Munich Re Group
Short Annual Report 2003

More than words

Münchener Rück
Munich Re Group

The Munich Re Group

Reinsurance, primary insurance and asset management complement each other in our Group to form a strong blend of financial services. We are one of the world's largest reinsurers and the second-largest primary insurer in Germany.

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

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

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

Key figures (IAS) 2003

MUNICH RE GROUP		2003	2002 (adjusted)*	2001	2000	1999
Gross premiums written	€bn	**40.4**	40.0	36.1	31.1	27.4
Result before amortisation of goodwill	€m	**2,012**	11	–415	2,615	1,821
Tax	€m	**1,793**	–574	–1,040	399	383
Minority interests in earnings	€m	**–34**	–74	145	321	185
Profit for the year	€m	**–434**	288	250	1,750	1,133
Investments	€bn	**171.9**	156.3	162.0	159.4	150.9
Return on equity	%	**–2.6**	1.7	1.2	8.3	6.5
Shareholders' equity	€bn	**18.9**	13.9	19.4	23.6	18.5
Valuation reserves not recognised in balance sheet**	€bn	**1.8**	1.1	16.4	21.9	19.2
Net underwriting provisions	€bn	**147.5**	143.0	138.6	131.5	123.5
Staff at 31 December		**41,431**	41,396	38,317	36,481	33,245

* Adjusted owing to first-time application of IAS 39 (rev. 2003).
** Including amounts apportionable to minority interests.

REINSURANCE*		2003	2002	2001	2000	1999
Premium income	€bn	**24.8**	25.4	22.2	18.3	15.4
Investments	€bn	**80.4**	68.6	71.0	64.9	59.6
Net underwriting provisions	€bn	**56.7**	55.3	50.8	43.9	40.4
Reserve ratio property-casualty	%	**205.0**	201.1	245.6	225.6	250.9
Large and very large losses (gross)	€m	**1,078**	1,886	4,749	1,150	1,807
Thereof natural catastrophe losses	€m	**288**	588	213	427	1,161
Combined ratio non-life	%	**96.7**	122.4	135.1	115.3	118.9

* Before elimination of intra-Group transactions across segments.

PRIMARY INSURANCE*		2003	2002	2001	2000	1999
Premium income	€bn	**17.6**	16.6	15.7	14.4	13.5
Investments	€bn	**108.3**	104.4	103.6	102.9	97.5
Net underwriting provisions	€bn	**91.0**	88.4	87.4	87.3	82.9
Reserve ratio property-casualty	%	**114.5**	116.3	113.9	113.1	102.8
Combined ratio non-life	%	**96.4**	99.9	101.4	97.2	96.4

* Before elimination of intra-Group transactions across segments.

Our shares

		2003	2002 (adjusted)*	2001	2000	1999
Earnings per share**	€	**–2.25**	1.54	1.34	9.41	6.13
Dividend per share	€	**1.25**	1.25	1.25	1.25	0.95
Amount distributed	€m	**286**	223	221	221	168
Share price at 31 December	€	**96.12**	114.00	305.00	380.00	251.80
Munich Re's market capitalisation at 31 December	€bn	**22.1**	20.4	54.0	67.2	44.5

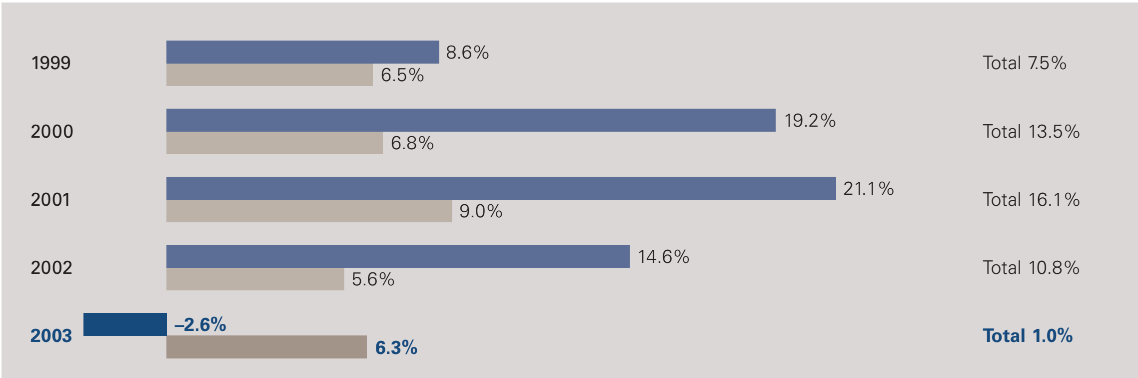
* Adjusted owing to first-time application of IAS 39 (rev. 2003).
** Taking into account the capital increase in November 2003.

Our vision

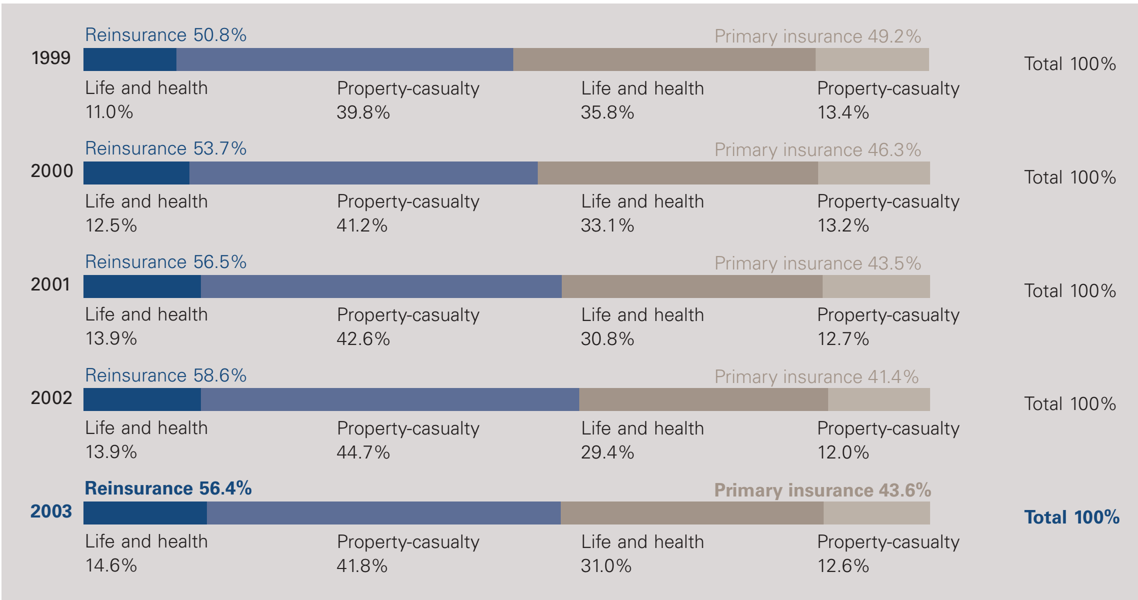
As a Group we aspire to be one of the leading risk carriers and providers of financial services. We create lasting value by systematically building on our strengths:

– the competence and skills of our staff
– our global knowledge base
– our financial strength
– partnership with our clients and trust within our business relationships

Premium growth

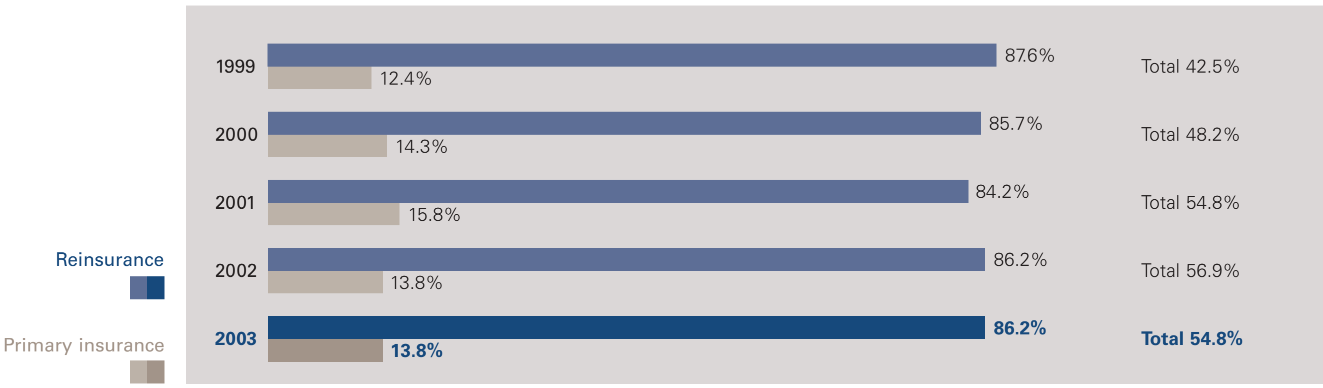


Shares of premium income from reinsurance and primary insurance, broken down by life and health and property-casualty*



* After elimination of intra-Group transactions across segments.

Share of premium income from outside Germany*



* After elimination of intra-Group transactions across segments.

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

Dear Shareholders,

There is no question about it: the business year 2003 was a disappointment for both you and me. What made it such a difficult year for Munich Re?

