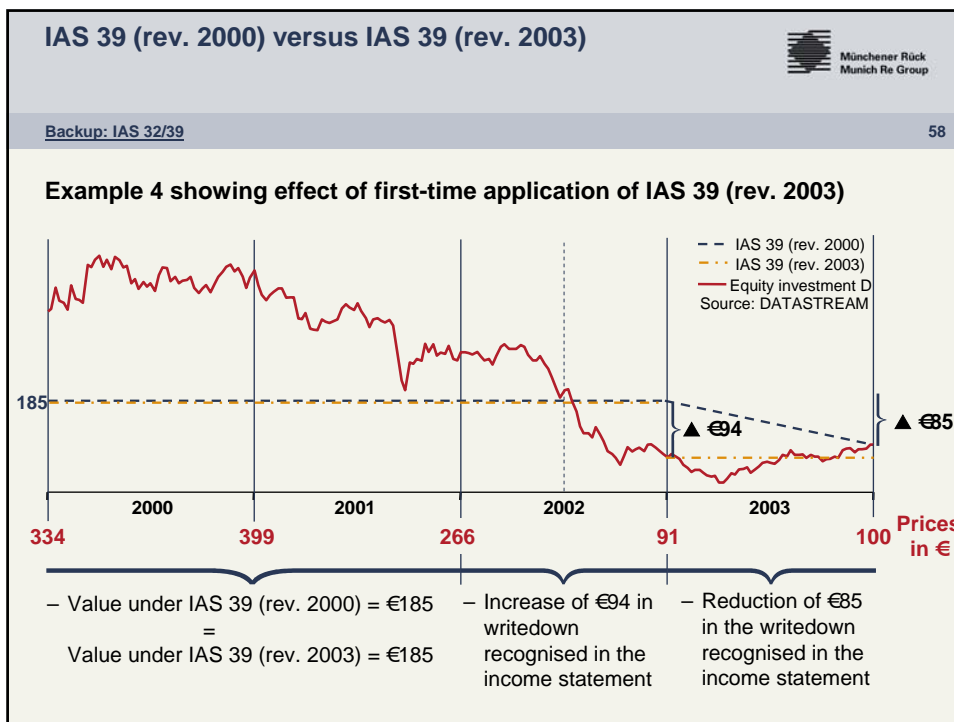
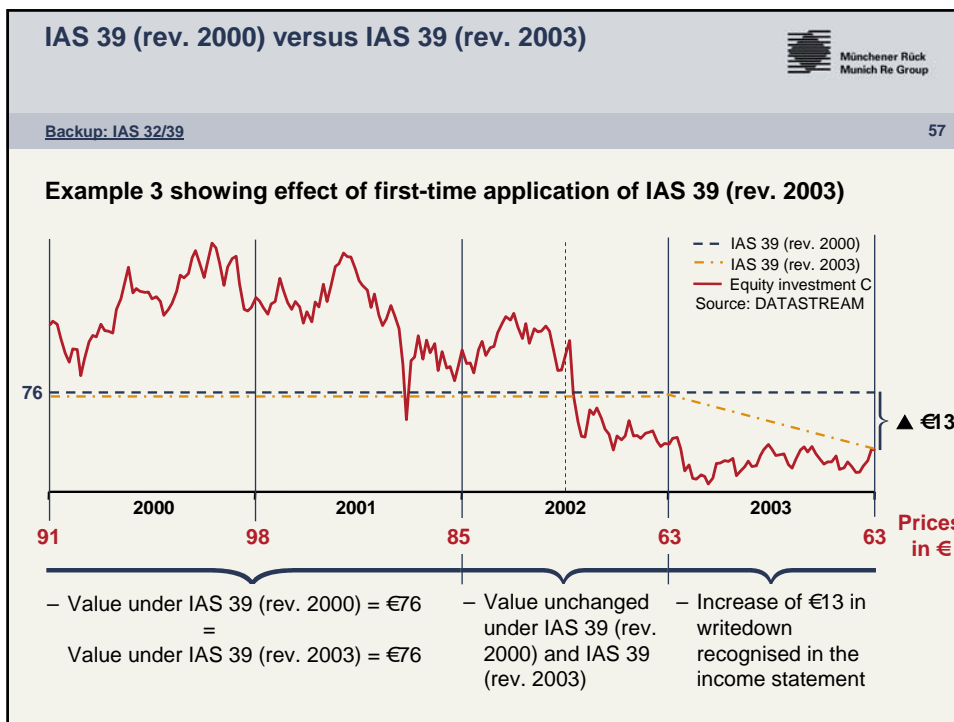
Decline in value of an equity investment: Impairment loss recognised ...	
IAS 39 (rev. 2000)	IAS 39 (rev. 2003)
... if there is a – significant (at least 20%) <b>and</b> – prolonged (at least 6 months) decline in the fair value of the investment below its cost (in conjunction with US GAAP)	... if there is a – significant (at least 20%) <b>or</b> – prolonged (at least 6 months) decline in the fair value of the investment below its cost (IAS 39.61)