To begin with, we were confronted with an unprecedented plunge in most of the world's major share price indices, especially the DAX. This development hit Munich Re shares particularly hard. Within a period of three months, our shares lost over 60% of their value and fell to their lowest level since 1992. The effects of the bear market on the value of our investments, and thus on our capital base, were severe. In order to restrengthen our equity capital and take advantage of the favourable business environment in our sector, we issued two subordinated bonds in spring and carried out a rights issue in autumn. I regard the impressive oversubscription of all three issues as an encouraging sign, indicating that our investors share my conviction that we will overcome the difficulties we have encountered. There are indeed good reasons for holding this view, which I will come to in a moment.

The exceptional loss in the value of our investments led to several downgradings in our credit rating by some rating agencies. Despite the general importance attached to this grading in reinsurance, our clients stood by us. Our lower rating did not result in any significant loss of business – proof of the exceptional reputation we enjoy as a reinsurer worldwide. Nevertheless, it is naturally my aim to reattain a rating from all the important agencies as soon as possible that reflects our position among the top reinsurers.

At the end of this difficult year, despite a high Group underwriting profit, we show a net annual loss. The reasons for this are mainly writedowns for impairments of goodwill and the negative result of our shareholding in HypoVereinsbank AG valued at equity. Also, the new tax legislation of recent years in Germany has had a substantial impact on our result, as losses on our equity investments are only considered to a small extent in determining taxable income. By contrast, the earlier first-time application of the revised accounting standards IAS 32 and 39 eased the burden on the result for the year. The capital market has given us credit for this measure.

All in all – and this is the good news – with the financial statements for 2003 we have drawn a line under three difficult years.

How do I envisage Munich Re's future? My main objective is to fulfil, on a sustained basis, the expectations that you rightly have with regard to return on equity and hence on your investment. In order to achieve this, we have set ourselves ambitious targets that ensure we have only value-producing business on our books. For 2004 we aim to record a profit of €2bn after tax. That is a challenging objective, but is does not require any fundamental strategic realignment. Rather, we have to consistently implement our existing strategy and adhere to our high standards in the quality of our business, without any ifs and buts.

Our technical result in primary insurance and reinsurance must and will show that our staff really know their business. In addition, Munich Re must reap the benefits of its traditional strengths, above all its globally recognised knowledge of risk. I place great emphasis on comprehensive management of the risks on both sides of the balance sheet, i.e. those of our underwriting business and those of our investments and – particularly important – their interdependency. We must not expose our capital with risks that are foreign to our business. Finally, I intend to strengthen our capacity for innovation so that we play a key role in shaping the future with new business models and products that keep us at the forefront of the insurance industry and mark us as a top player.

Why do I expect the Munich Re Group's development to be positive? For the year 2003 we had set ourselves the objective of achieving a combined ratio of below 100% in our reinsurance business. This we clearly succeeded in doing with a figure of 96.7%, which has met with a suitably positive response. I have no doubt that our strictly profit-oriented underwriting policy offers the prospect of a combined ratio of under 100% in the business year 2004 as well. This forecast is naturally subject to the precondition that large and very large losses remain within normal bounds.

The quality of our portfolio in reinsurance has been greatly enhanced in the last two years. During the recent renewals for 2004, we succeeded in increasing prices by another 5%. At the same time we significantly improved treaty conditions, which have a crucial influence on the risk profile. Where we were unable to achieve our objectives, we terminated our participations. Including the planned reduction in large quota share treaties, our business volume decreased by over €1bn. Premium income for 2004 in non-life reinsurance will only increase to a limited extent again, if at all, whereas premium in the life segment keeps on growing at a stable double-digit rate. I am sure that the high quality of our portfolio in terms of prices and conditions has laid the foundations for a sustained positive result trend that will continue to give you and me considerable satisfaction.

Our primary insurers have also taken important steps in the last few months to get back on track as regards earnings. Structures, processes and products have been thoroughly analysed with the aim of increasing profitability. A new management structure in the ERGO Group will improve corporate management, simplify decision-making and unify back-office processes for the group companies. This will further enhance group mentality. Starting in 2002, the companies of the ERGO Group launched a cost-reduction programme designed to save €300m a year by 2005. Given these developments, I am convinced that our primary insurers will already turn a profit again in the current business year. Then their strengths will really make themselves felt again: we are among the top providers in German life insurance, where we remain convinced of the potential for long-term profitability. In Europe, we are the market leader in private health insurance. And in property-casualty insurance, the quality of our business is reflected in another very good combined-ratio of 96.4%.

We have further refined our internal risk model. As a consequence, we have markedly reduced our equity exposure and – as announced – especially our investment in the German financial sector. We have completely sold our stake in Hypo Real Estate Holding, and cut back our shareholding in Allianz to around 12%. We have reduced our substantial shareholding in HypoVereinsbank AG to approximately 18% by not participating in its capital increase. The marketing cooperation between the HVB Group and ERGO, of course, remains unaffected by this.

All these measures are starting to bear fruit, but we have not yet reached our goal. The above examples show that we are already well on the way.

Ladies and gentlemen, I am convinced that Munich Re is on course for a profitable future – to the benefit of us all. You can count on my resolve.

Yours sincerely,

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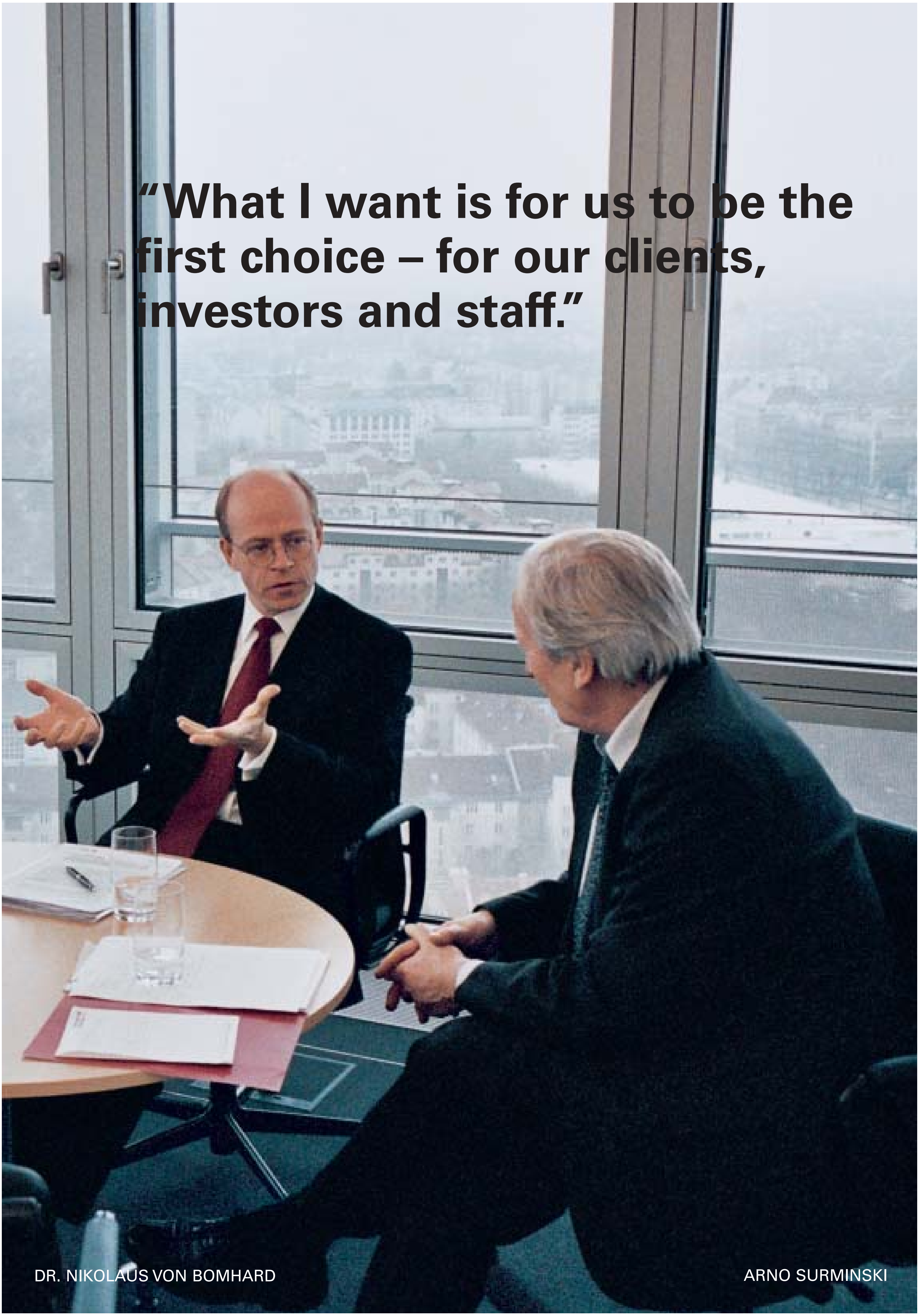
DR. MARC SURMINSKI

"What I want is for us to be the first choice – for our clients, investors and staff."



DR. NIKOLAUS VON BOMHARD

ARNO SURMINSKI

Especially with a new Chairman of the Board, questions abound. Insurance journalists **Arno Surminski** and **Dr. Marc Surminski** had the opportunity to interview **Dr. Nikolaus von Bomhard** in Munich and address a variety of topics, including Munich Re's corporate structure, the situation of its primary insurance group, corporate identity and questions of management.

MARC SURMINSKI: If you were a politician, what would your election programme have been as a candidate for Munich Re's Chairmanship?

BOMHARD: Restoring confidence would have been my most important pledge: strengthening self-confidence within the Group in what we are good at and regaining the confidence of external parties, be they shareholders, analysts or the general public.

ARNO SURMINSKI: But this loss of confidence mainly stemmed from the subsidiaries. With hindsight, would you say that it was a mistake to build up the primary insurance group? Your competitors have abandoned comparable strategies.

BOMHARD: It's unfair always to be pointing the finger at the primary insurers in our Group. Don't forget: there was plenty of room for improvement in reinsurance – just think of the underwriting results of the last few years. The fact that our primary insurance group's result is not satisfactory does not worry me provided that it is soon operating profitably again. Give us a little more time and our strategy will prevail.

ARNO SURMINSKI: "Management" seems to be the focus of criticism when it comes to ERGO's results. Are you going to put ERGO on a tighter leash from Munich?

BOMHARD: It's all too easy to see a certain management or structural model as the sole means of salvation. As the parent company, we have to understand better what makes ERGO tick and where we can give support. As Chairman of ERGO's Supervisory Board – my only seat on another Board – I will ensure that the legally required control and counsel is provided.

MARC SURMINSKI: Let's stay with management for a moment. Assuming that Munich Re now faces a fundamental change, a watershed, how do you intend to handle this?

BOMHARD: By making sustained profitability the guiding principle and by leading with clear objectives. We need a clear focus on the fundamentals, on our core business, and the decisions taken must be rigorously implemented. You know, I believe in our business and the strengths of our Group. I want to communicate this enthusiasm.

ARNO SURMINSKI: Your staff have gone through quite a lot recently. Isn't that a problem for corporate identity?

"Was it a mistake to build up the primary insurance group? Your competitors have abandoned comparable strategies."

ARNO SURMINSKI



BOMHARD: Our staff's corporate identity has changed in the recent past towards an attitude of "we are a completely normal company; we have to prove ourselves, just like others do". This new attitude is producing ways of thinking and acting that will help the company progress. I consider that healthy.

MARC SURMINSKI: What do you expect of your staff in future?

> "Those wishing to invest in the insurance industry simply can't ignore us. This is what a market leader must aspire to."
>
> DR. NIKOLAUS VON BOMHARD

BOMHARD: All staff have to know how and where they add value for our Group as partners in enterprise. They should be inquisitive, innovative and look beyond their own immediate horizons, trying to keep the big picture in view. They should thus be constantly readjusting, while at the same time preserving Munich Re's inner values.

MARC SURMINSKI: With you as Chairman, a "reinsurance man" has now taken over the helm. Is that a signal that Munich Re is setting a new course in terms of earnings from underwriting business, with less dependency on investments?

BOMHARD: Absolutely right. My job is clearly to manage insurance risks in such a way that they produce growth in value that gives us a decisive edge on the competition. At the same time, I attach great importance to an investment policy that matches our commitments on the liabilities side of the balance sheet.

MARC SURMINSKI: According to the most recent figures, Munich Re is the world's largest reinsurer in terms of premium income. Is that a ranking worth fighting for?

BOMHARD: Not any more. On the contrary, we are considering how much business we can dispense with in a certain market phase without undermining the overall structure of our figures. Many reinsurers today have business on their balance sheets that is not really reinsurance in the strict sense, so a comparison between reinsurers in terms of size has little meaning. In other words, being first in the rankings is not a key issue. What I want is for us to be the first choice – for our clients, investors and staff.

MARC SURMINSKI: We have had a harder market for a couple of years now, and your combined ratios are worse than those of your competitors.

BOMHARD: That's no longer the case! It is difficult anyway to determine how success in reinsurance should be measured. In my view, the combined ratio is not an ideal yardstick. Let me explain why. To make a proper comparison, you need to know the precise composition of the portfolio you are considering. It makes more sense to look at a company's ratios along the time axis, provided the portfolio remains comparable. In Munich Re's case, there is a clear fall in this ratio. Compared with companies that have similar business in their portfolio, we are now in a better position.

ARNO SURMINSKI: Many outside observers criticise the fact that your long-standing predecessor is now on the Supervisory Board. Doesn't that restrict your freedom to do new things? Isn't there always a feeling of dependency and of needing to act in a certain way out of consideration?

BOMHARD: I don't feel restricted in any way. I can ask my predecessor things I could not ask many others, and I also know that he will let me do what I consider essential and right.

MARC SURMINSKI: Where do you see Munich Re in ten years' time?

BOMHARD: In ten years' time I see it as the reinsurer with the largest profit and the best reputation. We manage risks more efficiently than others because we know more about risks and how to handle them. We are more innovative than the competition, we shape important developments in our industry. The same applies to primary insurance. Those wishing to invest in the insurance industry simply can't ignore us. This is what a market leader must aspire to and what we owe our shareholders.

Strategy:
Geared to profitability

Our strengths

The Munich Re Group's objective is to be one of the leading risk carriers and providers of financial services and to create lasting value and quality as a reinsurer and a primary insurer. Our asset management units support us in this objective.

We aim for market leadership in those areas where we see opportunities for profitable business development. In so doing, we build on our strengths:
- our technical skills in underwriting business, such as the identification and modelling of risks, and the pricing of covers;
- our knowledge and our competence, which we are systematically expanding with regard to topics of the future like climate change and biosciences, and which we use in our business;
- our capacity for innovation, which supports us in translating changes in our economic, social and legal environment, for example, into appropriate business measures at an early stage and in utilising the resultant opportunities for our clients and for us;
- our financial strength;
- our global network in reinsurance and the franchise strength of our primary insurers.

The reinsurers and primary insurers in our Group have strong brands and leading market positions. We count on the know-how our of staff throughout the world, their experience, and their specialist and intercultural knowledge. In order to be the "preferred partner in risk", we offer our clients the best possible service and security. For us, risk-commensurate prices are the decisive key to success.

Our progress in 2003

Over the last few years we have adopted particular strategic courses, which shaped our decisions in 2003.
- Since our fundamental reorganisation in 2001, we have consistently geared our reinsurance business to the objective of profitability.
- Reinsurers and primary insurers in the Group have prioritised their target markets, clients and products according to anticipated earnings.
- We have substantially reduced the risks in our investments by cutting back substantial shareholdings in the insurance and banking sector, especially in Allianz, Bayerische Hypo- und Vereinsbank AG and Hypo Real Estate. Beyond this, we have lowered the proportion of equities in our investment portfolio.
- We have significantly strengthened our capital base both quantitatively and qualitatively through the issue of subordinated bonds last spring and the capital increase in November 2003.

Objectives and results in 2003

Segment		Key indicators	Objective	Result
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%
	Partnership with HVB	Annual premium of polices written via HVB	€320m	€400m
Asset management	Group investments	Return on investments	4.5%	4.3%
	Shareholding in Allianz		< 15%	12.2%

Challenges and market prospects

The demand for insurance services is rising worldwide. As a consequence of technological developments, new risks are continually emerging. Altered risk profiles – due to climate change, for example, or the growing concentration of values – result in new requirements for insurance. Demographic trends and the crisis in social security systems are major challenges and opportunities for private insurance, for in the long run there is no getting round the fact that more personal provision on a funded basis will be essential.

Changes in legal parameters – be they the foreseeable modifications in reinsurance supervision, accounting standards (IFRS) or the fundamental revision of solvency rules (Solvency II) – require tailor-made solutions from reinsurers.

The quality of internal risk management models, especially those of insurers, becomes vitally important in an increasingly globalised and technological world, with its new risks, changes in risk scenarios and connections between risks that were previously considered mutually independent.

The extreme volatility of share prices over the last few years, with their dramatic consequences for insurers' market capitalisations, investments and ratings, underlines the high demands placed on corporate risk management systems, especially in the current environment of historically low interest rates.

Our strategic guidelines

Against this background, the reinsurers and primary insurers in the Group are aiming to achieve a return on equity of 12% after tax. Our strategic guidelines on the way to meeting this objective are:

– Profitability takes precedence over growth. Our product design and our underwriting are geared to long-term sustainable profitability in both reinsurance and primary insurance. This commitment to consistent earnings orientation rules out volume-oriented growth aimed at achieving or defending certain positions in the rankings. Value-based management, which sets clear financial objectives, provides the requisite framework.

– With strong business pillars in reinsurance and primary insurance, supported by our own Group asset management, we carry, manage and finance risks along the whole value-added chain of the insurance industry.
– Our simultaneous involvement in reinsurance and primary insurance improves our internal balance of risks and results, and creates greater overall stability. Nevertheless, it is still our objective to achieve sustainable profitability in all business segments, independent of each another.
– On the assets and liabilities sides of the balance sheet, and in the relationship between them, we strive for an optimised portfolio and value-based capital allocation. Internal risk models support decision-making. If a risk-commensurate return on capital cannot be achieved in the medium term, disinvestments will be made in order to continually optimise our underwriting activities and increase their yield.
– Our risk management system is constantly adjusted to the increasing complexity of the different risks and to the greater volatility of the capital markets, whilst the decision-making tools are fine-tuned to developments in our business environment.

How does Munich Re manage its business?