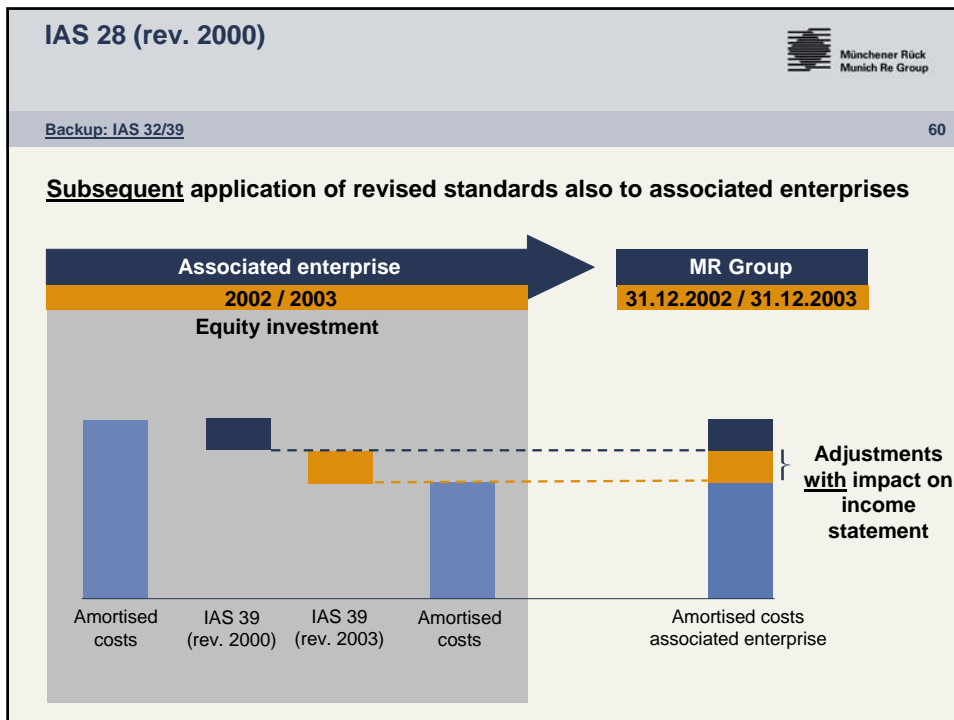
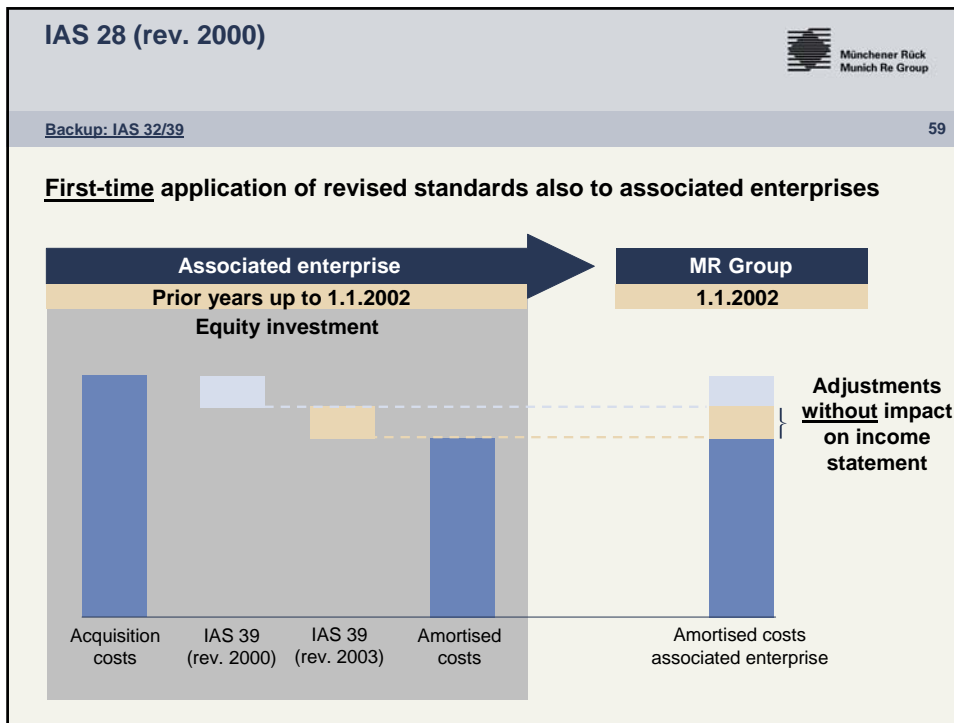
  