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

To achieve this objective,
– we optimise the use of capital for managing risks;
– we gear all our activities to an ambitious and risk-adequate result target that also meets the expectations of external investors;
– we ensure the necessary comparability of value-creating measures and initiatives through the use of uniformly defined performance measures, thus providing a sound basis for decision-making;
– we have integrated non-financial factors into our strategic management, so that our value-based management represents a holistic management system;
– we closely link strategic and operative planning by defining our strategies in balanced scorecards, from which we derive initiatives, performance indicators and responsibilities;
– we promote an entrepreneurial culture among staff through the clear allocation of responsibility and accountability, which makes it more evident how much individuals can contribute to increasing value in their particular areas of work. In addition, ambitious return targets, integrated in our incentive system for the Board of Management and underwriters, ensure that the principles of value-based management are realised.

In this way, we create the basis for better identifying those fields of business which add value for Munich Re and for optimising the use of our resources.

Munich Re shares

Stock market year 2003
The storm has abated

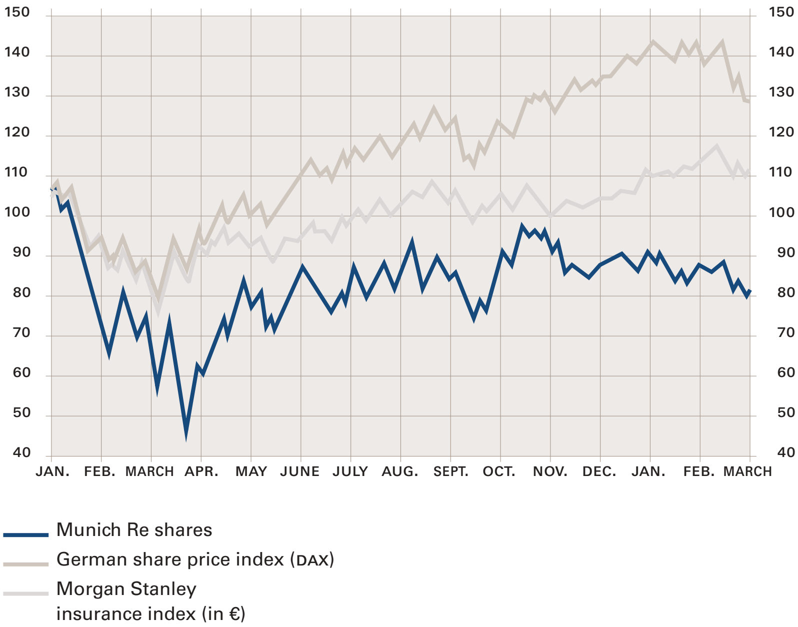
The first three months of 2003 were still characterised by a severe bear market. Uncertainty regarding the Iraq crisis and the subsequent war was one of the determining factors, but so was a general reluctance to invest and consume. Since then, share price indices have been showing an upward trend again.

Proceeding from the already weak prices at the beginning of the year, the stock markets showed considerable volatility. In Europe, important share price indices like the EURO STOXX 50 and the DAX fell to new recent-year lows in March, before rallying significantly. The stock markets in the USA and Japan also recorded price setbacks to begin with, but they recovered over the course of the year and closed with overall gains year on year.

Shares of many German financial service providers performed worse than the market as a whole in the first quarter. This also had an impact on Munich Re shares, which came under massive pressure, especially in March.

In the second quarter, the US economy began sending out positive signals again, but in the eurozone – particularly in Germany – the mood remained subdued, as it did in Japan and the emerging markets. Nevertheless, by the end of May, share prices had recovered to their end-of-2002 level.

Share performance January 2003 to March 2004
(1 January 2003 = 100, status: 25 March 2004, source: Datastream)



As Munich Re shares began from a very low level in the second quarter of 2003, they clearly outstripped the DAX in the following period. In April, we issued two subordinated bonds, whose success supported the recovery. However, our shares were unable to make up for the initial losses: altogether, they recorded a negative performance for 2003.

Throughout the summer, discussions regarding Munich Re's capital situation placed a strain on our share price. Whilst the capital increase in November caused it to rise appreciably at first, by the end of the year it had lost some of the ground it had gained and consolidated itself at the October level.

Key figures for our shares

		2003	Prev. year
Number of shares at 31 December	m	229.6	178.7
Share capital	€m	587.7	457.4
Year high**	€	117.32	291.99
Year low**	€	49.93	94.15
Year-end closing price**	€	96.12	108.43
Annual performance (excluding dividend)	%	–11.4	–62.6
Beta relative to DAX		1.4	1.3
Market capitalisation at 31 December	€bn	22.1	20.4
Market value/book value* at 31 December		1.2	1.5
Average daily turnover	'000	2,402	1,027
Earnings per share**	€	–2.25	1.54***
Dividend per share	€	1.25	1.25
Dividend yield at 31 December	%	1.3	1.1
Overall dividend amount	€m	286	223

* Share price at the end of the year as a percentage of the shareholders' equity shown in the balance sheet, excluding minority interests.
** Taking into account the capital increase in November 2003.
*** Adjusted owing to first-time application of IAS 39 (rev. 2003).

The number of Munich Re shareholders has risen from around 122,000 at the beginning of 2003 to over 187,000.

Our free float, which is important for the weighting of Munich Re shares in various share price indices, has grown significantly from around 45% in 1999 to its current level of 80.6%.

Unchanged dividend

We propose to pay our shareholders an unchanged dividend of €1.25 for the year 2003. The overall amount distributed will thus total €286m.

Corporate governance:
Transparent and efficient

We have taken the new version of the German Code of Corporate Governance as another spur to further enhance transparency in our Group.

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

With its global operations, the Munich Re Group has to consider corporate governance rules in different national legal systems. It goes without saying that we observe both the respective national standards and internationally recognised best practices. In Germany, corporate governance rules are to be found in statutory provisions and also in the German Code of Corporate Governance, which came into force in 2002. The Code contains the main legal rules that must be observed by listed German companies; in addition it includes – in the form of recommendations and proposals – nationally and international recognised standards of good and responsible management.

Last year we reported in detail on the changes and "fine-tuning" connected with implementing the code. We have posted details of the duties, composition, remuneration structure and cooperation procedures of the Board of Management and Supervisory Board on our website. This includes information on the duties and composition of the four committees of the Supervisory Board (see also page 17), on the powers of the Annual General Meeting and how to participate in it, and on other topics of corporate governance.

www.munichre.com

New detailed rules concerning Board remuneration

In July 2003, the new version of the German Code of Corporate Governance of 21 May came into force. Additions mainly concerned some rules of detail relating to variable compensation components of the Board of Management, the presentation of the compensation system on companies' websites, and an individualised breakdown of compensation in the annual report. Munich Re's Board of Management and Supervisory Board have resolved to follow the Code's new recommendations with only one exception. The Company will not be providing an individualised breakdown of the Board of Management's compensation in the annual report. Fixed remuneration, performance-related components and components with a long-term incentive function are, however, published for the whole Board.

As envisaged in the German Code of Corporate Governance, the Supervisory Board reviewed the efficiency of its activities in the business year 2003. This chiefly involved looking closely at existing operational procedures on the Supervisory Board and cooperation with the Board of Management. As a result, the Supervisory Board took up numerous suggestions for improvements from its members to enhance the efficiency of the whole Board and its committees, such as discussing core strategic topics in more depth in future. Other points considered were the form, content and timing of reports from the Board of Management to the Supervisory Board, and the flow of information between the committees and the full Supervisory Board.

Munich Re is well aware that corporate governance is an ongoing process. We will pursue this issue, refining our corporate governance principles and thereby taking into account the guidelines laid down by the German Code of Corporate Governance. But for Munich Re the most important thing is that corporate governance is not only incorporated in rules and regulations but is also lived out in practice. Mainstays in ensuring this are internal auditing, risk management and a compliance office. Our Internal Auditing Division supports the Board of Management in its monitoring duties by performing risk-oriented reviews and audits. The Compliance Office makes sure that particular legal and supervisory obligations, such as those arising from securities trading law, are properly met.

On 5 December 2003, the Board of Management and the Supervisory Board published the following declaration of compliance, in accordance with Section 161 of the German Stock Companies Act:

"On 6 December 2002, the Board of Management and Supervisory Board of Munich Re published their first declaration of compliance as per Section 161 of the German Stock Companies Act. Since making this declaration, Munich Re has fulfilled the recommendations of the German Code of Corporate Governance (the Code) in the version of 7 November 2002, or will fulfil the recommendations of the Code in the version of 21 May 2003, with the following exceptions:

Item 5.4.5 para. 1 sentence 3 of the Code recommends that separate remuneration be paid for the chairmanship and membership of Supervisory Board committees. At Munich Re's Annual General Meeting on 11 June 2003, Article 15 of the Articles of Association was amended in this respect with effect from the business year 2003. The amendment to the Articles of Association was entered in the Commercial Register on 22 July 2003. Thus, since then, Munich Re has complied with the recommendation in item 5.4.5 para. 1 sentence 3 of the Code.

The annual consolidated financial statements have hitherto been published within the periods stipulated in the German Commercial Code. In 2003, the statements for the business year 2002 were published on 30 April 2003; Munich Re thus kept well within the legal deadline. In future, Munich Re will optimise its processes even further so that the 90-day deadline recommended in item 7.1.2 of the Code can be complied with for the first time in the Group's annual report for the business year 2004. The 45-day deadline for the publication of interim reports, provided for in Code item 7.1.2, is scheduled to be complied with for the first time as from the second quarter 2004.

The remuneration of the members of Munich Re's Board of Management is shown in detail for the whole Board in the notes to the consolidated financial statements, broken down according to fixed compensation, performance-related components and components with long-term incentive effect. In view of these informative details on the structure and amount of the remuneration and its components, Munich Re is dispensing with an individualisation of the remuneration within the meaning of item 4.2.4 sentence 2 of the Code."

The Supervisory Board

Chairman
Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

Deputy Chairman
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Klaus Peter Biebrach
Employee of Munich Reinsurance Company

Peter Burgmayr
Employee of Munich Reinsurance Company

Rudolf Ficker (until 31 December 2003)
Former Member of the Board of Management
of Munich Reinsurance Company

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

Gertraud Köppen
Employee of Munich Reinsurance Company

Prof. Dr. rer. nat. Hubert Markl
Former President of the Max Planck Society

Wolfgang Mayrhuber
Chairman of the Board of Management
of Deutsche Lufthansa AG

Prof. Karel Van Miert
Professor at the University of Nyenrode

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
Chairman of the Board of Management of Volkswagen AG

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

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

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

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

Wolfgang Stögbauer
Employee of Munich Reinsurance Company

Josef Süßl
Employee of Munich Reinsurance Company

Judy Võ
Employee of Munich Reinsurance Company

Ludwig Wegmann
Employee of Munich Reinsurance Company

Membership of the Supervisory Board committees

Personnel Committee
Ulrich Hartmann (Chairman)
Dr. Bernd Pischetsrieder
Herbert Bach

Standing Committee
Ulrich Hartmann (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt
Josef Süßl

Audit Committee
Dr. Albrecht Schmidt (Chairman)
Ulrich Hartmann
Prof. Dr. Henning Kagermann
Klaus Peter Biebrach
Dr. Klaus Schumann

Conference Committee
Ulrich Hartmann (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Wolfgang Stögbauer

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The Board of Management

(in alphabetical order)

01 **Dr. jur. Nikolaus von Bomhard**

(Chairman of the Board of Management
from 1 January 2004)

* 1956, lawyer, with Munich Re since 1985
Executive Offices (from 1 January 2004)
Press (from 1 January 2004)
Internal Auditing (from 1 January 2004)
Strategic Planning (from 1 October 2003)
Europe 2 and Latin America (until 31 December 2003, from 1 October 2003 together with Mr. Daschner)

02 **Clement Booth**

(until 30 September 2003)

* 1954, underwriter, with Munich Re from 1986 until 2003
Special and Financial Risks
Investor Relations
Strategic Planning

03 **Georg Daschner**

(from 1 October 2003)

* 1949, chartered insurer, with Munich Re since 1965
Europe 2 and Latin America
(until 31 December 2003 together with Dr. von Bomhard)

04 **Dr. jur. Heiner Hasford**

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

05 **Stefan Heyd**

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

06 **Dr. rer. nat. Torsten Jeworrek**

(from 1 October 2003)

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

07 **Christian Kluge**

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

08 **John P. Phelan**

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

09 **Dr. jur. Hans-Jürgen Schinzler**

(Chairman of the Board of Management
until 31 December 2003)

* 1940, lawyer, with Munich Re from 1968 until 2003
Executive Offices
Press
Internal Auditing

10 **Dr. phil. Detlef Schneidawind**

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

11 **Dr. jur. Jörg Schneider**

* 1958, business graduate, lawyer, with Munich Re since 1988
Accounting
Controlling
Taxes
Investor Relations (from 1 October 2003)
Information Technology (until 30 September 2003)

12 **Karl Wittmann**

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

Management report (excerpt)

Business performance

Overview

The year began well, with negotiations for the renewal of our reinsurance treaties at 1 January 2003 proving very successful. Nevertheless, the business year 2003 posed major challenges for the Munich Re Group. The after-effects of the negative performance of the major stock exchanges over several years directly impacted the results of the first three quarters with very high writedowns and losses on the disposal of equities when the financial instruments were valued on the basis of IAS 39 (rev. 2000). These burdens have been reduced by the earlier retrospective first application of IAS 39 (rev. 2003) adopted by the IASB on 17 December 2003. This contrasted, however, with a higher negative result from the valuation of our stake in HypoVereinsbank AG. With these losses, the effects of the weak stock markets up to the end of March 2003 have now been absorbed.

On top of this came the fact that, since the German tax reform of 2001, the resultant losses from writedowns and disposal of equities are no longer tax-deductible or only partially so (in the case of life and health insurance companies). This legislation leads to a disproportionate tax burden in times of weak capital markets.

Results

At €2,012m, the result of our underwriting business showed a substantial improvement compared with the previous year's figure* of €11m. However, large writedowns on shares and goodwill, the losses on our investments in associated enterprises, and the high tax burdens resulted in a bottom-line loss of €434m.

Group result

in €m	2003 IAS 39 (rev. 2003)	2002 IAS 39 (rev. 2003)	2001 IAS 39 (rev. 2000)	2000 IAS 39 (rev. 2000)	1999 IAS 39 (rev. 2000)
Result before amortisation of goodwill	2,012	11	–415	2,615	1,821
Operating result before tax	1,325	–360	–645	2,470	1,701
Result for the year	–434	288	250	1,750	1,133

The Group result for 2003 was heavily influenced by the following factors:
- We made writedowns of €849m (5,091m) on our securities available for sale.
- Losses on the disposal of securities amounted to €1,624m (2,703m); they mainly arose from the sale of shares.

* In the following reporting, all previous year's figures have been adjusted owing to the first-time application of IAS 39 (rev. 2003).

- The sale of our stake in Hypo Real Estate Holding, following its spin-off from HypoVereinsbank, gave rise to a loss that burdened our result for the fourth quarter with €258m. At the same time, however, this transaction reduced the hidden negative valuation differences on our remaining interest in Bayerische Hypo- und Vereinsbank AG (HVB) and our exposure in the German banking sector. The HVB Group made good progress in its 2003 Programme for the Future. Nevertheless, owing to extensive writedowns, it posted a loss of €2.6bn for the year. Our participation in the HypoVereinsbank Group had an impact of €763m on our result.
- We reduced our shareholding in Allianz to 12.2%. The sale of a 2% stake in November produced a profit of €390m for us.
- We made writedowns of €317m for impairment of goodwill.
- The overall tax burden for the business year 2003 totalled €1.8bn (–0.6bn), or 135% (159%) of the operating result before tax.

Large losses in reinsurance, i.e. losses giving rise to claims costs of over €5m each, were within the normal range, totalling €1,054m (1,844m).

Munich Reinsurance Company's result for the year according to its financial statements prepared on the basis of the German Commercial Code amounts to €510.8m (2,605.8m). Of this sum, €224.3m has been allocated to the revenue reserves so that, including the profit brought forward from the previous year, a balance sheet profit of €287.0m remains. The Board of Management will propose to shareholders at the Annual General Meeting that this profit be used for payment of an unchanged dividend of €1.25 on each share entitled to dividend and that any residual amount be carried forward to new account.

Balance sheet structure

in €m	31.12.2003	31.12.2002
ASSETS		
Intangible assets	4,940	5,777
Investments	171,881	156,278
Ceded share of underwriting provisions	8,038	10,230
Other assets	24,525	24,156
Total assets	**209,384**	**196,441**
EQUITY AND LIABILITIES		
Shareholders' equity	18,899	13,948
Minority interests	483	532
Underwriting provisions (gross)	155,514	153,196
Other liabilities	34,488	28,765
Total equity and liabilities	**209,384**	**196,441**

Valuation reserves

The difference between the fair value of our investments and their balance sheet value developed very positively:

All figures in €m	Valuation reserves 31.12.2003	Fair value 31.12.2003	Carrying amount 31.12.2003	Valuation reserves Prev. year	Fair value Prev. year	Carrying amount Prev. year
Unrecognised valuation reserves						
Real estate	1,555	11,630	10,075	1,620	11,468	9,848
Associated enterprises	400	4,596	4,196	–593	8,758	9,351
Loans	–170	15,876	16,046	–	12,644	12,644
Other securities	28	775	747	46	898	852
Total	**1,813**	**32,877**	**31,064**	**1,073**	**33,768**	**32,695**

The balance sheet reserves in the form of unrealised gains and losses on securities available for sale also increased. As at 31 December 2003, unrealised gains amounted to €7,812m, compared with unrealised losses of only €923m. Given the market conditions at the balance sheet date, the potential need for further writedowns on securities available for sale is small. This is partly attributable to the application of the stricter impairment rule for equity investments under IAS 36.61 (rev. 2003).

Premium

In 2003, we wrote gross premiums of €40.4bn (40.0bn), or 1.0 (10.8%) more than in 2002. The fact that this growth was relatively modest compared with the previous year is mainly due to the significant rise in value of the euro against the US dollar and other currencies, such as the British pound and Asian currencies, as well as to our selective underwriting policy. Adjusted to eliminate the effect of changes in exchange rates, premium income increased by 7.6% in 2003. This growth was almost exclusively organic.

Group premium income

in €bn	2003	2002	2001	2000	1999
Reinsurance	24.8	25.4	22.2	18.3	15.4
Primary insurance	17.6	16.6	15.7	14.4	13.5
Consolidation	–2.0	–2.0	–1.8	–1.6	–1.5
Total	**40.4**	**40.0**	**36.1**	**31.1**	**27.4**

We earned 56% (59%) of our Group premium income from reinsurance and 44% (41%) from primary insurance. Since 1999, premium volume has grown in reinsurance by around 61% and in primary insurance by 30%.

For the reporting on individual fields of business, the following principle applies: figures that derive from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included in the data.