Recovery in the value of an equity investment: Impairment losses ...	
IAS 39 (rev. 2000)	IAS 39 (rev. 2003)
... which were recognised in the income statement <b>must</b> be reversed in the income statement. (IAS 39.119) [Write-up recognised as profit in the income statement]	... which were recognised in the income statement <b>may not</b> be reversed in the income statement (IAS 39.69) [Write-up not recognised as profit in the income statement]









**IAS 32 (rev. 2003)** Münchener Rück  
Munich Re Group

Backup: IAS 32/39 61

**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;
<b>(ii) over one and up to five years;</b>	(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;
(iii) over five years.	(v) over four years and up to five years;
	(vi) over five years.
(IAS 32.64)	(IAS 32.74)


**IAS 32 and IAS 39 (rev. 2003)** Münchener Rück  
Munich Re Group


Backup: IAS 32/39 62

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


Timeline: 01.01.2002 31.12.2002 31.12.2003 31.12.2004 31.12.2005 t


Retrospective application of IAS 32 and IAS 39	Original application of IAS 32 and IAS 39	Exercising of option to apply standards earlier	Compulsory application of IAS 32 and IAS 39
Adjustments without impact on income statement	Adjustments without impact on income statement (for write-ups); otherwise with impact		


<b>IAS 39 new</b>		<b>Effect on consolidated balance sheet</b>			
<u>Backup: IAS 32/39</u>				63	
<b>Effect of the new valuation methods on the consolidated balance sheet</b>					
in €bn	31.12.2003 IAS 39 new	31.12.2003 IAS 39 old	▲ absolute		
<b>Assets</b>					
Investments in associated enterprises	4.2	4.2	–		
Securities available for sale	122.4	122.4	–		
<b>Liabilities</b>					
Revenue reserves	7.8	9.7	–1.9		
Other reserves	4.1	2.7	1.4		
Profit for the year	–0.4	–0.9	0.5		
Shareholders' equity	18.9	18.9	–		
Other underwriting provisions	7.5	7.5	–		


<b>IAS 39 new in previous year</b>		<b>Effect on consolidated balance sheet</b>			
<u>Backup: IAS 32/39</u>				64	
<b>Effect of the new valuation methods on the consolidated balance sheet</b>					
in €bn	31.12.2002 IAS 39 new	31.12.2002 IAS 39 old	▲ absolute		
<b>Assets</b>					
Investments in associated enterprises	9.4	9.4	–		
Securities available for sale	106.2	106.2	–		
<b>Liabilities</b>					
Revenue reserves	9.0	10.0	–1.0		
Other reserves	1.3	–0.6	1.9		
Profit for the year	0.3	1.1	–0.8		
Shareholders' equity	13.9	13.9	–		
Other underwriting provisions	7.5	7.5	–		



IAS 39 new		Effect on consolidated income statement			
Backup: IAS 32/39				65	
<b>Effect of the new valuation methods on the consolidated income statement</b>					
in €bn	<b>2003 IAS 39 new</b>	<b>2003 IAS 39 old</b>	<b>▲ absolute</b>		
Investment result	7.1	5.7	1.4		
Expenses for claims and benefits	32.5	31.5	1.0		
Taxes	1.8	1.8	–		
<b>Profit for the year</b>	<b>–0.4</b>	<b>–0.9</b>	<b>0.5</b>		
<b>Important factors influencing the change in the profit for the year:</b>					
– 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					