Equity capital and financing

Group shareholders' equity

in €bn	31.12.2003 IAS 39 (rev. 2003)	31.12.2002 IAS 39 (rev. 2003)	31.12.2001 IAS 39 (rev. 2000)	31.12.2000 IAS 39 (rev. 2000)	31.12.1999 IAS 39 (rev. 2000)
Group shareholders' equity	**18.9**	13.9	19.4	23.6	18.5
Valuation reserves not recognised in balance sheet, including those apportionable to minority interests and policyholders (before tax)	**1.8**	1.1	16.4	21.9	19.2

The generally pleasing development of Group shareholders' equity since the end of the previous year up to 31 December 2003 was characterised by the following aspects:
– On 11 November 2003 we successfully completed a substantial rights issue. This strengthened our shareholders' equity by €3.9bn and also significantly enhanced its quality. As the subscription ratio of 99.9% shows, the market responded very positively to the capital increase.
– Net unrealised gains recognised in equity rose by €3,251m. This was mainly due to the positive trend on the stock markets since the second quarter and the reallocation of our Allianz shares from "associated enterprises" to "securities available for sale", as well as to the first-time application of the stricter impairment rule of IAS 39.61 (rev. 2003).
– The shareholders' equity of our subsidiaries from other currency regions was translated into euros at lower exchange rates, which had a curbing effect on our Group shareholders' equity.

The issue of two subordinated bonds in mid-April 2003, with a total volume of €3.4bn, also significantly strengthened our capital base. The placements were very successful: greatly oversubscribed, the bonds were issued each with the interest rates at the lower end of the initial spreads indicated.

As at 31 December 2003, there were bonds from the spring issues and from previous years with a carrying amount of €2,209m (2,205m) in circulation; of these €1,813m (1,720m) was apportionable to exchangeable bonds, where holders can demand redemption in certain shares at a previously fixed price instead of cash on maturity.

Rating

Traditionally, Munich Re numbers among the reinsurers whose financial strength is given top ratings by the leading rating agencies. As a consequence of the share price losses on the stock markets worldwide, which affected both our capitalisation and our results, Munich Re – like most of its competitors – experienced a series of downgradings in 2003. The rating agencies A.M. Best, Moody's and Fitch still put Munich Re in their second-best category for financial strength, and Standard & Poor's in their third-best. They all attest to our superior market position, outstanding expertise and good capitalisation.

The current ratings of the Munich Re Group and its subsidiaries are published on our internet website.

Reinsurance

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

Overview

Our main objective in 2003 was to improve the quality of our portfolio. We achieved good results both in our existing portfolio and in our new business. This success is reflected in the favourable development of our combined ratio.

Combined ratios non-life

in %	2003	2002	2001	2000	1999
Loss ratio non-life	**69.6**	95.8	104.5	85.0	88.2
Expense ratio non-life	**27.1**	26.6	30.6	30.3	30.7
Combined ratio non-life	**96.7**	122.4	135.1	115.3	118.9

Result

The substantially better prices and conditions we achieved in the renewal seasons for the year under review and the previous year are reflected in a combined ratio of 96.7% (122.4%). We thus met our objective in operative property-casualty business in the year under review. Broken down by division, the combined ratio developed as follows:

Combined ratio by division

in %	2003	2002	2001	2000
Life and Health*	**97.8**	104.5	113.9	101.9
Europe 1	**96.5**	117.7	106.7	92.1
Europe 2 and Latin America	**96.6**	96.4	115.3	125.6
Asia, Australasia, Africa	**91.8**	86.8	112.5	99.1
North America	**99.1**	168.1	156.8	122.1
Corporate Underwriting/Global Clients	**98.0**	120.8	160.4	122.6
Special and Financial Risks	**92.9**	116.5	140.9	134.1

* Figures for health reinsurance only.

Although we had to cope with the after-effects of the bear market in the investment sector, the pre-tax operating result was clearly positive.

Reinsurance underwriting result

in €m	2003	2002 (adjusted)*	2001	2000	1999
Result before amortisation of goodwill	**2,717**	1,778	–687	1,525	1,208
Operating result before tax	**2,612**	1,649	–824	1,393	1,093
Group profit for the year	**1,632**	2,336	–52	1,321	1,093

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Premium

In original currencies, our premium income rose by 9.8% compared with the previous year. Of the total reinsurance premium, 37% derived from the eurozone, whilst 32% was written in US dollars, 15% in pounds sterling, 1% in yen and 15% in other currencies. As a consequence, changes in exchange rates have a strong impact on our premium income shown in euros. In 2003, the significant and persistent decline in the US dollar and other currencies against the euro had an adverse effect on our premium volume. This currency influence offset the very good premium growth in original currencies, so that premium income expressed in euros fell by 2.6% to €24.8bn (25.4bn).

Gross premiums by segment

in €m	2003	2002	2001	2000
Life and health	6,876	6,561	5,900	4,701
Property-casualty	17,919	18,884	16,296	13,624
Total	**24,795**	**25,445**	**22,196**	**18,325**

Life and health have a share of 27.7% (25.8%) of our total premium written in reinsurance. Around 36% of our gross premium in this sector comes from the eurozone and 54% from the USA, Canada and the UK. Here, too, the changes in exchange rates had a curbing effect on the good organic premium growth:

Gross premiums in life and health reinsurance

in €m	2003	2002	2001	2000
Life	5,461	5,277	4,769	3,865
Health	1,415	1,284	1,131	836
Total	**6,876**	**6,561**	**5,900**	**4,701**

The growth in our property-casualty reinsurance derived mainly from appreciable premium increases for business in force. Of the reinsurance treaties up for renewal for the year under review, we terminated 16% – measured in terms of premium volume – because risk-adequate prices and conditions were not achievable. At the same time, we not only agreed appreciably better terms of trade for the renewed business, but also acquired attractive new business. The following table shows premium development by class of business in euros:

Gross premiums in property-casualty reinsurance

in €m	2003	2002	2001	2000
Liability	3,444	3,514	2,402	1,934
Personal accident	1,293	1,302	1,213	1,043
Motor	3,186	3,337	3,448	3,335
Marine, aviation, space	1,742	1,896	1,398	1,158
Fire	4,874	5,294	4,481	3,363
Engineering	1,393	1,443	1,449	929
Other classes of business	1,987	2,098	1,905	1,862
Total	**17,919**	18,884	16,296	13,624

Primary insurance

Our primary insurers, essentially comprising the ERGO Insurance Group, the Karlsruher Insurance Group and Europäische Reiseversicherung (see page 41), write nearly all lines of life, health and property-casualty insurance. Around 83% (81%) of their premium income in 2003 stemmed from Germany. The remaining 17% (19%) of their premium was earned mainly in Italy, the Netherlands, Spain and Belgium.

Overview

The development of the primary insurers in the Munich Re Group is marked by a positive performance in their underwiriting business. This is reflected in the result before amortisation of goodwill which, despite considerable burdens from writedowns on investments in associated enterprises and losses on disposals, totals €247m (–654m). The net result for the year of –€1,091m (–939m) is also heavily affected by writedowns on goodwill and the high tax expenditure.

The half-income method introduced in Germany in connection with the business tax reform in 2001, with its disregarding of gains and losses on shareholdings, produced completely system-adverse results for life and health insurers. In combination with the tax-deductible amounts for policyholders' bonuses, it led in good capital market situations to tax losses, whereas when the stock markets slumped, the result in the commercial balance sheet – already substantially reduced by writedowns and losses on disposals – was burdened by disproportionately high tax expenses. As a consequence of the new arrangements for life and health insurers adopted at short notice in December 2003, this system-adverse taxation situation has been ended as from 2004. At the same time, companies have been granted an option to apply the new rules – limited to 80% of the income and expenses concerned – uniformly for the years 2001 to 2003 (so-called "block option"). Under the new rules, the current tax to be paid is reduced. However, in our consolidated financial statements prepared in accordance with IAS, deferred taxes now have to be posted again to take account of the valuation differences between the local company financial statements and IAS. This gives rise to a high tax burden of €637m for the life and health insurers, which is out of all reasonable proportion to the result.

Aftermath losses from previous years' stock market slumps also had a significant impact on the result. Our primary affected insurance segment ultimately had to recognise writedowns and losses on disposals totalling €3,545m.

Result

At 96.4% (99.9%), the combined ratio is distinctly better than in the previous year and once again below 100%. It is particularly gratifying that the improvement is due to both a lower loss ratio and a reduced expense ratio. There were no exceptionally large losses from natural hazard events in 2003.

Expenses for claims and benefits in the life and health segment showed a substantial rise, mainly due to an increase in expenses for policyholders' dividends. In the previous year, the high writedowns on shares had markedly reduced the provision for deferred policyholders' dividends, with impact on the income statement. Claims and benefits in health insurance rose by 4.7% and thus less strongly than premium income. This mainly reflects two factors in German business: through the introduction of a completely flat-rate payment system in hospitals, general claims costs for hospital treatment showed a marked increase; on the other hand, successes in claims management meant that in other areas expenditure fell or showed only a moderate rise.

The investment result amounted to €4,209m (–292m). It was adversely affected above all by the negative result of investments in associated enterprises amounting to €700m (514m). The operating result before tax was –€334m (–895m).

For the reasons mentioned on page 26, the relationship between the tax expenses of €789m (88m) and the pre-tax result is incomprehensible at first glance. Thus, although the overall result of the underwriting business is good, we recorded a loss for the year of –€1,091m (–939m) in primary insurance.

Altogether, the result of our primary insurance business developed as follows:

Primary insurance underwriting result

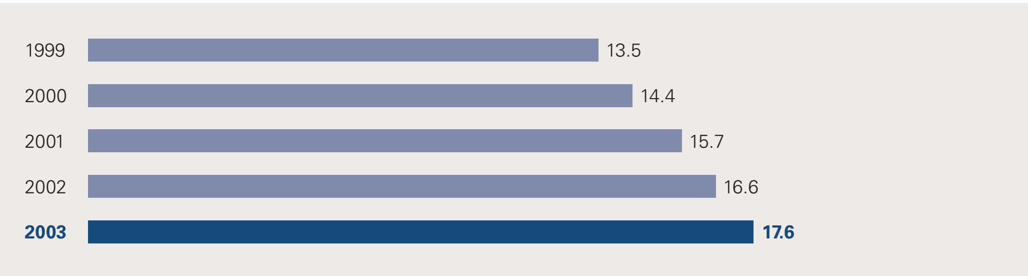
in €m	2003	2002 (adjusted)*	2001	2000	1999
Result before amortisation of goodwill	247	–654	555	1,342	948
Operating result before tax	–334	–895	463	1,335	943
Profit for the year	–1,091	–939	561	624	347

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Premium

Premium income in primary insurance rose by 6.3% (5.6%) to €17.6bn (16.6bn). This represents a share of 44% (41%) of the Munich Re Group's total premium. The strong growth in new business impressively underscores our primary insurers' marketing strength, which is built on well-established brands, attractive products and a range of effective distribution channels.

Gross premiums in €bn



Life insurance played a major part in the good premium development, with premium income growing to €8.0bn (7.5bn) or by 6.6% (5.6%) in the year under review. This growth shows that our primary insurers are very well positioned in the private and company pensions sector, an important market for the future. Life insurance continues to be the most popular product for making private provision.

Premium income in health insurance climbed by 7.3% (5.7%) to €4.5bn (4.2bn). Growth in Germany was driven by premium adjustments for business in force. The prolonged debate about healthcare reform, which is definitely necessary in our view, engendered a climate of uncertainty, which had a curbing effect on our new business in Germany.

In property-casualty insurance, premium income grew by 5.0% (5.4%) to €5.1bn (4.8bn). Here, too, new business developed positively, not only in virtually all classes of the profitable segment of personal lines business but also in our very selectively written commercial and industrial property business.

Assetmanagement

Performance and structure of Group investments

As at 31 December 2003, the Munich Re Group's investments amounted to €171.9bn (156.3bn), up 10.0% on the previous year.

The growth was due primarily to inflows from Munich Reinsurance Company's subordinated bonds issues and the capital increase, to capital gains on existing securities, and to the pleasing performance of our underwriting business.

We have invested the funds from the subordinated bonds issued in April (a total of €3.4bn) in accordance with our repayment obligations. The funds from the capital increase (€3.9bn) have been invested largely in line with our existing asset allocation in shares and bonds but not in participating interests.

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

Investment mix	31.12.2003 €m	%	Prev. year €m	%	Change in %
Real estate	10,075	5.9	9,848	6.3	2.3
Investments in affiliated and associated enterprises	4,353	2.5	9,601	6.1	–54.7
Loans	16,046	9.3	12,644	8.1	26.9
Shares and equity funds	21,633	12.6	17,687	11.3	22.3
Fixed-interest securities	99,886	58.1	87,824	56.2	13.7
Deposits retained on assumed reinsurance business, and other investments	18,879	11.0	17,971	11.5	5.1
	170,872	99.4	155,575	99.5	9.8
Investments for unit-linked life insurance	1,009	0.6	703	0.5	43.5
Total	**171,881**	**100.0**	**156,278**	**100.0**	**10.0**

Result

The investment result in the year under review amounted to €7.1bn (4.9bn), representing an improvement of 44.5% on 2002.

Investment result

All figures in €m	2003	2002 (adjusted)*	2001	2000	1999
Regular income	7,328	7,778	9,654	8,652	8,520
Write-ups/writedowns	–1,177	–6,004	–324	–82	–95
Net realised capital gains	2,484	5,853	1,765	4,072	1,427
Other income/expenses	–1,504	–2,692	–675	–476	–327
Total	**7,131**	**4,935**	**10,420**	**12,166**	**9,525**

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

In the business year 2003, we made writedowns of €1.7bn (6.4bn), including €0.8bn (5.9bn) alone on our securities portfolio because of the exceptionally poor performance of the stock markets.

The other income/expenses include –€836m from the at-equity valuation of HypoVereinsbank AG.

The table below shows the investment result for 2003 broken down by type of investment:

Investment result by type of investment	2003 €m	Prev. year (adjusted)* €m	Change in %
Real estate	370	701	–47.2
Investments in affiliated enterprises	23	190	–87.9
Investments in associated enterprises	–853	3,669	–
Mortgage loans and other loans	886	724	22.4
Other securities	6,698	–460	–
Other investments	551	611	–9.8
Expenses for the management of investments, and other expenses	544	500	8.8
Total	**7,131**	4,935	44.5

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Prospects

Development of the Munich Re Group

Unfortunately, there is a growing tendency among some investors to sue companies in connection with statements they publish on future development. This practice inevitably leads to companies being reticent about the information they give and disclosing only what is required by law.

For this reason we, too, wish to emphasise the following: predictions about the future development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of the Munich Re Group's development merely reflects our assumptions and expectations. We do not accept any responsibility or liability for cases in which they are not realised either in part or in full.

Result

After the years 2001 to 2003, which were particularly difficult for the insurance industry and the Munich Re Group, we are now back on track. The burdens from the terrorist attack of 11 September 2001 and from the stock market slumps in the subsequent period have been absorbed. Our objective of earning an overall return of 4.5% on our investment portfolio, which has been improved in terms of risk aspects, remains unchanged.

In most sectors of liability insurance, we expect further price increases and improvements in conditions, whereas in property insurance we are proceeding on the assumption that terms of trade will stabilise at the currently high level. Given the substantially improved prices and conditions, we aim to achieve a combined ratio in property-casually reinsurance of 97%. And in primary insurance, partly because of the cost-reduction measures we have implemented to improve results, our objective is a combined ratio of the same level.

We expect our life reinsurance business to again achieve embedded value operating earnings of over 10%.

In life and health primary insurance, we must rigorously pursue the measures initiated – which we indeed intend to – before we can return to a convincing level of profitability in our results.

Altogether, we are aiming at a Group result of €2bn for the current business year 2004, which would already take us close to our objective of a return on equity of 12% after tax. The extent to which we achieve this result naturally depends on what claims burdens from natural catastrophes and other major losses affect us in insurance and reinsurance and on how the capital markets develop.

Premium

Proceeding from an already strong market position, we do not expect any premium growth for 2004 in reinsurance. A strong euro will have an additional dampening effect. We subordinate growth to consistent profit orientation and only renew business if it satisfies our return requirements.

In primary insurance, we reckon with growth of around the market average. Despite the inevitable adjustment of policyholders' bonuses and the guaranteed interest rate to take account of the lower level of market interest rates, the high demand for private provision among clients, the quality of our products and the recognised franchise strength of our insurers should ensure an appropriate increase in premium income.

All in all, without making allowance for the effects of changes in exchange rates, Group premium for the current business year is likely to total around €40.0bn (40.4bn), which would be 1.1% less than in 2003.

Consolidated financial statements (excerpt)
Consolidated balance sheet as at 31 December 2003

ASSETS	€m	€m	€m	Prev. year €m	Change €m	Change %
A. Intangible assets						
I. Goodwill		3,568		4,441	–873	–19.7
II. Other intangible assets		1,372		1,336	36	2.7
			4,940	5,777	–837	–14.5
B. Investments						
I. Real estate		10,075		9,848	227	2.3
II. Investments in affiliated enterprises and associated enterprises		4,353		9,601	–5,248	–54.7
III. Loans		16,046		12,644	3,402	26.9
IV. Other securities						
1. Held to maturity	747			852	–105	–12.3
2. Available for sale	122,367			106,175	16,192	15.3
3. Held for trading	548			452	96	21.2
		123,662		107,479	16,183	15.1
V. Other investments						
1. Deposits retained on assumed reinsurance	14,480			12,911	1,569	12.2
2. Miscellaneous	2,256			3,092	–836	–27.0
		16,736		16,003	733	4.6
			170,872	155,575	15,297	9.8
C. Investments for the benefit of life insurance policyholders who bear the investment risk			1,009	703	306	43.5
D. Ceded share of underwriting provisions			8,038	10,230	–2,192	–21.4
E. Receivables			8,175	8,871	–696	–7.8
F. Cash with banks, cheques and cash in hand			1,884	2,735	–851	–31.1
G. Deferred acquisition costs			7,997	7,451	546	7.3
H. Deferred tax assets			5,140	4,067	1,073	26.4
I. Other assets			1,329	1,032	297	28.8
Total assets			209,384	196,441	12,943	6.6