IAS 39 new in previous year		Effect on consolidated income statement			
Backup: IAS 32/39				66	
<b>Effect of the new valuation methods on the consolidated income statement</b>					
in €bn	<b>2002 IAS 39 new</b>	<b>2002 IAS 39 old</b>	<b>▲ absolute</b>		
Investment result	4.9	5.6	–0.7		
Expenses for claims and benefits	31.3	31.1	0.2		
Taxes	–0.6	–0.6	–		
<b>Profit for the year</b>	<b>0.3</b>	<b>1.1</b>	<b>–0.8</b>		
<b>Important factors influencing the change in the profit for the year:</b>					
– Increase of €425m in gains on the disposal of equity instruments					
– Increase of €24m in impairment losses on equity instruments					
– Decrease of €413m in losses on the disposal of equity instruments					
– Increase of €136m in provision for deferred premium refunds					
– Decrease of €1,484m in income from associated enterprises					

<b>Segment results</b>			
<u>Backup: IAS 32/39</u>		67	
<b>Effect of new valuation methods on segment results</b>			
in €m	2003 IAS 39 new	2003 IAS 39 old	▲ absolute
Reinsurance	1,632	1,355	277
Primary insurance	-1,091	-1,267	176
Asset management	20	20	-
Consolidation	-995	-995	-
<b>Profit for the year</b>	<b>-434</b>	<b>-887</b>	<b>453</b>

<b>Segment results in previous year</b>			
<u>Backup: IAS 32/39</u>		68	
<b>Effect of new valuation methods on segment results</b>			
in €m	2002 IAS 39 new	2002 IAS 39 old	▲ absolute
Reinsurance	2,336	3,149	-813
Primary insurance	-939	-959	20
Asset management	49	49	-
Consolidation	-1,158	-1,158	-
<b>Profit for the year</b>	<b>288</b>	<b>1,081</b>	<b>-793</b>

**Reasons and objectives**

Münchener Rück  
Munich Re Group

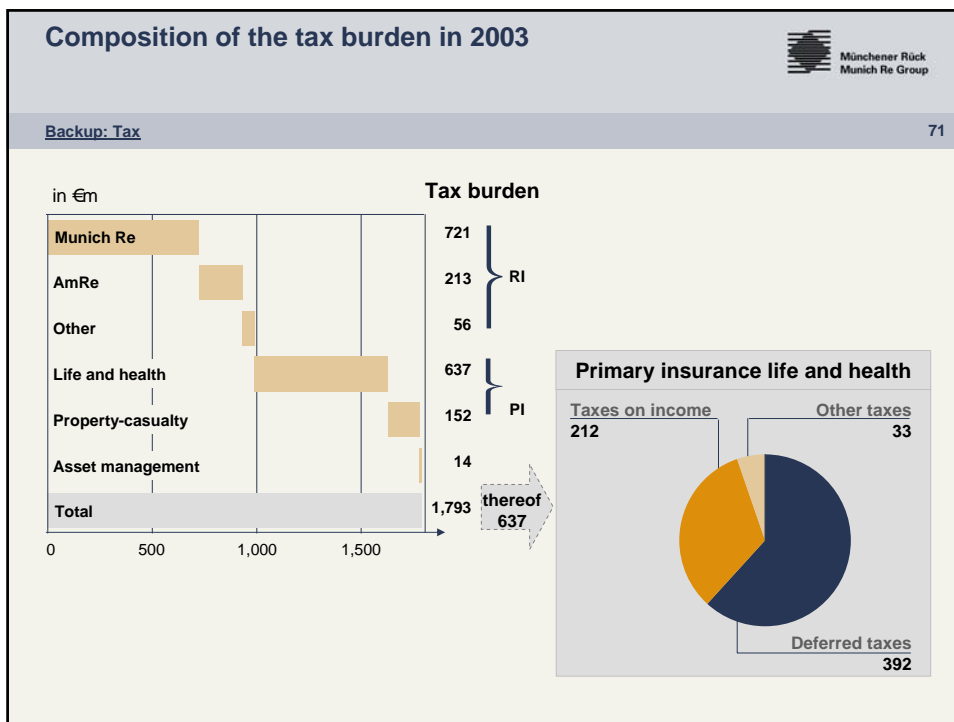
Backup: IAS 32/39 69

**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**





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




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Backup: Tax 72

**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** 


Backup: Tax 73

**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 over proportional tax burden

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


Backup: Tax 74

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** 

Backup: Tax 75

**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** 

Backup: Tax 76

**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**



Appendix

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.