EQUITY AND LIABILITIES	€m	€m	Prev. year (adjusted)* €m	Change €m	%
A. Shareholders' equity					
I. Issued capital and capital reserve	7,388		3,447	3,941	114.3
II. Revenue reserves	7,823		8,953	–1,130	–12.6
III. Other reserves	4,122		1,260	2,862	227.1
IV. Consolidated profit	–434		288	–722	–
		18,899	13,948	4,951	35.5
B. Minority interests		483	532	–49	–9.2
C. Subordinated liabilities		3,390	–	3,390	–
D. Gross underwriting provisions					
I. Unearned premiums	6,315		6,158	157	2.5
II. Provision for future policy benefits	98,134		96,088	2,046	2.1
III. Provision for outstanding claims	42,619		42,792	–173	–0.4
IV. Other underwriting provisions	7,488		7,460	28	0.4
		154,556	152,498	2,058	1.3
E. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders		958	698	260	37.2
F. Other accrued liabilities		3,577	3,197	380	11.9
G. Liabilities					
I. Notes and debentures	2,209		2,205	4	0.2
II. Other liabilities	18,098		18,467	–369	–2.0
		20,307	20,672	–365	–1.8
H. Deferred tax liabilities		7,159	4,738	2,421	51.1
I. Other deferred items		55	158	–103	–65.2
Total equity and liabilities		209,384	196,441	12,943	6.6

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Consolidated income statement for the business year 2003

ITEMS	€m	Prev. year (adjusted)* €m	Change €m	%
1. Gross premiums written	40,431	40,014	417	1.0
2. Net earned premiums	37,617	36,306	1,311	3.6
3. Investment result	7,131	4,935	2,196	44.5
4. Other income	1,211	1,351	–140	–10.4
Total income (2–4)	45,959	42,592	3,367	7.9
5. Net expenses for claims and benefits	32,487	31,265	1,222	3.9
6. Net operating expenses	8,997	8,933	64	0.7
7. Other expenses	2,463	2,383	80	3.4
Total expenses (5–7)	43,947	42,581	1,366	3.2
8. Result before amortisation of goodwill	2,012	11	2,001	>1,000.0
9. Amortisation of goodwill	687	371	316	85.2
10. Operating result before tax	1,325	–360	1,685	–
11. Tax	1,793	–574	2,367	–
12. Minority interests in earnings	–34	–74	40	54.1
13. Profit for the year	–434	288	–722	–
	€	€ (adjusted)*	€	%
Earnings per share	–2.25	1.54**	–3.79	–

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

** After taking into account the capital increase in November 2003.

Consolidated cash flow statement for the business year 2003

	€m	Prev. year (adjusted)* €m
Profit for the year, including minority interests in earnings	**–468**	**214**
Net change in underwriting provisions	5,042	4,670
Change in deferred acquisition costs	–489	–172
Change in deposits retained and accounts receivable and payable	–1,921	–650
Change in other receivables and liabilities	1,189	–2,822
Gains and losses on the disposal of investments	–2,484	–5,853
Change in securities held for trading	–830	–51
Change in other balance sheet items	482	590
Other income/expenses without impact on cash flow	1,292	7,334
I. Cash flows from operating activities	**1,813**	**3 260**
Change from the acquisition and sale of consolidated enterprises	–88	–531
Change from the acquisition, sale and maturities of other investments	–8,345	–1,329
Change from the acquisition and sale of investments for unit-linked life insurance	–248	–45
Other	–1,198	–702
II. Cash flows from investing activities	**–9,879**	**–2,607**
Inflows from increases in capital	3,941	280
Dividend payments	–230	–230
Change from other financing activities	3,532	181
III. Cash flows from financing activities	**7,243**	**231**
Cash flows for the business year (I + II + III)	**–823**	**884**
Effect of exchange rate changes on cash	–28	–15
Cash at the beginning of the business year	2,735	1,866
Cash at the end of the business year	1,884	2,735
Additional information		
Tax on earnings (net)	683	205
Interest paid	385	302

* Adjusted owing to first-time application of IAS 39 (rev. 2003).

Our reporting on the Group cash flow is based on IAS 7 and the principles of German Accounting Standard No. 2 (DRS 2) issued by the German Standards Board (DSR) for the presentation of cash flow statements. This has been supplemented by the requirements of DRS 2-20, which applies specifically to insurance companies.

In accordance with the recommendations of the DSR for insurance companies, we have applied the indirect presentation method.

The "cash fund" within the meaning of the German Accounting Standard is limited to cash and cash equivalents shown under balance sheet item F "cash with banks, cheques and cash in hand".

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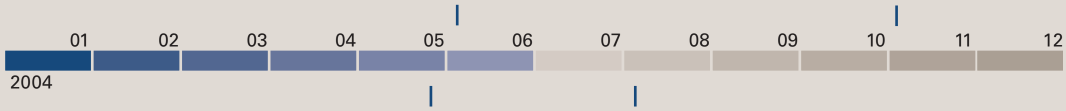
Important dates 2004/2005

3 June 2004
Interim report
1st quarter 2004

8 November 2004
Interim report
3rd quarter 2004



26 May 2004
Annual General Meeting

6 August 2004
Interim report
2nd quarter 2004

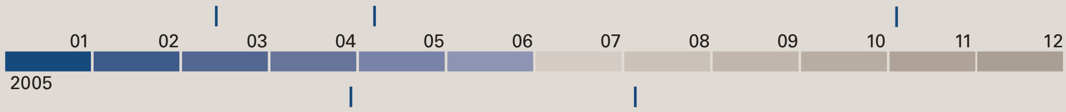
27 May 2004
Dividend payment

6 August 2004
Half-year press conference

15 March 2005
Balance sheet conference for
2004 financial statements

9 May 2005
Interim report
1st quarter 2005

7 November 2005
Interim report
3rd quarter 2005



28 April 2005
Annual General Meeting

4 August 2005
Interim report
2nd quarter 2005

29 April 2005
Dividend payment

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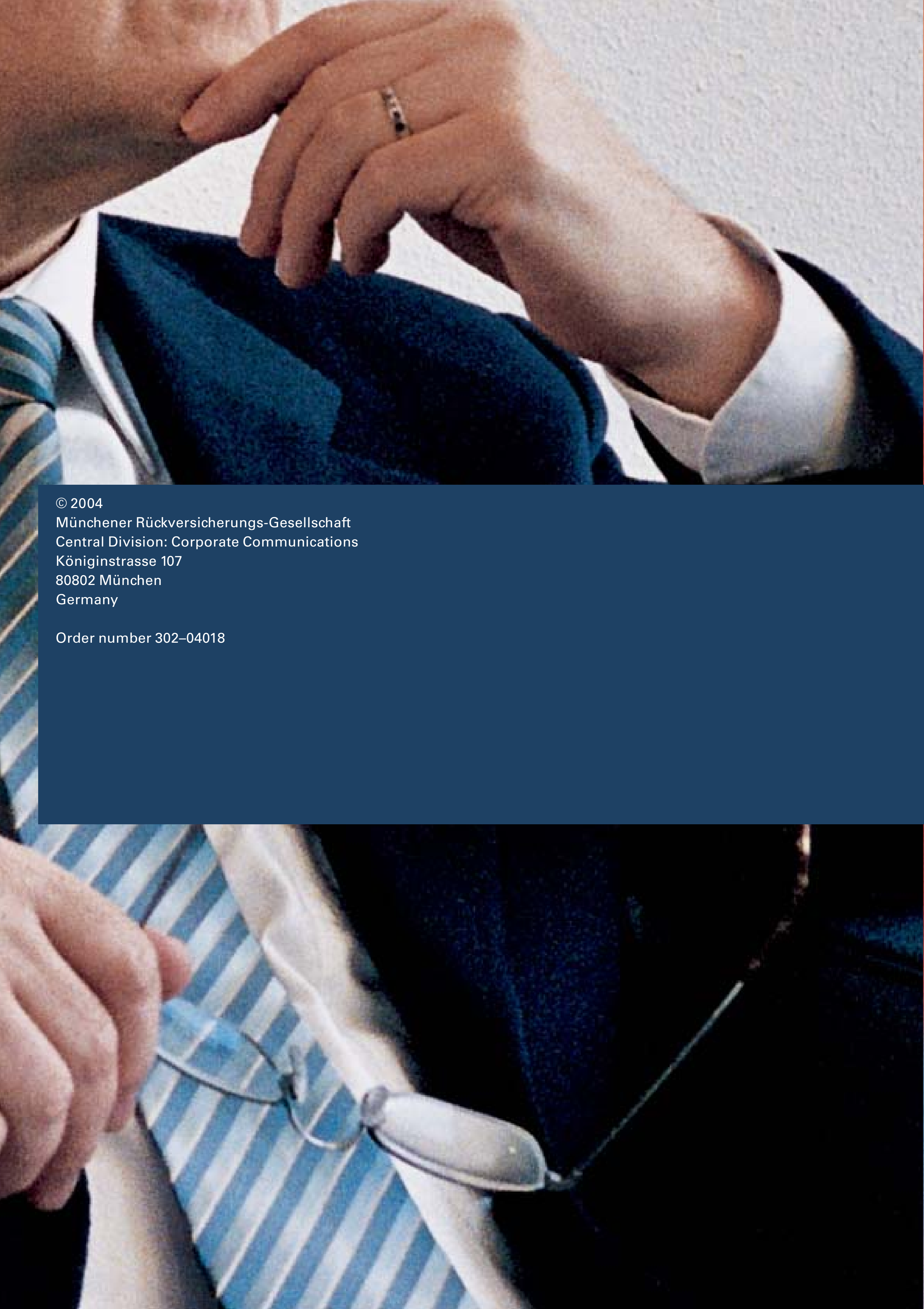

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